

On the Empirical (Ir)Relevance of the Zero Lower Bound

Constraint: The Case of Fiscal Multiplier in Japan*

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Abstract

Japan's prolonged ZLB period alongside substantial debt accumulation makes it a compelling laboratory for testing whether fiscal multipliers differ across normal and ZLB periods. This paper investigates this question using a sign- and zero-restricted TVP-VAR that jointly identifies fiscal rules and structural shocks. We find: (1) government spending and distortionary tax multipliers remain similar across regimes, contradicting standard New Keynesian predictions; (2) fiscal adjustment matters more than the debt-to-GDP ratio in shaping multiplier size; and (3) inflation responses are dampened at the ZLB across various macroeconomic shocks. Our results suggest that the ZLB is irrelevant for output but consequential for inflation.

JEL classification: E32, E62, H60.

Keywords: Time-varying parameters; Vector autoregression; Fiscal policy; Government spending multiplier; Tax multiplier; Zero lower bound.

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