

Final Report

How to Design Politically Sustainable Responses to Fiscal Pressure

Abstract

The project investigated to what extent politically sustainable responses to fiscal pressure are possible. In order to do so, the project relied on survey experiments, complemented by macro level evidence and case specific narratives. The key findings confirm that austerity politics over the past decades significantly contributed to a further polarization of the political landscape with declining support for mainstream political parties and an increase in votes for parties to the right and the left of the political spectrum. We also find that the involvement of international organizations, such as the IMF, in combatting financial crises, can have a positive effect on the overall approval of austerity. This mitigating positive effect, however, comes at the costs of (temporary) loss of democratic control, which voters – on average – disapprove. Overall, the hope that the crisis can be resolved with the IMF dominates the dissatisfaction over the temporary lack of democratic accountability.

Executive Summary

The aim of the project were twofold: 1) to get a better understanding of how voters see austerity, how they set the political boundaries for debt crisis, and how spells of austerity affect political polarization. 2) to assess to what extent international organizations can help to relax the feasibility frontier of unpopular policies, such as austerity, when governments are trapped between competing demands from voters and financial investors. To examine these questions we conducted a number of survey experiments in European countries, notably Greece, Spain, Portugal, Ireland, the UK, and Germany, which vary in the degree of political instability and economic grievances caused by fiscal tensions and austerity.

In our contributions to the field of (international) political economy, we establish that repeated spells of austerity over the past years have significantly contributed to an increasingly polarized political landscape. One of the driving forces behind this finding is the position on austerity that mainstream left and mainstream right parties take when in government. Over the past years, both, conservative parties but also the mainstream left implemented, when in government, austerity. This led to the disillusionment and the alienation of parts of their supporter base and an increase in the vote share of parties on the fringes. A second key paper looks more closely how the involvement of international organizations in resolving domestic economic crises is evaluated by citizens. Using evidence from a survey experiment, we find that – on average – crisis responses mandated by the IMF receive higher levels of voter approval than austerity measures that are not mandated by the IMF. The key reason why citizens approve of IMF conditionality in resolving a financial crisis is their expectation that the crisis will be resolved more efficiently with the help of the international organization.

The paper assessing the impact of austerity on political polarization (“*Does Austerity Cause Polarization*”) is currently an R&R with the *British Journal of Political Science*, and the paper on IMF conditionality (“*Voters and the IMF: Experimental Evidence from European Crisis Countries*”) is currently being revised and will be submitted to peer-reviewed journal early next year. In addition to these two key papers, the output of this project also includes a book chapter on “*Growth Models under Austerity*” (forthcoming), and a number of working papers.

Working on the project has also opened new avenues of research and co-operations. We would like to highlight an ongoing collaboration with researchers from the Inter-American Bank of Development (IABD). Within the framework of this cooperation, we currently develop two survey experiments a) a conjoint experiment that helps to assess preferences for austerity in the Latin American context, and b) assess the importance of trust, time, and compensation for voters’ assessment of austerity. This cooperation highlights the relevance of our research beyond a purely academic audience.

Scientific Report:

How to Design Politically Sustainable Responses to Fiscal Pressure

The first goal of our project was to get a better understanding of how voters see austerity, how they set the political boundaries for debt crisis management in different countries, and how spells of austerity affect political competition and political polarization more specifically. The second goal of the project was to assess to what extent international organizations can help to relax the feasibility frontier when governments are trapped between competing demands from voters and financial investors. To this end, the project explored to what extent (and whether) international organizations, in particular the International Monetary Fund (IMF) can absorb some of the political blame during debt crises which helps to stabilize a country politically and not only financially.

To answer these questions we conducted a number of survey experiments in European crisis countries. All our contributions are based on novel survey research methods but also employ observational data at both, the macro- and the micro level. Our project took an international approach by conducting surveys in multiple countries, notably Greece, Spain, Portugal, Ireland, the UK, and Germany, which vary in the degree of political instability caused by fiscal tensions. In sum, our approach significantly advanced our knowledge about individual level attitudes towards different forms of austerity and the way voters see the interference of international organizations.

The project's relevance for international organizations is supported by the fact that working on these questions over the past years has led to an ongoing collaboration with researchers from the Interamerican Development Bank. Within the framework of this cooperation, we currently develop two survey experiments that a) adopt our conjoint experiment to the Latin American context, and b) assess the importance of trust, time, and compensation for voters' assessment of austerity.

State of the Art / Literature

Our research has been initiated against the background of contradicting theories and empirical findings to what extent austerity hurts parties in government and in particular the party of the prime minister. Until recently, key contributions to the political economy literature suggested that governments implementing fiscal austerity have no need to worry too much (Alesina et al. 2011, Alesina et al. 2010, Giger and Nelson 2011, Arias and Stasavage, 2019). The conclusions of this body of literature had a strong impact on fiscal policy recommendations by the major economic policymaking institutions, notably the ECB but also the IMF. These institutions regularly advocated in favor of fiscal consolidations on the bases of the idea that these policies come at low political costs and provide high (economic) benefits policies. This literature and the derived policy recommendations stood in stark contrast to contributions in comparative political economy, originating in particular from scholars with a focus on the reform of social and welfare policies (Pierson 2001) and act very strategically when it comes to implementing such reforms (Hübscher and Sattler 2017, Ross 2000, Wenzelburger 2014). The majority of these studies come to the conclusion that unpopular reforms have the potential to have significantly negative effect on

government popularity and the chances to be re-elected. Most studies that coined these two opposing views are based on macro-level observations or use observational individual level data. A key goal of our project was to develop a better understanding about how citizens perceive austerity and the alternatives to austerity and the implications these attitudes have for parties in office. Given that observational data are likely to underestimate the political and electoral effects of austerity (strategic selection bias) we used an experimental approach to assess individual responses to austerity and their potential implications for politics at large. Survey experiments have two advantages that can be leveraged for our purpose: 1) they reveal how voters respond to fiscal consolidations policies in contexts where government action is NOT characterized by strategic selection bias, and 2) an experimental approach allows us to explore the multidimensionality inherent to fiscal trade-offs.

The key goals of the project were to a) improve our understanding of individual perception and attitudes towards austerity, b) assess the political constraints of governments during fiscal crises, and c) explore how international organizations tighten or loosen the constraints on governments. Following from the literature and in line with the key goals of the project, we assessed the following hypotheses:

- 1) On average, austerity is unpopular with citizens. This is true in all advanced economies. The extent to which austerity is unpopular is moderated by subgroup characteristics, in particular ideological beliefs and material interests.
- 2) Austerity leads to a significant increase in political polarization and harms mainstream parties if they maintain similar positions on the issue of austerity.
- 3) The intervention of international organization such as the International Monetary Fund (IMF) in macro-economic policymaking leads to a more optimistic assessment of austerity by voters due to the fact that voters expect the crisis to be more efficiently solved.

These hypotheses were tested within the framework of different papers. In what follows, we briefly summarize the findings of our key papers and provide insight into dimensions of the project that have evolved more recently and are still ongoing.

1st Core Contribution: “Does Austerity Cause Polarization?”

The first core contribution (“*Does Austerity Cause Polarization?*”) focuses on whether austerity has wider political implications, specifically, whether austerity leads to an increase in political polarization. The paper, currently an R&R with the *British Journal of Political Science* (current impact factor: 5.14), is using macro- as well as individual level data to assess this question. Our paper shifts the focus from assessing the impact cultural, non-economic issues have on party competition and vote choice back to looking into how macro-economic policymaking, in particular the impact austerity, has on party systems and individual vote choice. Key to our paper is the observation that over the past decades, fiscal adjustments have become common in European fiscal policymaking and there has been a remarkable consensus among governing parties on how to address soaring public deficits and economic downturns. While the European debt crisis stands out as a period of extreme fiscal cutbacks, it marks only the endpoint of a longer trend towards austerity in Europe.

We show that the fiscal policy consensus among mainstream politicians has led to increasing party system polarization. This lack of competition among mainstream parties over key macro-economic policy decisions has important implications for party systems. In a nutshell, we argue that fiscal restraint in a context of mainstream party convergence leads voters who might otherwise endorse these parties to prefer other political options (Spoon and Klüver, 2019). The paper examines the impact of fiscal austerity on political outcomes in two steps: First, we use observational data from 166 elections in 16 OECD countries between 1980 and 2016 to examine how austerity is associated with turnout rates, non-mainstream party vote share and party system polarization. The second part of the paper is using original individual level data from a survey experiment. The experiment has been fielded in four European countries (Germany, the UK, Spain and Portugal). In the remainder, we provide a brief overview of the key results.

Figure 1: Predicted Change in Polarization over Empirically Observable Degrees of Austerity

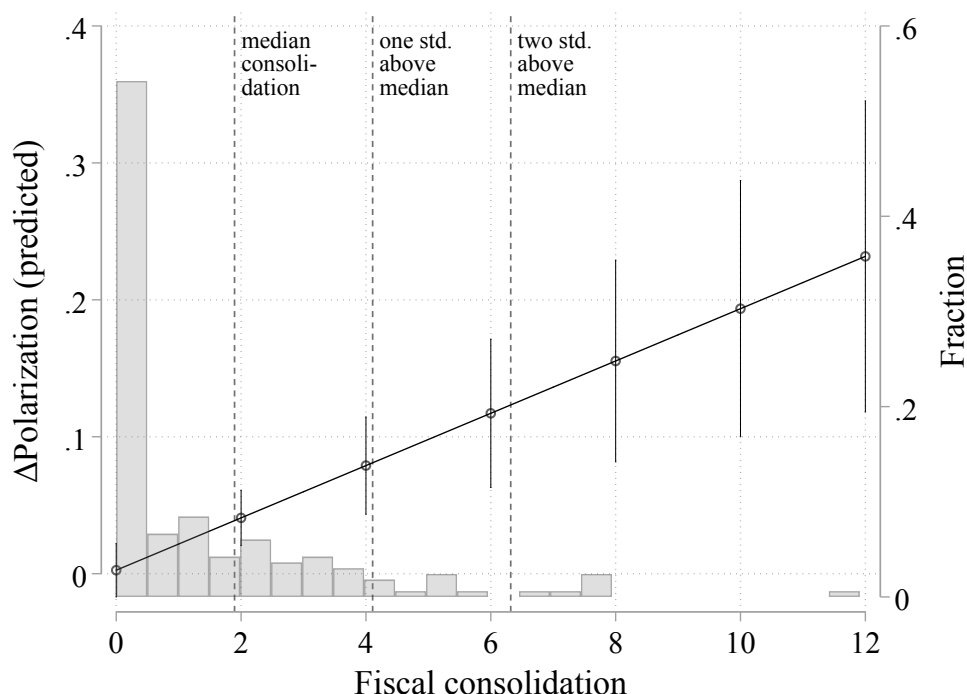


Figure 1 shows the predicted effect of austerity on political polarization. Specifically, it shows that a large consolidation package (one standard deviation above the median consolidation) increases polarization by 0.1 units.¹ This effect increases up to 0.15 for very large packages that reduce the deficit by 7-8% of GDP.² Austerity also has a statistically significant impact on the other dimensions describing the features of party systems, such as turnout and non-mainstream party vote. The effect is negative for

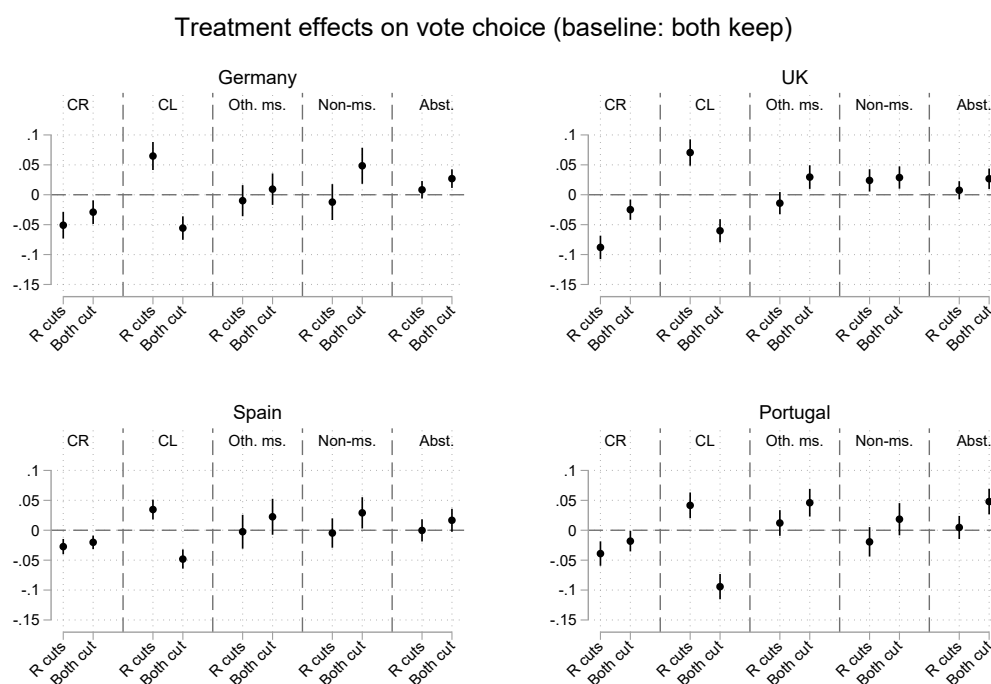
¹ A median consolidation package reduces the deficit by roughly 2 % of the GDP. A consolidation package of roughly 4 percentage points (median plus one S.D) resembles the size of large consolidation measures implemented during a legislative term prior to the financial and sovereign debt crisis. In the aftermath of the financial crisis, consolidation measures implemented throughout one legislative term could amount to an amelioration of the deficit by roughly 12% of the GDP (Portugal 2011-2015).

² The variation within our polarization variable (our dependent variable) during the period covered by our analysis amounts to 0.3. An effect of 0.1 is therefore sizeable.

turnout, as expected and leads to an increase in the vote share of non-mainstream parties.

The second part of the paper is based on individual level data from a survey experiment. The experiment is useful because it allows us to vary the position of the main political parties towards austerity. Moreover, in an experiment we can be sure that it is the response to the policy dimension we manipulate (austerity / no austerity) that drive individual political behavior. In the experiment, we present respondents with hypothetical scenarios concerning policy proposals by the two main left and right/conservative parties in each country. The vignette presented respondents with the following varying information: party in government (left / right), main opposition party (left / right), policy proposal of each party (keep government spending stable without tax increases / cut spending and increase taxes). This yields four different combinations of policy proposals: 1) both parties want to cut spending, 2) center-left keeps spending as is, center right cuts spending, 3) center-right keeps spending and center-left cuts spending, 4) both parties keep spending.³ Each respondent was presented with three – randomly selected – vignettes out of the eight possible combinations. After each vignette, respondents answered the question “*For which party would you vote in the next election?*”. This is our dependent variable in the subsequent analyses.

Figure 2: Fiscal Consolidation and Voter Flows



Note: CR = centre-right, CL = centre-left, ms = mainstream, Abst = abstention. Three of four policy treatments are

³ The experiment was introduced as follows: “*We will now show you three different, possible scenarios how the main political parties in Britain respond to the high fiscal deficit and growing public debt. In each scenario there will be one policy proposal by the government party and one by the main opposition party. The government and the opposition parties can propose similar policies or different policies, depending on political circumstances. The scenarios also vary in terms of which party is in government. [...] Please indicate which party you would support in each scenario.*”

shown, baseline category: both parties propose to keep spending. Policy treatments interacted with whether the left- or right-wing party was said to be in government. Effects show averaging over these two conditions.

Figure 2 presents the results of the experiment and is based on a multinomial logistic regression using vote choice as dependent variable and the policy treatment as independent variables. The models control for simple demographics such as age, gender, education, and income. Each panel shows the scenario in which both mainstream propose to cut and the scenario in which only the conservative party proposes to cut. The baseline category is a scenario in which both parties propose to keep spending. The results essentially support our key proposition. Vote for non-mainstream parties increases when both mainstream parties (center left and center right) propose to implement austerity. Abstention also increases when both mainstream parties support austerity. The mainstream left can increase its electoral support if it proposes to maintain spending while the center-right follows an austerity agenda. While the magnitude of the effect differs across countries, the pattern is consistent in all four countries.

The paper provides clear evidence that austerity has a significant impact on the electoral support of mainstream parties. We find that vote for mainstream parties decreases and abstention increases. As a result, political polarization increases. This implies that the failure of mainstream parties to offer distinct fiscal policy propositions to voters can have long-term consequences for political stability. Greater polarization inhibits the ability to build viable and stable coalition governments, which leads to more difficulties in putting together a coherent policy agenda, which ultimately leads to political stability.

2nd Core Contribution: “Voters and the IMF: Experimental Evidence from European Crisis Countries”

In our paper “*Voters and the IMF: Experimental Evidence from European Crisis Countries*” we explore to what extent international organizations, in particular the IMF can take off some political pressure of the governments’ shoulders. The paper contributes to a literature that investigates the trade-offs between efficient policy-making and democratic (electoral) accountability. The financial crisis confronted advanced economies with the trade-off between seeking support from international organizations and experts in order to find a timely solution to the crisis (and thereby outsourcing inherently political decisions) or seek a domestic, at times more costly and less credible solution while – at the same time maintaining democratic accountability. To test this trade-off we select the four European countries that were hit most by the financial crisis, Ireland, Portugal, Spain, and Greece. All four countries were relying on the support of the IMF to resolve the financial or sovereign debt crisis.

Our paper examines how voters evaluate this trade-off that characterizes IMF interventions and how IMF interventions translate into more or less public support (more or less constraints on government policy-making) for a policy, specifically fiscal consolidation. Research on the political effects of IMF involvement faces an important challenge. To identify the causal effects of the IMF on voter attitudes and behavior we need to compare a fiscal adjustment measure imposed by the IMF to an identical (or similar) situation of fiscal adjustment without IMF involvement. We create this situation using a survey experiment. Using a survey experiment has two advantages: First, an experiment allows us to present different scenarios to voters that are identical except for whether there was an IMF intervention or not. Second, survey experiments allow us to examine the political effects of an IMF intervention at the individual level rather than relying on aggregate election results that are influenced by many other policy decisions a government party took over the years.

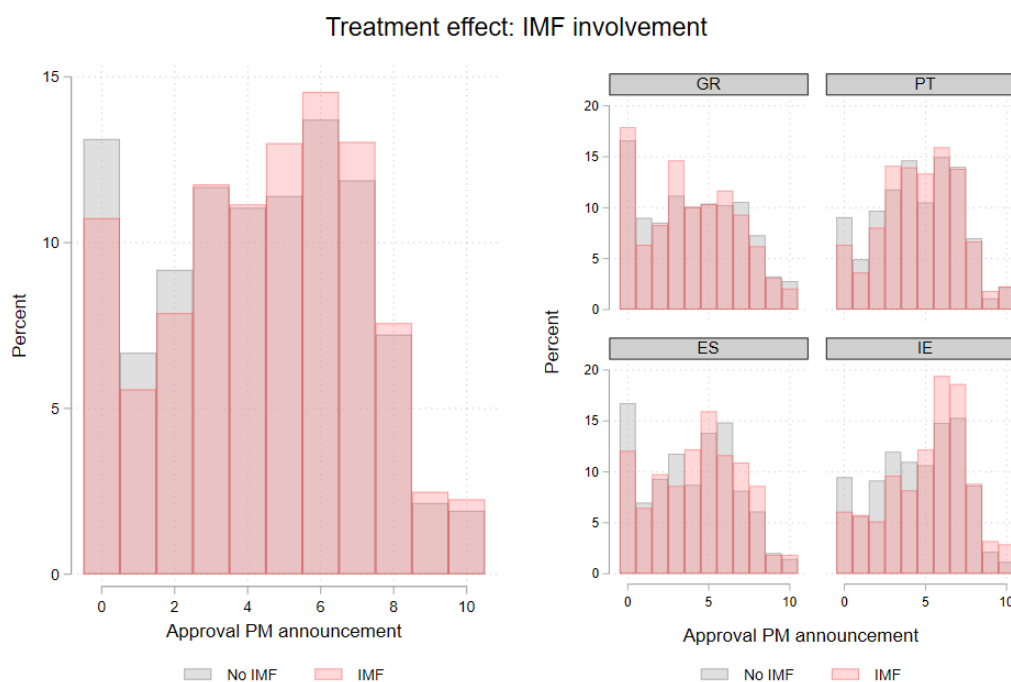
We designed a simple vignette-based experiment. All respondents were provided with a general scenario taking place in the future (2026). Respondents were told that their country is experiencing an increase in the level of public debt and that the government is finding it more difficult to borrow money on financial markets. The head of government therefore announces that spending cuts will be implemented, which will affect funding for a broad range of areas, including public pensions, health care, education, and transport. Within this general description, we randomly manipulate the following four aspects of the scenario: IMF involvement, government partisanship, size of cuts, and the severity of the crisis (see table 1).

Treatments	Attributes of Treatment
IMF Intervention	[yes] [--]
Government Partisanship	[right] [left]
Size of Proposed Cuts	[moderate] [large]
Severity of Crisis	[moderate] [large]

The IMF treatment read as follows: “*The Prime minister says that these spending cuts are necessary. This is because the International Monetary Fund (IMF) has made these cuts a precondition for [country] to get an emergency loan that could stabilize the financial situation. [...]*”. Half of the respondents were exposed to the IMF treatment, for the other half, this part has been omitted.

The main result of our experiment concerns the treatment effect of including IMF loan conditionality or not. Figure 3 shows the difference in approval of austerity for respondents who were exposed to a scenario in which austerity has been mandated by the IMF and respondents that were exposed to a scenario in which austerity is announced without the involvement of the IMF. The figure offers two key points to take away: 1) The average level of approval for austerity is higher among respondents that were exposed to the IMF-treatment as for respondents who were exposed to a vignetter that doesn't mention the involvement of the IMF. 2) When disaggregating the data and looking at each country individually, we see a more nuanced picture. In Ireland, we see particularly high levels of approval for austerity, especially when austerity is mandated by the IMF. Greece and Portugal show overall lower levels of approval and the difference between people who were exposed to the IMF-treatment and the “control group” is considerably smaller. These nuances reflect the different experiences citizens made.

Figure 3: Distribution of IMF Conditionality across Different Levels of Voter Approval for Austerity Package

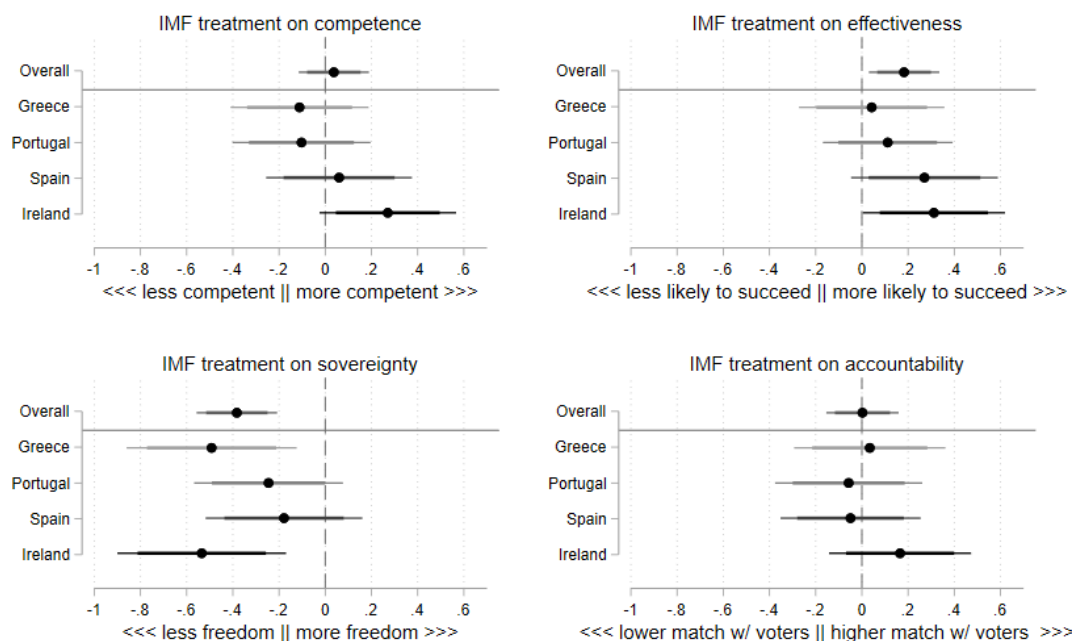


There are various reasons why people approve or disapprove of the IMF interfering into domestic policy-making. On the one hand, the strategy proposed by the government can be perceived as more credible, or competent and more efficient. This may increase the level of approval for austerity. On the other hand, austerity conditioned by the IMF may lead citizens to question the country's sovereignty or the government's accountability. To model and understand these mechanisms we asked respondents four additional follow-up questions capturing these mechanisms after they indicated their level of approval with the proposed policy.⁴

⁴ The questions asked were: 1) Do you think that in this debt crisis the government proved to be a competent or an incompetent manager of the economy? 2) Do you think the government's decision to

Using these mechanisms as outcome variables shows that the IMF treatment has an effect on the perceived effectiveness and the perceived sovereignty (see figure 4, upper right panel). If the IMF is involved, the perceived effectiveness of the policy increases. At the same time, IMF involvement reduces the perceived sovereignty of the national government (see figure 4 lower left panel).

Figure 4: Treatment Effects on Mediators, by Country

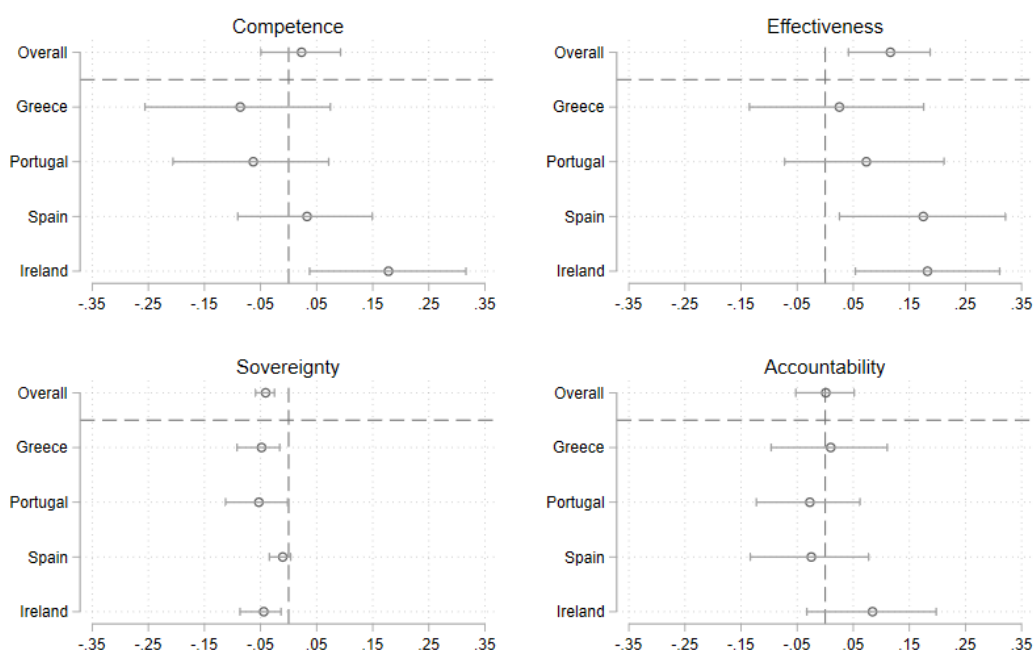


Note: 99% and 95% CIs shown

The IMF does not affect measures capturing competence or democratic accountability. Using causal mediation techniques (Imai et al. 2010, Mattes and Weeks, 2019) to calculate the average causal mediation effect of each of these four mechanisms we see that there is one dominant mechanism: Voters believe that a package demanded by the IMF will be more effective in resolving the debt crisis. The average causal mediation effect of effectiveness is about .11 with 40 percent of the total effect mediated by this mechanism (see figure 5, upper right panel). This positive mediating effect is counteracted slightly by the negative mediating effect of the IMF treatment on the perception that the national government was free to choose its own path (see figure 5, lower left panel). However, this effect is not strong enough to outweigh the positive effect of IMF involvement on the perceived effectiveness.

cut spending will be successful or unsuccessful in resolving the debt crisis? 3) To what extent do you think that the government was free to choose its own response to this debt crisis? 4) To what extent do you think that the decision to cut spending matches the views of the Irish voters? Respondents could indicate their assessment on a 0 to 10 scale.

Figure 5: Average Causal Mediation Effect (ACME) for each Mechanism, by Country



Note: 95% CIs shown

The results have important implications for the legitimacy of the IMF and its operations. Our results indicate that the involvement of external actors can be useful in a crisis. However, given the country specific differences we find, the IMF should adapt its policy conditions to the needs of the countries in order not to undermine its legitimacy and hence the overall positive impact.

3rd Core Contribution: “Growth Models under Austerity”

In our chapter “Growth Models under Austerity” (forthcoming in “Rethinking Comparative Capitalism – The New Politics of Growth and Stagnation”, with Oxford University Press) we assess to what extent a country’s growth strategy is in line with popular beliefs and preferences about austerity.

Fiscal policy is an integral part of a country’s growth model (Baccaro and Pontusson 2016; Blyth and Matthijs 2017). An export-led strategy, for instance, requires that governments limit fiscal deficits – i.e. by implementing fiscal austerity – in order to promote cost competitiveness and, hence, to enhance export opportunities for domestic firms. In contrast, governments in demand-led regimes should be less concerned about fiscal deficits because they need fiscal flexibility to manage domestic demand. The chapter shows that, consistent with the implications of the growth-models perspective, governments subordinate their fiscal policy to the macroeconomic regime of their country and – to a great extent – disregard citizens preferences. We find that the decision to pursue fiscal austerity varies significantly across countries. This variation is in line with a country’s growth model. In what follows, we present the key results from the micro- and the macro-level empirics.

The individual level evidence is based on a vignette-based survey experiment (Mutz 2011). This allows us to examine how respondents evaluate the governments’ fiscal strategy and its impact on economic growth. All respondents read about a situation in which their country experiences a situation of low growth and high fiscal deficit. We conducted surveys in two countries – Germany and the United Kingdom – because they represent polar extremes in terms of their growth model with Germany representing a country based on export-led growth and the UK stands for a country following a consumption-led growth strategy. The set-up of the experiment is summarized in the following table:

Introduction (shown to all respondents)		
The UK [German] economy has experienced slow economic growth for several years. At the same time, the UK [Germany] has experienced a sizeable deficit in the public budget for several years. The UK’s prime minister [German Chancellor] then announces in a televised speech how to deal with the situation.		
Group 1 (Control)	Group 2 (Austerity)	Group 3 (Expansion)
The prime minister says that despite this situation, the government will keep the current level of public spending on government programmes, such as public infrastructure, healthcare, schools and public pensions, unchanged.	The prime minister says that the government will cut public spending on government programmes, such as public infrastructure, healthcare, schools and public pensions, in order to reduce the public deficit. The prime minister says that the resulting reduction of the public deficit will also stimulate economic growth.	The prime minister says that that the government will increase public spending on government programmes, such as public infrastructure, healthcare, schools and public pensions, in order to stimulate economic growth. The prime minister says that the resulting increase in economic growth will also reduce the public deficit.

After having been exposed to one of the above scenarios, the respondents answered a set of questions that are used as outcome variables in our analysis. More specifically, respondents were asked 1) to what extent they approve of the government’s policy strategy, and 2) how, according to them, the decision will affect economic growth.

Figure 6: Approval of Policy (higher values indicate higher level of approval)

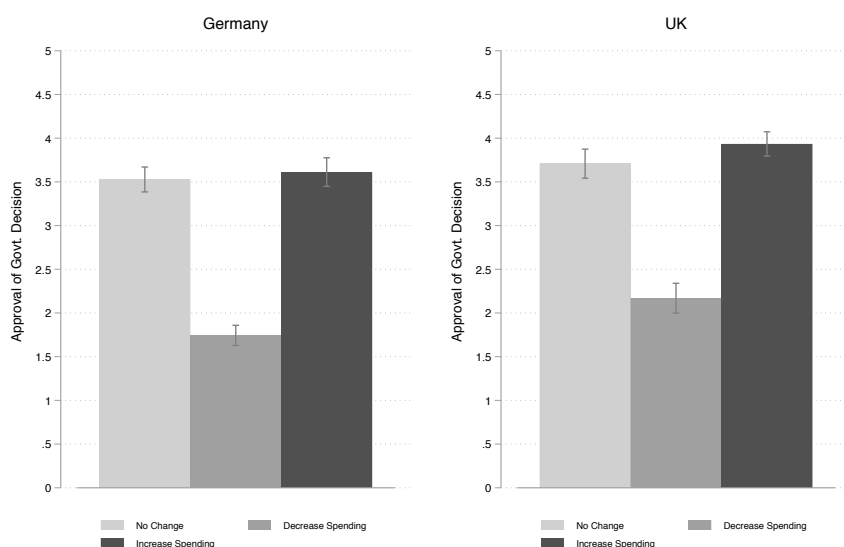
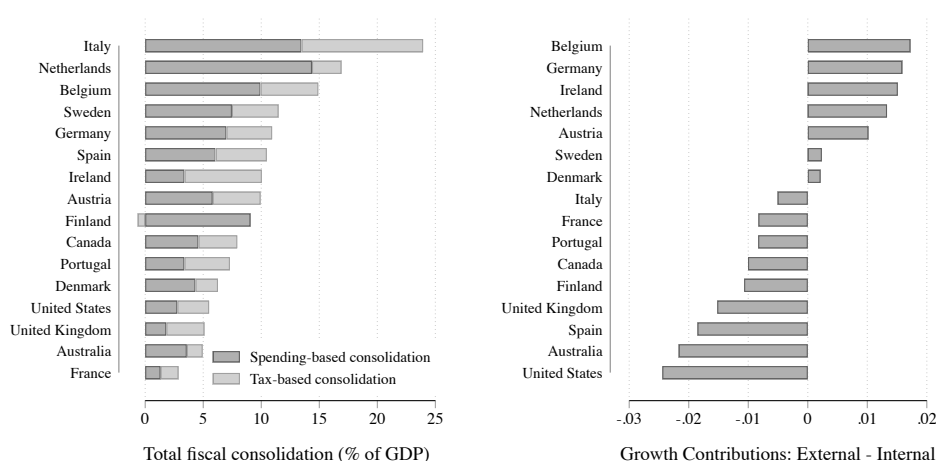


Figure 6 shows the mean values of all three treatment groups for the approval of each policy option with 95% confidence intervals. It becomes immediately clear that a decrease in spending is the least preferred option in both countries. A decrease in spending is also significantly less popular than the status quo with popular disagreement being stronger in Germany than in the UK. In both countries, an increase in spending is the most popular policy option. In the UK this policy option enjoys significantly more approval than the status quo, which is not the case in Germany. This finding could be interpreted as evidence that – on average – voters in Germany may be more critical of spending increases than voters in the UK, which is in line with our expectations for an export-led economy. However, these differences are small compared to the general disagreement with fiscal cuts in both countries.

The evidence on voter attitudes in this section suggests that voters are rather skeptical about the ideational narrative that has shaped the latest series of fiscal consolidation episodes. The beliefs of a majority of voters are not consistent with the economic arguments coined by economists and exponents from international organizations, which were overwhelmingly in favor of austerity policies (until the most recent past). While there is variation in the level of opposition towards austerity across the political spectrum, a majority of respondents find the Keynesian arguments about the connection between fiscal policy and economic growth more convincing. Furthermore, opposition to austerity is similar in countries following a demand-led as well as an export-led growth model.

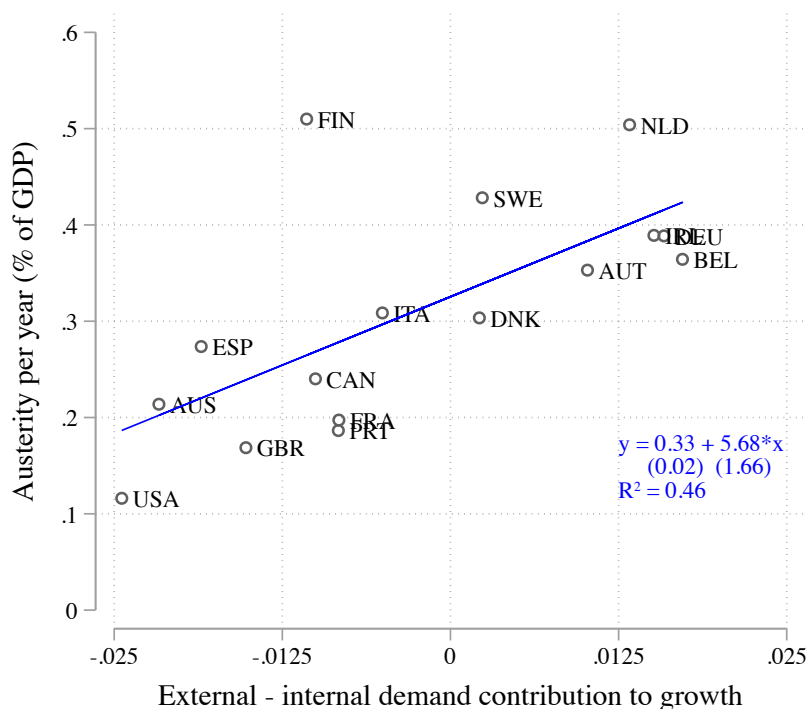
The micro-analysis showed that voters, on average, are quite critical of the idea that austerity will be good for economic performance. In the macro section, we examine to what extent these individual level preferences translate into different fiscal policies under different party governments. Our analysis uses data from the IMF on fiscal consolidation events in 16 OECD countries between 1978 and 2007 (Devries et al. 2011). Figure 7 shows how austerity (left graph) and growth contributions (right graph) are distributed across countries. The figure reveals several insightful patterns that are consistent with the growth model perspective. First, the overall size of consolidation implemented in these countries varies significantly. It ranges from a total of 23% of GDP in Italy to just about 3% in France. Second, and crucial for our purpose, the pattern of fiscal consolidations seems to be largely consistent with the growth models view. Among the countries with particularly low levels of austerity are the United States, the UK and Australia, in which, according to the graph on the right in Figure 7, internal demand contributes much more to growth than exports. In contrast, countries, where export contribute most to economic growth, like Germany, Belgium and the Netherlands, dominate the top of the austerity ranking. The differences in fiscal policy between these two groups are sizeable. The total amount of consolidation by the export-led group is about 2-3 times the size of the amount by the demand-led group.

Figure 7: Austerity and Growth Contributions per Country (until 2007)



To further investigate the role of the broader macro-economic and political environments in these countries, we also estimate a series of annual time-series cross-section models with fiscal austerity as the outcome variable. This allows us to examine the relationship between growth regimes and austerity, net of the variation that arises due to systematically different macroeconomic and political circumstances. Figure 8 shows how these country-specific austerity are related to the countries’ growth strategies. The empirical relationship is clear: the more important external demand is for growth, the more austerity a country implements (up to a maximum of 0.5% of GDP per year). Vice versa, the more important internal demand is for growth, the less austerity a country implements (with a minimum of slightly more than 0.1% of GDP per year).

Figure 8: Estimated Relationship between Growth Contributions and Austerity



The results from the previous two sections raise the question why governments in important cases seemingly ignore voters and implement policies that are at odds with the attitudes of most voters and the government party's own constituencies. Ultimately, nonobservance of voters can be politically risky and create political dissatisfaction and instabilities. This problem is particularly prevalent in export-led countries where the discrepancy between anti-austerity attitudes of the majority of voters and pro-austerity policies by governments is most severe. Voter preferences and government policies are less in disarray in demand-led economies since governments in these countries tend to pursue austerity less often. But the question why right governments are unresponsive to the preference of right voters for spending cuts also prevails in these regimes.

The mismatch between government policy and voters' fiscal policy views that our analysis uncovers has important political implications. In the short and medium term, governments may be able to sell austerity to their electorates by highlighting the potential positive effects of deficit reduction (Barnes and Hicks 2018). The political discourse plays an important role: voters are more likely to support austerity if they are consistently exposed to arguments highlighting the benefits of these policies (Ferrara et al. 2021). In the long term, however, these policies need to have the alleged, desired effect and generate economic growth to secure political support from voters. If this is not the case, like in Italy, for example, it is likely that political backlash follows.

Outlook: Ongoing and Future Work

While the funding period of the project has come to an end, we are still working on finalizing a number of publications and are also preparing a book manuscript. In addition, working on the project has led to exciting new research avenues. We would like to highlight two: 1) a cooperation with Philip Keefer and Martin Ardanaz, two researchers and policy officers based at the Inter-American Development Bank (IADB) in Washington and Costa Rica, respectively. 2) A project that aims at assessing to what extent the evidence that a majority of individuals seem to be supportive of austerity hinges on the type of alternatives the survey design offers respondents.

1) Latin America Cooperation: One of the goals of this cooperation is to explore whether citizen's preferences towards austerity in Latin American countries are similar to the ones present in European democracies. To this end, we are currently finalizing a conjoint experiment that will be fielded in 4 countries (Brazil, Colombia, Peru, and Costa Rica). In each of these countries we will survey 2000 respondents. A pilot study will be fielded within a couple of weeks, the full study will be taking place early next year.

While the conjoint experiment has a more explorative characteristic, the cooperation with the IADB also involves two project which aim at advancing our knowledge about citizens acceptance and support of macro-economic policy-decisions on two core issues: 1) whether targeted compensation of key groups change support for fiscal adjustment, and 2) citizens preferences over inter-temporal allocation of fiscal spending. To this end, we have designed two survey experiments. The experiments will be fielded in 8 countries (Argentina, Brazil, Chile, Costa Rica, Colombia, Guatemala, Mexico and Peru). The costs of the survey will be covered by the IADB and the fielding phase of the surveys will be administered by LAPOP (Latin American Public Opinion

Project, center of excellence in survey research focusing on Latin American countries). We expect that this cooperation will yield in three papers to be published in peer-reviewed journals. Insights from the conjoint are expected to inform policy-makers and governments in the area.

2) Austerity: What's the Alternative?: Similar to the macro-evidence on austerity and its implications for governments, the emerging literature about individual level attitudes towards austerity has also produced contradicting results regarding citizen's austerity preference (see Bechtel et al, 2021; Bremer and Bürgisser 2020, Hübscher et al. 2021). Our paper will examine the origins of these diverging results. We expect that support for austerity critically hinges on how respondents think about the consequences of fiscal adjustments and public debt in a particular situation. We will first re-examine the results from previous, influential studies on the mass politics of austerity using surveys in three European countries. These surveys will explore the economic reasoning that guides respondents in their fiscal choices, including their expectations of the national and personal economic consequences of spending cuts compared to higher public debt. In a second part, we will study how respondents react when they are informed about the most likely consequences of additional public debt. We expect that they support austerity in times of crisis when a failure to reduce the deficit may result in severe outcomes, such as government default or high inflation, but not in normal times. We have designed a survey experiment that has been fielded in three countries, Spain, Italy, and Germany. The choice of Spain and Italy is influenced by the first part of the project, the aim to replicate an existing study on voter's attitudes towards austerity (Bechtel et al. 2021). We expect to present a first version of the paper at a number of conferences and workshops in 2022 (for example the CES in Lisbon, the Inequality workshop taking place at the University of Konstanz within their excellence research cluster). Later in 2022, the paper will be submitted to a peer-reviewed journal.

Conclusion

The work that has been done within the framework of the project sponsored by the SNIS has significantly advanced our understanding of how austerity is assessed by voters and how macro-economic policymaking affects politics and policymaking in the long-run. Our focus on austerity and its implications has – together with the work of other scholars – helped to bring back macro-economic policymaking as a key determinant of voter's assessment of government performance and also provides evidence that austerity has been fueling political polarization and the fragmentation of party systems in Western democracies.

The project was key in broadening our network and served as a starting point for new collaborations which further advance the ideas that originated within the framework of this project. We would like to particularly highlight the cooperation with researchers from the Inter-American Development Bank. This collaboration also confirms that the topic is of relevance for a broader audience interested in a policy discourse rather than an academic debate.

Output and impact report:

Our project has yielded in a number of journal articles and other publications. Some of them still under review. We would particularly like to highlight the paper ‘Does Austerity Cause Polarization’, which is currently an R&R with the *British Journal of Political Research*. The paper has been presented at various conferences and its pre-publication version has been downloaded from ResearchGate more than 3’600 times.

The paper on the IMF and its impact on the approval of austerity (“*Voters and the IMF: Experimental Evidence from European Crisis Countries*”) is currently being revised and will be submitted to a peer reviewed outlet early 2022.

Also within the framework of this project, Thomas Sattler and Evelyne Hübscher wrote a chapter on “*Growth Models under Austerity*”, forthcoming in a volume edited by Lucio Baccaro, Mark Blyth and Jonas Pontusson and titled “Rethinking Comparative Capitalism – The New Politics of Growth and Stagnation” (with Oxford University Press). The book is currently in print and expected to be published in spring 2022. The chapter – as submitted for publication – is attached to this documentation.

Furthermore, there is a working paper titled “*The Fiscal Policy Trap*”, which assesses how austerity affects public support for government and how support for government (measured as vote intention for the prime minister party) gradually increases again after the implementation of austerity.

Lastly, Thomas Sattler and Evelyne Hübscher are preparing a book manuscript with the provisional title “*The Economic Origins of the Great Political Transformation: Fiscal Policy, Political Parties and Voters*”. The book aims to bring together the demand side (voter) and the supply side (party/policy) dimension

Conferences and Invited Talks:

All of the above-mentioned papers have been presented at various conferences and within the framework of workshops (by invitation) and invited talks. Below an overview:

“*Does Austerity cause polarization?*” has been presented at the following venues (by invitation:

- European University Institute, Department of Political Science
- London School of Economics, European Institute
- Central European University, Political Economy Research Group

“*Voters and the IMF: Experimental Evidence from European Crisis Countries*” has been presented at the following venues

- Lisbon
- Robert Schuman Centre, European University Institute (February 2022)

“*Growth Models under Austerity*”, has been presented at:

- Max Planck Institute für Gesellschaftsforschung, Cologne

Furthermore, all papers have been presented at international conferences. In particular EPSA (2019), APSA (APSA), IPES (2021, online), PEIO (2022),

Further output and impact beyond academia:

Thomas Sattler and Evelyne Hübscher wrote a short summary of the current state of the art on “*The Political Consequences of Fiscal Austerity*”. This short essay has been published in the *Political Economist* (Volume XVI, Issue 3) the newsletter of the section of political economy of the American Political Science Association. The newsletter of the APSA informs the political economy community is published four times a year and features short articles on salient topics written by scholars who significantly advanced a specific field of research.

The “*Does Austerity Cause Polarization*” has generated an interest beyond the immediate academic community. In 2021 members of the research group talked to José Luis Marin, a Spanish journalist from the online-magazine *ctxt.es* (“Contexto y Acción”) and to a journalist (Philip Boucher-Hayes) from the Irish public radio. The discussion with the Spanish journalist yielded in the publication of an article (attached). Parts of the interview with the Irish journals has been aired within the framework of the series “*Boom Bust Broke*” (Episode 8) on February 25, 2021.

4. Financial Report

The project has been managed by Evelyne Hübscher, post-doctoral researcher within the *Department of Political Science and International Relations* at the University of Geneva. As the financial report provided by the university administration and the attached excel sheet shows, there is a slight discrepancy between the estimated salary and the actual salary. This discrepancy originates from the fact that the university HR assigned the principal investigator the role of a '*collaboratrice de recherche II*' rather than maintaining the function of 'maître assistant' when modifying the contract and hence re-evaluated the salary scale taking into account previous experiences.

The project has greatly benefitted from research assistant by Colin Walder, who has been concerned with data management and other research assistant tasks. His assistance is invaluable and we decided to hire him because of his outstanding services within the framework of another project. Within the framework of the ongoing project "Austerity: What's the Alternative?", Colin is also a co-author for the paper that we'll write.

In our initial budget we also applied for resources to finance a programmer. We did not touch these resources as we were able – again – to leverage synergies and benefit from a programmer paid by a different project (SNF Project no: 165480).

We did not tap into the resources reserved for traveling.

5. Internal Report

The development of our project has been significantly affected by the (still ongoing) COVID-19 pandemic. The pandemic had an effect on multiple dimensions of the project 1) collaboration, 2) progress, and 3) travel. In what follows, we elaborate on all three dimensions.

The collaboration between the core-group has been working well throughout the whole period. There were regular exchanges over zoom / teams and pre-COVID we've met at conferences and workshops. Collaboration with more distant members, however, has been difficult due to the fact that personal meetings at times when we started to work on and revise the IMF paper were no longer possible. Also, some of the more peripheral project members were (and still are) involved in various activities related to the handling of COVID-19 and the assessment of the economic impact of COVID-19, which limited their availability. This led to a closer cooperation between the core members of the project.

COVID-19 also significantly slowed down progress on the papers due to the fact that project members had to increase their care duties and – for a limited period of time – homeschool kids. The change from on-site to online teaching also led to an adjustment of the project time-line as the preparation of online lectures and seminars required a significant investment of time. For these reasons we've asked the SNIS to extend the duration of the project, which greatly helped us to finalize the most important aspects. We have also sought a prolongation of the project with the hope that we would be able to a) organize an on-site workshop with academics and practitioners alike, which we planned from the beginning, and b) to benefit from traveling to conferences. Unfortunately, travel restrictions and the different rules and regulations in place across countries and institutions made it impossible to organize the workshop and with a few exceptions traveling has not been possible. This is why we hardly dipped into the travel budget.

We decided against organizing an online conference or workshop as we realized that the appetite for yet another online workshop or conference was declining considerably as many of our peers and ourselves were spending large portions of their workdays in various online meetings. This has proved to be very taxing over time.

Original plan vs. Actual Development of Project

By and large, we tackled the key research questions proposed in the original project submission. The proposed methodology proved to be suitable to examine these research questions. However, we also realized that adding macro-level evidence (as in the “polarization” paper or anecdotal evidence increases the relevance of a paper and helps to further substantiate the key claims and results. This is also why we are currently working on a book manuscript. The book will wrap up and expand some of the work done within this project, in particular, the book will evolve around the paper “Does Austerity Cause Polarization?” and complement the voter perspective on austerity (demand side) with the supply side perspective on what mainstream political parties over the past 30 years have offered in terms of macro-economic policymaking and austerity in particular.

In an updated or renewed project proposal we would probably propose to leverage observational data alongside experimental data, which naturally (only) provide a snap shot and reflect the “public mood” at one point in time.

Inter-disciplinarity

Our research group consisted of political scientist (the majority) and economists. Whereas the ‘core group’ (consisting of political scientists) knew each other from previous collaborations and many meetings at conferences and workshops, the connections with the economists prior to the start of the project were only loose. This made it difficult to establish a working relationship, in particular when COVID-19 started to impact travel, personal interactions, and more generally, working conditions. This is why, in the end, the project turned out to be less interdisciplinary than originally planned.

Conclusion

Overall, we are pleased that we’ve achieved the main goals of the project despite the challenges of the past years. Given that COVID-19 only marginally affected our data collection processes we did not have to change the substantive ideas of our project or implement significant changes related to the fieldwork or case selection.

On a more general note, and to conclude, we would like to extend our gratitude to the SNIS administrators and board who allowed us twice to extend our project.