

# Rethinking the Effects of Fiscal Policy on Macroeconomic Aggregates: A Disaggregated SVAR Analysis

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## Abstract

This paper characterizes the dynamic effects of net tax and government spending shocks on prices, interest rate, GDP and its private components in four OECD countries using a structural VAR approach. For the first time in this literature, I propose a structural decomposition of total net taxes into four components: corporate income taxes, income taxes, indirect taxes and social insurance taxes. The paper provides estimates of the responses of macroeconomic aggregates to innovations in these net tax components. The main conclusions of the analysis can be summarized as follows: 1) decompositions of total net tax innovations show that net tax components have different impacts on economic variables; 2) the size and persistence of these effects vary across countries depending on the strength of wealth, substitution, and income effects reflecting the structure of the economies; 3) positive tax multipliers reported in previous studies are found only for the corporate income tax in the US, Canada, and France and for the social security tax in the US; 4) while we find that private investment is crowded out both by taxation and government spending in the UK and the US as consistent with the neo-classical model, our results for France and partially for Canada indicate that there are opposite effects of tax and spending increases on private investment in line with Keynesian theory; 5) private consumption is crowded in by government spending for all countries except the UK, and crowded out by taxation in all countries except France. While the former result is consistent with a Keynesian model, the latter is in line with neo-classical theory.

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