In response to increasing debt paths, governments often implement fiscal consolidation programs. This paper studies the impact of these programs on the composition of government spending on a sample of developed and emerging countries over 1980-2011. It appears that fiscal consolidations significantly reduce the government investment-to-consumption ratio. The stronger contraction of government investment with respect to government consumption is at work particularly when debt is high and in the low phase of the economic cycle. The magnitude of this effect is higher in non-OECD countries. Therefore, in such contexts, fiscal consolidations aimed at short-run stabilization may hurt the economy in the long run through their detrimental effect on public investment, calling for a reflection upon how they could be re-designed to allow avoiding such undesirable consequences.
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Reference

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