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Austerity and the path of least resistance: how fiscal consolidations crowd out long-term investments

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market policies and of compensatory transfer-based labour market insurance are resilient to austerity.

KEYWORDS: Austerity fiscal consolidations health care infrastructures long-term investments welfare states

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Disclosures

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Notes

1 Fiscal consolidation is a policy of reducing government spending and increasing tax revenue.

2 One could argue that human capital investment is not a private good in many ways since the benefits are shared by the entire population. However, it is to most citizens that make the difference between a low and a high level of education. Intellectual property rights (patents) are a private good since patents expire, in contrast to human capital investment which is privately owned, making it

closer to a public good. It is also a discretionary spending, like physical capital investment and in contrast to human capital investments that are closer to entitlements. In any case, R&D remains a small proportion of the two types of investment and removing R&D from the analysis does not change the main results as shown in appendix Figure A7.

3 The countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Portugal, Spain, Sweden, United Kingdom and the USA.

4 Using the Philips-Perron and LLC test.

5 Using the PSS bounds, Engle-Granger and Westerlund tests

6 Theoretically, the effect of consolidation on budgets should be immediate, it is thus better to use the partial adjustment model than the dead start model (a lagged the value of each covariate). Results from the dead start model are similar.

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