

A Nonlinear growth Effect of Fiscal Policy?
The Special Case of US Defense Policy

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The impact of US defence policy (proxied by the expenditures in the defense sector) is investigated empirically using longitudinal data for the US and allowing the effect of defense spending on growth to be nonlinear. Using recently developed econometric methods involving threshold regressions, evidence of a level-dependent effect of defense spending prevails for relatively lower levels of defense spending (with respect to the history of defense spending in the US) and reverts for higher levels.