

Crowding Out Long-Term Corporate Investment: The Role of Long-Term Government Debt Supply

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Real effects of government debt maturity?

- Large deficits & growing public debt make **debt management** important – notably its **maturity**
- Maturity varies across countries (UK ~14y, FR ~8.5y, US ~6y) & over time (US ~3–7y)
- Investors don't treat short- & long-term debt as substitutes: \uparrow LT debt supply \Rightarrow \uparrow **LT rates**
- Governments & firms compete for the **same pool of investors** \Rightarrow crowding out?

Does a higher supply of long-term gov. debt crowd out long-term corporate investment?

Two empirical challenges: identification and measurement

- Identification

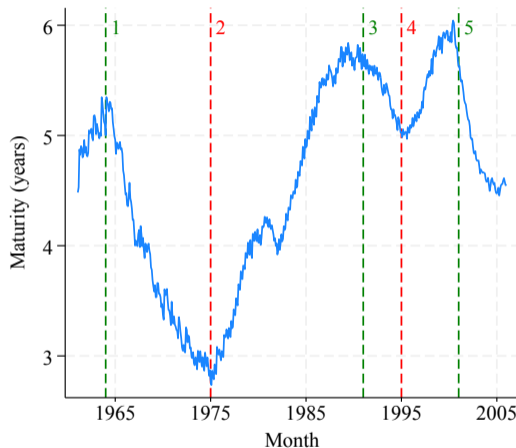
- U.S. setting over 1965–2007
- 5 issuance policy **shifts** with exo. persistence
- ⇒ 5 lasting trends in outstanding debt maturity
- e.g. the 1965 issuance ceiling

- Measurement of investment duration

- from asset **depreciation rates** for public firms

- Design: difference-in-differences

- long- vs short-duration investment
- across industries, within-industry, within-firm



U.S. government debt maturity, with the 5 shifts

Main findings

- **Reallocation** of corporate investment

1-year \uparrow gov. debt maturity \Rightarrow 10-year interest rate \uparrow 30bp

\Rightarrow **5% of aggregate investment shifts long \rightarrow short**

- Occurs across & within industries, and within firms
- Holds for both **debt- and equity-financed** firms
 - \rightarrow **discount-rate channel:** \downarrow valuation of long-term cash flows (debt & equity)
- **Takeaway:** government debt maturity shapes the maturity of corporate investment
- **Implication:** Policies shortening debt maturity can foster long-term corporate investment