

Bas van Aarle · Klaus Weyerstrass
Editors

**Economic Spillovers,
Structural Reforms
and Policy Coordination
in the Euro Area**

Physica-Verlag
A Springer Company

Contents

Preface	v
Contributors.....	xi
1 Economic spillovers, structural reforms and policy coordination in the Euro Area: An overview.....	1
<i>Klaus Weyerstrass, Koen Schoors and Bas van Aarle</i>	
1.1 Introduction.....	1
1.2 A working definition of spillovers.....	3
1.3 Overview of the literature	6
1.4 Overview of the main results.....	13
1.5 Policy implications and avenues for further research.....	17
References.....	22
2 Budgetary spillovers and short-term interest rates.....	27
<i>Bas van Aarle</i>	
2.1 Introduction.....	27
2.2 Methodology and literature.....	28
2.3 Fiscal spillovers at the aggregate Euro Area level.....	30
2.4 Fiscal spillovers in the Euro Area at the country level.....	36
2.5 Conclusion	49
Appendix: Characteristics of the dataset	50
References.....	52
3 Budgetary spillovers and long-term interest rates	55
<i>Peter Claeys</i>	
3.1 Introduction.....	55
3.2 Deficits and interest rates: is there any robust evidence? ..	57
3.2.1 Static versus dynamic models	57

3.2.2	Capital flows and crowding out in open economies..	61
3.2.3	Monetary integration and crowding out	62
3.3	A stock-flow fiscal VAR for open economies	63
3.4	Crowding-out effects of fiscal policies	73
3.5	Spillovers of fiscal policies	74
3.5.1	Relative fiscal shocks and relative crowding out	75
3.5.2	Crowding out in small open economies	80
3.5.3	Robustness checks	93
3.6	Conclusion	94
	Appendix A: Domestic economy: SVAR models with exogenous debt ratio	97
	Appendix B: SVAR models with yield	98
	References.....	101
4	Budgetary stabilisation and the level of public debt	107
	<i>Niko Gobbin</i>	
4.1	Introduction.....	107
4.2	A look at fiscal theory and empirics	108
4.3	Threshold regression models	112
4.4	Data description and regression set-up	115
4.5	Results.....	117
4.6	Conclusion	122
	Appendix A: Data sources and definitions	122
	Appendix B: ADF unit root tests	124
	Appendix C	124
	Appendix D: Years above the threshold	125
	References.....	126
5	Spillovers from economic reform.....	129
	<i>Klaus Weyerstrass and Johannes Jaenicke</i>	
5.1	Introduction.....	129
5.2	Determination of mark-up ratios.....	130
5.3	Mark-up and macroeconomic performance	137
5.3.1	Total factor productivity growth	137
5.3.2	Employment	140
5.3.3	Unemployment rate	142
5.3.4	Labour productivity growth.....	143
5.4	The influence of regulation on the mark-up	145

5.5	Conclusion	150
	Appendix: Data sources and definitions	152
	References.....	153
6	Macroeconomic and welfare effects of structural and budgetary policies: spillovers in the MSG3 model	155
	<i>Reinhard Neck and Gottfried Haber</i>	
6.1	Introduction.....	155
6.2	Effects of structural policies	156
6.3	Budgetary consolidation policies.....	162
6.4	Structural reform and budgetary consolidation	176
6.5	Sensitivity analysis: monetary versus inflation targeting	185
6.6	Welfare Effects	191
	Appendix: The MSG3 Macroeconomic Global Model	198
	References.....	201
7	Have Europe's labour markets become more flexible? An exercise in measuring the relative flexibility of wages across countries and time	203
	<i>Andrew Hughes Hallett, Christian Richter and Xiaoshan Chen</i>	
7.1	Introduction.....	203
7.2	Methodology: The analytic background and estimation technique.....	205
7.3	The empirical evidence on wage flexibility.....	207
7.4	Statistical results	208
7.5	The benchmark and indicators of wage flexibility	211
7.6	The US wages spectrum	214
7.7	Country by country results.....	215
7.8	Conclusion	223
	Appendix: Time frequency techniques and the estimation of time-varying spectra or cross-spectra	224
	References.....	229
	Index	233