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Austerity.
Where and when democratic politics still matters

Abstract

In 2010-2015 almost all democratic countries pursued austerity, i.e. they attempted to reduce public deficits. We study the political strategies and options of governments during austerity periods using a new data set on austerity during 2010-2015 for 30 democratic nations. We ask where and when democratic politics matter in designing and implementing austerity since the sovereign debt crisis. Our main finding is that austerity policy is determined by economic forces and institutions; politics matters only for duration of the policy and marginal aspects of implementation. More specifically we show that (1) the extent of deficits change is mainly a function of the previous level of deficits and other economic fundamentals, such as the current accounts. In addition, membership in the Eurozone makes a difference.

The partisan composition of governments has no significant effects on the size of austerity. (2) Austerity does not offer far-reaching options to design it vastly different, so that some governments cut on investment while others cut consumption, or that some liberalize the labour markets while other improve employment protection. (3) We find strong support for the hypotheses that austerity is unsustainable politically in the medium to long run. After having implemented budget cuts for some time governments retreat from austerity irrespective of the economic fundamentals associated with austerity (4) While we do not find specific pattern of policy, voters of governing parties tend to have the feeling that they suffer less than voters of opposition parties and non-voters.

Thursday 29th June
from 12 pm to 1pm
Campus Luigi Einaudi

Seminar room n. 36
Building D1 - 3rd Floor
Lungo Dora Siena 100/A, Turin