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Abstract

The paper examines the consequences of fiscal consolidation in times of persistently low growth and high unemployment by estimating medium-term fiscal multipliers during protracted economic contractions in a sample of 17 OECD countries. Based on Jordà's (2005) local projection methodology, we find that cumulative fiscal multipliers related to output, employment and unemployment at five-year horizons are significantly above one during protracted contractions. These results suggest that medium-term fiscal consolidation plans to reduce public debt burdens may lead to hysteresis effects and should proceed gradually if economic activity remains below trend for a prolonged period

JEL Classification Numbers: E32, E62, H20, H50, J40

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