

Discussion: Beyond Multipliers

Distributional Income Effects of Government Spending in the Euro Area

Ider, Kriwoluzky, Ludolph, Patru & Tonzer (2026)

Cristian Arcidiacono

April 24, 2026

What the paper does – and does it well

A genuinely interesting research design

- Combines identified macro fiscal shocks with harmonised EU-SILC microdata across 9 euro area countries
- Goes beyond aggregate multipliers: **who** gains from fiscal expansion?
- Clean decomposition: consumption vs. investment shocks; public vs. private sector; intensive vs. extensive margin

Core finding worth taking seriously: fiscal expansion is **progressive** – driven by women's employment income in low-income households, with distinct channels by shock type

Comment 1: What is the mechanism?

The paper documents that women in low-income households benefit – but not convincingly why

Two channels are proposed but not formally distinguished:

- Consumption shocks → public-sector wages (intensive margin)
- Investment shocks → private-sector hours/employment (extensive margin)

These are **reduced-form correlations**, not structural mechanisms. Without a model it is hard to understand e.g. whether the gender result reflects demand for female labor specifically, or just the occupational composition of spending

Suggestion

A simple two-sector model with heterogeneous workers would discipline the empirical claims and sharpen the policy message

Comment 2: What is truly novel?

Giavazzi & McMahon (2013) already document distributional effects of government spending for the US

The euro area setting adds value, but **what is genuinely new here?**

- The **gender decomposition within the bottom decile** is the most novel contribution – consumption vs. investment, public vs. private, age and family structure
- Yet this is currently buried in Sections 4.3–4.5

Suggestion

Reframe around gender-within-decile heterogeneity as the *main* contribution. The aggregate distributional result is the backdrop; the female subgroup analysis is the **frontier**

Related: most results for **investment shocks** are insignificant or only marginally so – the consumption shock story is considerably stronger. Worth acknowledging explicitly, and pooling the bottom 2–3 deciles as a robustness check to gain power

Comment 3: Interactive fixed effects

The regressions include country and year FE separately – but not their interaction

The fiscal shocks are **country-year specific**: any residual country-time variation that the additive FE structure fails to absorb is absorbed into $\hat{\beta}_g$, potentially biasing the distributional coefficients

Interactive fixed effects (à la Bai 2009) allow for unobserved **factor structures** in residuals – individual units may load differently on common aggregate shocks

In a related context, Arcidiacono (2026) show that ignoring factor structure in highly disaggregated panels leads to substantially biased slope estimates

Comment 4: Two identification concerns

(a) Generated regressors

Fiscal shocks are estimated in a first-stage VAR, then plugged into micro regressions as if observed $\Rightarrow$ textbook **generated-regressors problem** (Pagan 1984; Murphy & Topel 1985)

Second-stage SEs ignore first-stage uncertainty

Fix: bootstrap the full two-step procedure

(b) Placebo test – Figure 2(b)

The consumption placebo (panel b) shows a **negative** coefficient for decile 1 that appears close to significant. A randomly reshuffled shock should produce *no* systematic pattern

Comment 5: What are the policy implications?

The paper is largely silent on what governments should do with these results

- Should policymakers favour **investment over consumption** if the goal is reducing gender gaps in low-participation countries?
- Or favour **consumption** to reduce within-decile gender income gaps?
- Do these effects survive fiscal *consolidation*? The distributional costs of austerity are a first-order concern for the euro area
- What is the optimal spending *composition* from a distributional standpoint – and does it vary by country characteristics?

The paper contributes important positive facts – it should also take a stand on the normative implications

Substantive comments

1. Mechanism unclear: propose a model
2. Policy implications: take a stand
3. Novelty: push gender result to center
4. IFE

Technical comments

- (5a) Correct SEs: generated regressors
- (5b) Re-examine placebo Figure 2(b):
negative decile-1 coefficient

Interesting paper with a genuinely novel gender result – it deserves to be front and centre