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Scarring effects of major economic downturns: The role of fiscal policy and government investment

M. Larch; P. Claeys; W. van der Wielen

Abstract-

Long shunned as slow and ill timed, the response to the Covid-19 pandemic initiated a reassessment of fiscal policy as stabilisation tool. At the same time, there is ample evidence that major economic downturns produce lasting effects on real GDP in spite of active fiscal policy interventions. This paper takes a fresh look at economic scarring in 26 sustainability risks, which in turn weigh on the room for manoeuvre in subsequent downturns. In sum, fiscal policy makers fiscal consolidation while protecting investment. Both challenges are fraught with political economy issues.

Index Terms- Scarring effects; Major economic downturn; Fiscal policy; Fiscal stabilisation; Public investment

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