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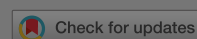
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Articles

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

Olivier Jacques ✉

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ABSTRACT

What policies do government prioritize when they implement austerity? I argue that governments choose the path of least resistance when they engage in fiscal consolidations. Positive policy feedback protects programmes from retrenchment when they cover large segments of the population. In contrast, policies involving discounting

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Disclosure statement

No potential conflict of interest was reported by the author(s).

Notes

- 1 Fiscal consolidations can involve tax increases, but this article focuses on spending cuts.
- 2 One could argue that the current system is not optimal, and that many ways exist to improve it. For example, one could argue that most of the current R&D is financed by the state, and that this makes it difficult to attract private investment. However, this is not the case in most countries. In fact, the state is the main source of R&D financing in most countries, and this is true for both basic and applied research. This is because the state has a long-term interest in promoting innovation, and it can do so more effectively than the private sector. The state can also provide a more stable and predictable environment for R&D, which is essential for long-term investment. Finally, the state can also provide a more coordinated and integrated approach to R&D, which is essential for addressing complex challenges. In any case, R&D remains a small proportion of the two types of

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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.

Additional information

Notes on contributors

Olivier Jacques

Olivier Jacques is a PhD candidate in the Department of Political Science at McGill University.

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