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Private nonresidential investment contracted sharply during the Great Recession in most advanced economies and remains well below its pre-2008 trend. While weakness in business investment naturally accounts for a short term drop in the aggregate demand for goods and services, a persistent decline in new capital formation is also bound to have long lasting effects on an economy's ability to produce.

Some of the reasons behind this large and prolonged contraction in corporate investment are readily apparent. They include both a sharp tightening in credit conditions in the immediate aftermath of the 2007-08 financial crisis, and a secular decline in productivity growth. Although each of these developments was likely important on its own, even their combined effect seems insufficient to generate the observed slump in non residential investment during the last decade (Gala, Gomes and Ruan (2016)).

This paper explores an alternative explanation for the observed decline in investment. Specifically, it investigates the role played by rising uncertainty about future economic policy due to increased partisan conflict since around 2010. The ultimate findings are perhaps best viewed as merely suggestive. Nevertheless, by carefully developing novel measures of policy uncertainty, the paper does succeed in laying important foundations for future studies.

1 Measuring Partisan Conflict

Perhaps the main contribution of this paper is the construction of two new quantitative measures of partisan conflict. The longer Historical Partisan Conflict (HPC) index dates back to 1891, and is constructed through a semantic search of five digitized newspapers that have continuously published since then.

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