Annex III: Alternative regression specification to past studies with AE sample

Our AE results with baseline specification show smaller quantitative effects of fiscal consolidation on income inequality compared with past studies that estimated the effects fiscal consolidation on income inequality using the local projection method, fiscal consolidation identified by the narrative approach, and AE sample, such as Ball et al. (2013), Furceri et al. (2015), and Heimburger (2018). We make the following changes to make the specification close to these studies: (i) use SWIID 5.1 rather than 8.1; (ii) measure change in income inequality from $t=0$ rather than $t=-1$; (iii) use standard impulse response function (fiscal shock only at $t=0$), while defining fiscal shock as a dummy variable that takes 1 at the start of fiscal consolidation and 0 otherwise; (iv) use time trend instead of time fixed-effect; and (v) measure the medium-term effect at $t=8$ rather than $t=5$.

$$Gini_{c,t+h} - Gini_{c,t} = \alpha^h + \beta^h \cdot Time^h + \delta^h \cdot shock_{c,t} + \epsilon^h \cdot X_{c,d} + \xi^h$$

With this specification, quantitative magnitude of fiscal consolidation increases to a level comparable to past studies.

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**Figure. AE sample regression Results with Alternative specification**

**Gini disposable: AE**

Note: x-axis is years after the shock and y-axis is the cumulative change in the Gini coefficients relative to $t=-1$. The gray area represents 95 percent confidence interval.