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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 matters in designing and implementing austerity since the Sovereign debt crisis. Our main finding is that austerity policy –defined as cutting the deficit– is mostly driven by economic forces and institutions; politics matters only for continuation of the policy through time and perception of hardship among the electorate. More specifically we show what follows. (1) The extent of deficit change is mainly a function of the previous level of deficits and other economic fundamentals, such as the current account. In addition, membership of the Eurozone

makes a difference. The partisan composition of governments or the timing of the electoral race have no significant effects on the size of austerity. (2) Austerity does not offer to policymakers vastly different design options, so that some governments cut on social and educational investment while others cut on consumption: all governments have to cut both. (3) We find strong support for the hypothesis that austerity is politically unsustainable in the medium run, and it becomes the more so the longer it has been adopted. After having implemented budget cuts for some time governments retreat from austerity irrespective of the economic fundamentals associated with it. (4) While we do not find specific partisan patterns of policy design, voters of governing parties tend to have the feeling that they suffer less than voters of opposition parties and non-voters.

Thursday 22nd February
from 1pm to 2pm
Campus Luigi Einaudi

Seminar room n. 36
Building D1 - 3rd Floor
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