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European Countries Using a Search Model

Sommario/riassunto

An influential strand of recent research has claimed that large governments in European countries explain their weaker long-term economic performance compared to the U.S. On the other hand, despite these alleged costs, large governments have been popular with electorates. This paper seeks to shed light on this apparent inconsistency; it confirms an adverse effect of taxes on labor supply, but also finds evidence of efficiency-increasing government intervention. However, and especially in the core ""Rhineland-model"" European countries, actual government policies often depart from such efficient