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The Effects of Policy Uncertainty on Investment: Evidence from the Unexpected Acceptance of a Far-Reaching Referendum in Switzerland*

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Abstract

Does increased economic policy uncertainty dampen investment of firms? We provide direct evidence on this question by examining the effects of an unexpectedly accepted and far-reaching referendum in Switzerland in February 2014. The outcome put several economically relevant agreements between Switzerland and its main trading partner, the European Union, at stake. Using firm-level panel data covering the 2009–2015 period and data from two special surveys levied shortly after the vote, we examine how the induced policy uncertainty affected investment of Swiss firms. Our Difference-in-Differences-in-Differences estimations and complementary survey results give strong evidence that the uncertainty caused by the vote dampened, as theoretically expected, investment of exposed firms with irreversible investment by as much as one quarter in the two years following the vote. Exposed firms that can reverse investment appear rather to increase investment in the year after the vote. Our survey evidence suggests that these firms engage in investment to streamline their production.

Keywords: investment, uncertainty, irreversibility, business surveys

JEL codes: D81, D84, E22

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