

Does Austerity Cause Polarization?*

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Abstract

In recent decades, governments in many Western democracies have shown a remarkable consensus in pursuing austerity during periods of strained public finances. In this paper, we show that these decisions have consequences for political polarization. Our macro-level analysis of 166 elections since 1980 finds that fiscal restraint increases both electoral abstention and votes for non-mainstream parties, thereby boosting party system polarization. A detailed analysis of selected fiscal adjustments also shows that new, small and radical parties benefit most from austerity policies. Finally, survey experiments with a total of 8,800 respondents in Germany, Portugal, Spain and the United Kingdom indicate that the effects of austerity on polarization are particularly pronounced when the mainstream right and left parties both stand for fiscal restraint. Austerity is a substantial cause of political polarization and hence political instability in industrialized democracies.

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1 Introduction

Fiscal policy in Western democracies was until recently characterized by a remarkable consensus among governing parties. Especially in times of crisis, but also more generally, governments of the centre-left and centre-right agreed that low fiscal deficits and hence fiscal restraint was the appropriate policy to promote economic stability and growth (Blyth, 2013). As a result, both left and right political parties in many countries have increasingly embarked on a path of fiscal austerity when in government (Mudge, 2018; Hopkin, 2020). The reasons for this trend are manifold, but key explanations look to the constraints imposed by international integration (Konstantinidis, Matakos and Hutlu-Eren, 2019), a growing appeal of technocratic solutions (Alexiadou, Spaniel and Gunaydin, 2021) or the emergence of a new economic policy consensus (Blyth, 2013; Mudge, 2018).

In this paper, we show that this fiscal policy consensus among mainstream politicians has led to increasing party system polarization. Such polarization has been witnessed across Europe, where party competition has radicalized due to the decline of centrist, mainstream competitors and the concomitant rise of previously small, non-mainstream parties on the edges of the political spectrum (De Vries and Hobolt, 2020). In Italy, where many of these developments have been preempted, most traditional parties have almost vanished, having been replaced by new anti-establishment parties. Similar developments can be seen in other countries, with the rise of *Podemos* and *Vox* in Spain, PVV and FVD in the Netherlands, the Sweden Democrats in Sweden, the Left Bloc and *Chega* in Portugal or the *Rassemblement National* in France. Even ostensibly more stable countries such as Germany have witnessed change, with the joint vote share of the Christian Democrats and the Social Democrats falling from 76% in 1998 to below 50% in 2021.

Explanations of polarization and party system change generally focus on structural factors, such as economic globalization (e.g., Jensen, Quinn and Weymouth, 2017; Colantone

and Stanig, 2018; Autor et al., 2020), changes to class politics (Halikiopoulou and Vlandas, 2016; Gidron and Hall, 2017; Oesch and Rennwald, 2018; Gingrich, 2019), the growing salience of issues relating to identities, culture and immigration (Kriesi et al., 2008; Norris and Inglehart, 2018), or economic crises (Hernández and Kriesi, 2016; Casal Bértoa and Weber, 2019; Hobolt and Tilley, 2016).¹ This literature, however, has largely ignored the role that governments and their economic decisions play in such periods of economic insecurity. When economic shocks hit voters, governments can try to mediate the effects of these changes in different ways. For instance, fiscal policy as the government’s main economic policy instrument is decisive in helping low-skilled workers and the losers of globalization cope with the consequences of structural change (Rodrik, 1998; Hays, 2009; Vlandas and Halikiopoulou, 2021). The fiscal policies that political parties propose in this context, thus, are important to understand the political behavior of voters. Elites therefore play an important role in explaining party system stability (Tavits, 2008).

If structural change creates demand for an active fiscal policy, at least among a subgroup of the electorate, fiscal austerity and restraint disappoints and alienates voters (Hopkin, 2020). Specifically, fiscal restraint created a pool of dissatisfied voters who lacked a credible anti-austerity alternative among mainstream parties. Where governments opted for fiscal cutbacks, voters therefore defected from mainstream parties that occupy similar policy positions in key policymaking areas (Spoon and Klüver, 2019). When defecting, some of these voters abstained from voting at all, while others decided to support non-mainstream, often more radical political parties that rejected austerity. In the aggregate, both decisions led to an increase in party system polarization.

Such an increase in party polarization poses a challenge for policymaking in democracies

¹Economic processes and identity politics can also interact (see, e.g., Baccini and Weymouth, 2021).

(Lee, 2015). A more polarized political landscape makes it more difficult for parties to build stable government coalitions and agree on sustainable policy solutions, both of which are needed to govern in times of economic insecurity (Frye, 2010; Bingham Powell Jr., 1986). This leads to considerable policy uncertainty (Konstantinidis, Matakos and Hutlu-Eren, 2019; Funke, Schularick and Trebesch, 2016). Struggles to build stable coalitions and the associated broken policy-making processes can be witnessed in many European countries, such as Israel, Sweden, Italy or in particular Spain, which has held four general elections within the last four years. This suggests that solutions to these challenges need to take into account political competition over key economic policies.

We examine the impact of fiscal austerity on political outcomes in two steps. The first part of the analysis uses 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. Controlling for key economic and political factors, we find that austerity correlates substantially with core dimensions of party system change. The vote share of non-mainstream parties is higher by up to 3.5 percentage points and voter abstention by up to 1.8 percentage points if the government implemented sizeable fiscal austerity packages during the legislative term. This, in turn, increases polarization from one election to the next. A more detailed analysis of selected, large fiscal adjustment episodes also shows that previously small and non-existent parties, often those at the edges of the political spectrum, are the main beneficiaries of austerity.

The second part of the analysis uses survey experiments in Germany, Portugal, Spain and the United Kingdom to uncover the micro-level mechanism that explains these macro-level correlations. The survey experiment also provides a more fine-grained analysis that indicates which parties lose or benefit most after austerity. The results show that voter responses to austerity critically depend on the policy alternatives offered by mainstream parties. If both

the mainstream left and the mainstream right are in favor of austerity, voters are more likely to turn towards smaller, non-mainstream parties or abstain from voting than if either the mainstream left or both mainstream parties oppose austerity. Abstention and defection to non-mainstream parties thus occurs when none of the mainstream parties provides a credible anti-austerity alternative.

2 Fiscal policy and party competition

Fiscal adjustments have become common in European fiscal policymaking. While the European debt crisis stands out as a period of extreme fiscal cutbacks, it is actually merely the endpoint of a longer trend towards austerity in Europe. While countries have historically followed very different fiscal trajectories and lived with very different degrees of fiscal deficit (Baccaro, Blyth and Pontusson, Forthcoming), this has changed in the past decades, and especially so among Continental European countries prior to the establishment of the Eurozone. Generally, these adjustments refer to a set of fiscal decisions that aim at reducing the fiscal deficit by a pre-specified amount. In practice, these fiscal decisions usually entail a mix of spending cuts (two-thirds) and tax increases (one-third) (Devries et al., 2011). Although these two dimensions are conceptually different, they tend to occur together and both hurt many voters, especially when non-progressive taxes, such as value-added tax, are increased.

Fiscal restraint became common for several reasons. International political integration, the establishment of the Eurozone and the related fiscal rules induce governments to pursue similar, low-deficit fiscal policies (Konstantinidis, Matakos and Hutlu-Eren, 2019). In this context, a new, pro-austerity consensus emerged that was actively promoted by powerful international institutions, such as the ECB or the IMF (Blyth, 2013; Dellepiane-Avellaneda, 2014). In addition, international financial markets impose constraints on fiscal policy, especially on public deficits and debt (Mosley, 2000). This pushes governments towards techno-

cratic solutions in search of economic credibility (Alexiadou, Spaniel and Gunaydin, 2021), which again constrain fiscal policy (Aklin and Kern, 2020).

Given these constraints and incentives, there is now little evidence that left governments are less likely to implement fiscal austerity than right governments (Hübscher and Sattler, 2017). This is mainly surprising for centre-left parties, as centre-right parties have been more supportive of low deficits in the past (Cusack, 1999). Although left parties traditionally advocated fiscal flexibility, they nowadays often back economic models of which fiscal restraint is a fundamental pillar (Hopkin, 2020; Mudge, 2018). As a result, the differences between mainstream political parties in fiscal policymaking have largely blurred (see also, Konstantinidis, Matakos and Hutlu-Eren, 2019). This development is well illustrated by the decisions of social democratic parties in Britain, Germany, the Netherlands or Sweden to embrace orthodox economic policies during the past decades, even if the ideological foundations of this move may differ (Bremer and McDaniel, 2019).

This lack of competition among mainstream political parties over fiscal policy has important implications for party systems. As our empirical analysis below will show, political polarization, a key characteristic of party systems (Sartori, 1976; Dalton, 2008), has increased considerably over the last decades in many countries.² In this paper, we examine the role that governments and their political decisions can play in fostering party system polarization, a factor that has largely been ignored in existing work explaining party system

²Other important parameters are the number of political parties, the volatility of electoral support, and patterns of government composition (Mainwaring and Scully, 1995; Dalton, 2008; Enyedi and Casal Bértoa, 2020). Since this polarization is partly fed by the decline of mainstream competitors and rise of non-mainstream parties, our analysis also speaks to other dimensions of party system change, especially fragmentation and electoral volatility, even if we do not examine these explicitly.

polarization. When structural changes and economic shocks hit voters, governments can try to mediate the effects of these changes in different ways. Fiscal policy as the government's main economic policy instrument, for instance, is decisive in helping low-skilled workers and the losers of globalization cope with the consequences of structural change and in offsetting the impact of economic shocks on aggregate economic welfare (Rodrik, 1998; Hays, 2009; Vlandas and Halikiopoulou, 2021). The fiscal policies that political parties propose and that governments pursue in reaction to structural change and economic shocks, thus, are important to understand the political behavior of voters.

We, therefore, examine how fiscal policy and the fiscal policy positions of the major parties in the political system affect party system polarization, which is our main dependent variable. We further examine two individual-level decisions by voters that fuel party system polarization, specifically voting for non-mainstream parties and not turning out. These two choices by voters ultimately produce polarization by reducing the share of the vote received by mainstream parties.

3 How fiscal restraint fosters party system polarization

3.1 Why voters leave: austerity and voter defection from mainstream parties

When mainstream political parties do not offer clear alternatives in fiscal policy, voters are likely to defect from these parties. To summarize, 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).

To understand the processes underlying this choice, let us first take a scenario where the

mainstream left party is in government and implements fiscal restraint. In this scenario, it is unlikely that the mainstream right will take a position that is less in favour of austerity than the mainstream left party in government: parties rarely leapfrog each other ideologically (Budge, 1994). Hence, voters who disapprove of austerity should not defect to the mainstream right party if their aim is to express dissatisfaction with the economic policy stance of the mainstream left party in government. These voters should defect from mainstream parties altogether.

Next, take a scenario where the mainstream right party is in government. Assuming that this party takes a pro-austerity position, the mainstream left party could benefit from taking up a contrasting stance. However, this happens less often than expected due to the constraints and developments described above. Moreover, even if mainstream left parties tactically oppose austerity, their past track record is likely to reduce the credibility of such stances (Horn, 2020). Many voters who oppose austerity therefore do not see the mainstream left as a valid and credible alternative due to the party's past policy-making trajectory when in government (Horn, 2020; Karreth, Polk and Allen, 2013). This also resulted in a dilution of the party's 'brand' (Lupu, 2014; Bodea, Bagashka and Han, 2021). If the mainstream left is not seen as the natural owner of issues related to a strong state and welfare policies, the result is again defection to non-mainstream parties or abstention. Overall, the mainstream left may not gain substantial amounts of voters who disapprove of government policy even when the party is in opposition during periods of austerity.³

³This raises the question to what extent voters hold parties accountable for economic policies if governments are constrained by international integration or if austerity is imposed by external actors, such as the IMF (Hellwig, 2008). These interventions, however, are a new phenomenon in industrialized countries and only account for a limited number of fiscal adjustments. Alonso and Ruiz-Rufino (2020) also find that voters react even more fiercely and punish governments for giving up democratic control in these cases. Ultimately,

This logic does not require that all voters need or want an active fiscal policy and oppose fiscal restraint (Barnes and Hicks, 2018). In fact, heterogeneous attitudes are a prerequisite for polarization. Fiscal policy is most important for those who are affected by structural change (Jensen, Quinn and Weymouth, 2017; Colantone and Stanig, 2018; Gingrich, 2019). Fiscal attitudes also strongly vary with ideology (Hübscher, Sattler and Wagner, 2020; Bansak, Bechtel and Margalit, 2021). Our assumption is that the major center parties traditionally represented voters who are critical of fiscal austerity for either material or ideological reasons. This is clearly the case for social democratic parties, but this also includes socially conservative workers who tended to vote for christian democratic parties. Relatedly, recent research shows that many, albeit not all voters are critical of austerity (e.g., Wenzelburger, 2011; Genovese, Schneider and Wassmann, 2016; Talving, 2017; Barta, 2018; Bojar et al., 2021; Baccaro, Bremer and Neimanns, 2021).

In sum, a history of similar responses to macro-economic challenges by both left- and right mainstream parties while in government, a credibility crisis of mainstream parties in general (Mair, 2006), and the left more specifically (Karreth, Polk and Allen, 2013) leads to voter defection from mainstream parties after episodes of fiscal austerity. The following hypotheses summarize the implications of this discussion.⁴

governments are the only ones who can try to change these constraints, e.g. by rolling back international integration.

⁴We present the logic in a simplified form using two mainstream parties only. The same logic applies to coalitions within the same (left or right) political bloc. In case of cross-bloc coalitions, as we have seen them in Austria or Germany, the effect should even magnify. Cross-bloc coalitions make it even harder for voters to distinguish the policy stance of the political parties in the coalition.

Hypothesis 1a (macro): Austerity measures reduce mainstream party vote share at the next election.

Hypothesis 1b (micro): Citizens are less likely to vote for mainstream parties that support austerity measures than for mainstream parties that oppose such measures.

3.2 Where voters go: Voter defection and polarization

Voter defection from mainstream parties fuels polarization in two ways: indirectly through abstention and directly through votes for non-mainstream parties. First, traditional supporters of mainstream parties can abstain from turning out altogether due to their dissatisfaction with the parties' policy trajectory. While the decision to abstain from voting can have many reasons, disenchantment with the political establishment and the workings of democracy are among the more prominent determinants at the individual level (Hillen and Steiner, 2020). We propose that beyond broader sentiments of dissatisfaction and estrangement from politics, specific policy decisions by parties in government can have a detrimental impact on political participation. Disproportionate abstention from those who would otherwise support mainstream parties leads non-mainstream parties to increase their relative vote share, though of course less than if voters switched directly to these parties.

Second, dissatisfied voters may often defect to a non-mainstream party, if such an option is available. If the non-mainstream parties are more radical in their positions than mainstream alternatives, polarization will increase. Radical parties are attractive to those who oppose austerity as they often advocate an alternative fiscal policy position (Röth, Afonso and Spies, 2018). This applies to both radical-left and radical-right parties. Radical-left parties, such as *Die Linke* in Germany or the SP in the Netherlands, are most attractive for individuals who are disappointed by the economic policies of the mainstream left. Unlike the mainstream left, the radical left takes an ideological stance against austerity and strongly

opposes interference by international economic actors that demand such policies, such as the IMF or the EU.

Similarly, radical-right parties may attract dissatisfied voters for three reasons. First, the radical right often promises ‘welfare chauvinism’ that favors the native population at the expense of immigrants (Vlandas and Halikiopoulou, 2021). As a result, issues where the radical right has popular and unique positions, such as immigration and the EU, may matter more. Relatedly, and more importantly, radical right parties most clearly advocate to roll back globalization and thus to lift the constraints that international integration impose on domestic economic policy. Finally, the radical right often stands for anti-system politics, which is potentially attractive for disaffected mainstream voters. Overall, both the radical right and the radical left can therefore gain votes by strategically positioning themselves as an alternative to the mainstream parties (Wagner, 2012; De Vries and Hobolt, 2020).

Several examples from the recent past illustrate these proposed patterns. The rising popularity of UKIP, for instance, has been directly linked to the austerity policies in Britain (Fetzer, 2019). In other countries, non-mainstream parties emerged or expanded their vote share in connection with anti-austerity movements during the Eurozone crisis. An example is *Podemos* in Spain, which used the momentum generated by the *Indignados*, a social movement taking the streets in the aftermath of the crisis. Other, smaller parties actively court these movements: in France, both the radical-right *Rassemblement National* and the radical-left *France Insoumise* have tried to attract supporters of the *Gilets Jaunes* in order to capitalize on their popular appeal. Our final hypotheses are thus:

Hypothesis 2a (macro): Austerity measures increase polarization at the next election.

Hypothesis 2b (micro): Citizens are more likely to choose non-mainstream parties or to

abstain from voting when all mainstream parties support austerity measures than when one or both mainstream parties oppose austerity.

We examine the above hypotheses in two steps. In the next section, we use aggregate observational data on fiscal consolidations and election outcomes in Western countries since the 1970s. This allows us to examine how fiscal consolidation has contributed to non-mainstream party vote, abstentions and ultimately polarization. However, one challenge we face in this analysis is the lack of good measures of mainstream *opposition* party positions on austerity policy. In the subsequent section, we therefore use survey experiments to examine individual-level voter reactions to fiscal policy proposals by different political parties in four countries. This allows us to test whether the macro patterns that we find are in fact likely to be caused by voter responses to fiscal austerity as we propose above.

4 The macro pattern

4.1 Empirical design and data

The first part of our empirical analysis examines national elections from sixteen advanced economies between 1980 and 2016.⁵ This macro approach is useful because our goal is to examine the impact of fiscal policy on political changes at the systemic level. The country-level analysis allows us to do this by capturing the empirical relationship between fiscal policy and the patterns of national election outcomes and the associated systemic changes. We

⁵Data on national-level parliamentary elections is from the Comparative Manifesto Project (CMP). The set of countries is limited by the availability of fiscal consolidation data and includes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Portugal, Spain, Sweden, the United Kingdom, and the United States. The number of elections per country (166 in total) varies between 8 (France, United Kingdom) and 14 (Australia).

are aware that such a macro-level approach necessarily compromises on insights about the underlying mechanisms and the motivations of voter behavior. We therefore complement the macro analysis with an experimental analysis of individual-level behavior (see section 4).

In line with our hypotheses, we examine three different outcome variables: the vote for non-mainstream vs. mainstream parties; electoral turnout; and the polarization of the party system. We identify non-mainstream parties based on the party family classification by the CMP project (see also Spoon and Klüver, 2019).⁶ Mainstream parties in our context are those parties that support the current economic order and the related economic policies, notably low deficits and fiscal restraint. We classify social-democratic, christian-democratic, conservative, liberal and agrarian parties as those parties to which this definition applies.⁷ We use the share of eligible voters who do not participate in an election as a measure of electoral abstention (Armingeon et al., 2019). To measure the polarization of voters, we use the dispersion of positions of political parties, weighted by their vote shares. This indicator increases when more voters vote for parties at the fringes of the political spectrum.⁸ We use data from expert surveys to measure the positions of political parties on the left-right scale.⁹

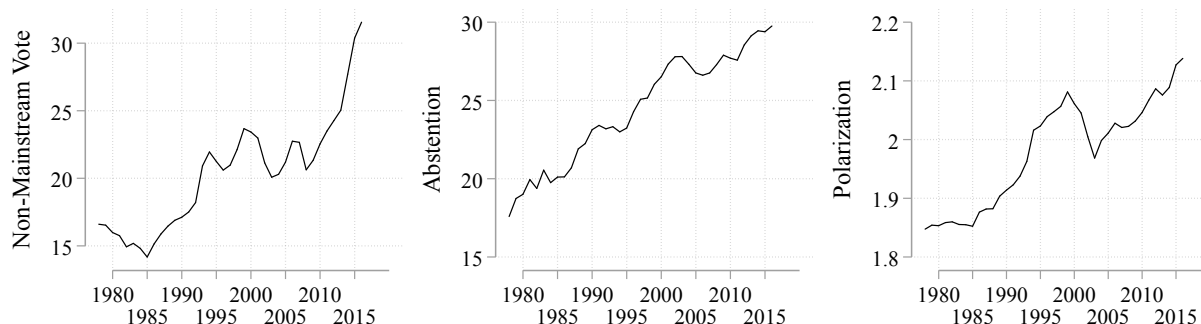
⁶The CMP uses the following classifications: ecological; socialist or other left; social-democratic; liberal; christian-democratic; conservative; nationalist; agrarian; ethnic and regional; special issue; and diverse electoral alliances.

⁷This definition is the same as in Spoon and Klüver (2019), with the exception of ‘socialist and other left’ parties. We classify those as non-mainstream because they position themselves against the economic order and fiscal austerity.

⁸Specifically, we calculate this measure as $\sqrt{\sum_{i=1}^n v_i (p_i - \bar{p})^2}$, where \bar{p} is the weighted mean of all the parties’ left-right ideological positions; p_i is the ideological position of party i , v_i is the share of votes that party i receives in an election, and n is the number of parties that participate in the election.

⁹Specifically, we use the left-right index from parlgov.org, which integrates the results from various expert surveys, including for instance the Chapel Hill expert surveys. The [parlgov](http://parlgov.org)

Figure 1: Average non-mainstream party vote, abstentions and polarization over time



Note: Average values across the 16 countries per year for each variable.

Figure 1 shows how these outcome variables evolved over time in the countries that we examine. The patterns for all three variables are straightforward. On average, the vote share for non-mainstream parties doubled between the 1980s and today. The non-mainstream party vote share increases sharply from the mid-80s to 2000 and from 2009 onwards. Abstentions also gradually increased from below 20% at the beginning of the period to almost 30% at the end. This pattern is more evenly distributed than for the other outcome variables, with a steady and fairly uniform increase. Finally, average voter polarization increases considerably during our period of analysis. As for non-mainstream party vote, the sharpest increases occur between the mid-80s and early 2000s and again from the mid-2000s onwards.

For our independent variable – fiscal consolidation – we use the events-based measure originally developed by Devries et al. (2011) and updated by Alesina, Favero and Giavazzi (2019).¹⁰ Event-based measures of fiscal consolidation qualitatively identify the timing and index is time-invariant, which allows us to isolate the effect of voters on polarization.

¹⁰Note that we use government policy rather than mainstream party positions as our key predictor. Hence, our main test concerns actual policy rather than party programmes or

magnitude of fiscal consolidation packages using policy documents from governments and international organizations. This is now the standard approach of measuring fiscal consolidations because it directly captures fiscal policy decisions by governments (Alesina, Favero and Giavazzi, 2019).¹¹ Out of the 166 legislative periods in our dataset, 91 periods include at least one consolidation event. Among these, the degree of fiscal consolidation varies considerably. A median (average) consolidation package aims at reducing the fiscal deficit by 1.9% of GDP (2.44%) with a standard deviation of 2.21% of GDP.¹²

We include a range of control variables, which largely follow from the literature on party system change and polarization discussed in section 2. These include macroeconomic conditions represented by real GDP growth and the unemployment rate, the degree of international openness of a country and net migration. These variables enter our model as means for each legislative period. We also account for the permissiveness of the electoral system by including controlling for the electoral system (majoritarian vs. proportional) and the magnitude of electoral districts. These variables mostly account for cross-country variation, while our focus is on over-time variation within countries. Nonetheless, they account for changes after electoral systems change (Best, 2012) and possibly affect how easily voters switch from political rhetoric. Implicitly, we therefore assume, building on existing research, that both mainstream parties tend to endorse austerity in times of crisis, based on a convergence of economic policy models (Hopkin, 2020). Below, we discuss the limitations of existing data measuring policy positions but nevertheless describe empirical results from models using positions rather than policy.

¹¹In contrast, previously used measures that were based on the cyclically adjusted primary balance mix government decisions and macro-economic developments not directly related to fiscal policy decisions.

¹²The maximum is 11.9% of GDP in Portugal 2011-2015, but all other consolidations are below 8% of GDP. See also Table A1 and Figure 2.

one party to another.¹³ Table A1 shows the summary statistics of all variables.

Since we are interested in the gradual change in electoral behavior over time, we use the changes in the outcome variables from one election to the next as the dependent variables. This also addresses the econometric problem that the outcome variables are not stationary.¹⁴ Our analysis uses the following empirical specification:

$$\Delta y_{i,t} = \beta_0 + \beta_1 \text{Austerity}_{i,t-1} + \beta_2' \mathbf{X}_{i,t-1} + d_t + c_i + \epsilon_{i,t}$$

where i refers to the country and t represents an election; $y_{i,t}$ refers to either votes for non-mainstream parties, electoral abstentions, or polarization; $\text{Austerity}_{i,t-1}$ is the amount of fiscal consolidation in the legislative period prior to the election; $\mathbf{X}_{i,t-1}$ includes the control variables; d_t are period-fixed effects; c_i are country-fixed effects; and $\epsilon_{i,t}$ is an error term. We also use alternative empirical models, notably models in levels rather than differences and with a lagged dependent variable, and with a time trend. As we show in the Appendix, the results from these models are the same.

4.2 Results

Table 1 presents our estimation results. For each outcome variable, we present three specifications: one without controls, one with economic and political control variables, and one with country- and period-fixed effects. The results show that the vote share for the non-mainstream parties, electoral abstentions and polarization increase from one election to the next when the government implements a fiscal consolidation packages during the legislative term. This effect is statistically significant and robust across different specifications.

¹³Data for the control variables come from Armingeon et al. (2019) and Bormann and Golder (2013).

¹⁴The panel unit root tests in table A2 reject the null hypothesis of a unit root for the differenced, but not for the undifferenced outcomes variables.

Table 1: Effect of austerity on party systems

	Δ Non-mainstream			Δ Abstentions			Δ Polarization		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Consolidation $_{t-1}$	0.693*** (0.225)	0.735*** (0.261)	0.583*** (0.280)	0.297** (0.116)	0.372** (0.146)	0.280 (0.177)	0.019*** (0.006)	0.018*** (0.007)	0.015** (0.007)
Growth $_{t-1}$		0.283 (0.266)	0.662* (0.375)		0.326* (0.195)	0.270 (0.261)		0.003 (0.006)	0.012 (0.008)
Unemployment $_{t-1}$		-0.036 (0.176)	0.192 (0.316)		-0.082 (0.105)	-0.230 (0.190)		0.003 (0.004)	0.004 (0.007)
Globalization $_{t-1}$		0.124** (0.058)	0.242 (0.215)		0.031 (0.046)	0.094 (0.196)		0.001 (0.001)	0.013** (0.005)
Migration $_{t-1}$		0.000 (0.003)	0.004 (0.004)		-0.004** (0.002)	-0.005 (0.003)		0.000 (0.000)	0.000 (0.000)
Proportional $_t$		-1.588 (4.515)	-5.540 (6.344)		-2.057 (1.853)	-5.908 (5.047)		0.032 (0.073)	-0.033 (0.187)
Mixed $_t$		-0.063 (1.447)	2.646 (4.441)		0.503 (1.228)	-0.666 (3.921)		0.013 (0.044)	0.165 (0.116)
DisMagnitude $_t$		0.613 (2.243)	2.687 (2.574)		0.687 (0.763)	0.833 (1.577)		-0.019 (0.033)	0.059 (0.055)
Constant	0.343 (0.510)	-9.588* (4.869)	-22.802 (17.840)	0.666* (0.357)	-1.189 (3.733)	-2.002 (16.748)	0.003 (0.012)	-0.108 (0.116)	-1.147*** (0.410)
Country FE	No	No	Yes	No	No	Yes	No	No	Yes
Period FE	No	No	Yes	No	No	Yes	No	No	Yes
R^2	0.04	0.07	0.20	0.02	0.09	0.16	0.07	0.10	0.24
F	9.508	2.019	2.730	6.569	2.750	1.405	9.532	2.084	1.657
p	0.002	0.047	0.000	0.011	0.007	0.101	0.002	0.040	0.029
N	166	166	166	166	166	166	166	166	166

Robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

The magnitudes of the estimated effects are substantively important. The results mean that a median consolidation package, which aims at reducing the fiscal deficit by 1.89% of GDP, increases votes for non-mainstream parties by 1.3 percentage points on average. A large package that is one standard deviation above the median, which aims at reducing the fiscal deficit by 4.16%, increases non-mainstream party votes by 2.9 percentage points. The effect of austerity on electoral abstention is smaller. A median consolidation package is predicted to increase abstention by 0.6 percentage points, while a large package increases abstention by 1.2 percentage points.

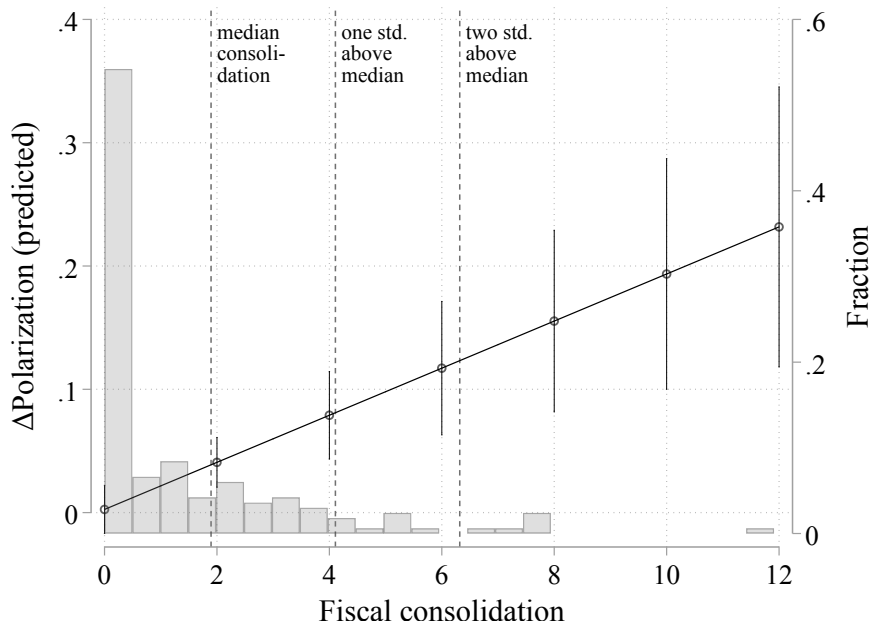
These effects then translate into an important increase in the polarization of the party system. To illustrate the impact graphically, we plot the predicted effect of fiscal consolidations on polarization in Figure 2 across the empirically observable distribution of consolidations. It shows that, for instance, a large consolidation package (one standard deviation above the median consolidation) increases polarization by 0.1 units. This effect increases up to 0.15 for very large packages that reduce the deficit by 7-8% of GDP.¹⁵ Compared to the empirically observable increase in polarization during the past decades, this estimated impact of austerity on polarization is quite substantial. Figure 1, for instance, shows that average polarization across countries has increased by 0.25 units between 1980 and 2015. And as Table A1 shows, the average increase in polarization during an electoral period in our dataset is 0.028. A median austerity package, therefore, raises the average growth in polarization by a factor of four.

Among the control variables, globalization has the most consistent effect and increases non-mainstream party vote and polarization, although this effect is not robust across specifications. The variables representing macroeconomic circumstances do not have an effect

¹⁵Most consolidation packages are below 8% of GDP. One package in Portugal during 2011-2015 takes the value of 11.9%, which is a unique and extreme case. We nonetheless include it in our plot because it is part of the empirically observable distribution.

on the outcomes. This suggests that the impact of austerity does not simply capture the impact of the bad economic conditions that are often (albeit not always) associated with fiscal austerity packages.

Figure 2: Predicted change in polarization over empirically observable degrees of austerity



Note: Prediction based on model (7) in table Table 1; solid line shows predicted change in polarization (left y -axis) with 90% confidence intervals; bars show the distribution of fiscal consolidations (right y -axis).

A series of supplementary analyses examines the robustness of these findings. First, we examine the sensitivity of our results to alternative model specifications and estimate models in levels with a lagged dependent variable in Table A3. The results are very similar to the ones presented in the main text. Figure A4 shows that the results do not depend on the inclusion of a particular country. Second, we disaggregate the non-mainstream party variable and examine different non-mainstream parties separately in Figure A1 and Table A4. The results suggest that most of the effect of austerity in non-mainstream parties works through left parties and the groups of ‘other’ parties without a specific family label. Third,

we analyze the characteristics of fiscal austerity packages in greater detail in Tables A5 and A6. We do not find evidence that spending- or tax-based consolidations affect elections differently. Fourth, we also disaggregate consolidation by the timing during the legislative term. Consolidations in the year before the election year seem to have the strongest impact, but consolidations at the beginning of the term still considerably impact the election. Fifth, Table A7 and Figure A2 examine how the effect of austerity on the outcome variables differs across sub-periods of five years. It should be noted that the number of observations and austerity instances in each period is fairly small. The results for non-mainstream vote and polarization suggest that there is an upward trend in the effect of austerity, with a temporary decline in the late 1990s / early 2000s. The impact of austerity is particularly strong after 2010, but it was already substantial throughout the 1990s. As Figure A3 shows, these were also the two periods in which most austerity episodes occurred.

Finally, our key variable, consolidation events, reflects government policy rather than party positions. We opted for this policy variable because it captures what parties actually do rather than what they say. To address the role of policy positions more directly, we turn towards a more qualitative assessment of key cases and an experimental analyses below.

5 Who wins? Who loses? Evidence from large fiscal adjustments

To further substantiate our macro-level results and to link the analyses above to our micro-level analysis below, we look into selected electoral cycles during which large fiscal adjustments aiming at deficit reductions of 5% of GDP or more were implemented. This yields a list of ten large adjustment episodes, with five belonging to the period before and five to the period after the ‘Great Recession’. Looking at electoral cycles from both periods will show that the mechanisms are not unique to the extreme economic crisis that started in 2008.

Table 2: Legislative periods with cumulative austerity > 5% of GDP (pre 2008 and post 2008 crisis)

	Austerity	Δ Gov Support	Δ NMP	Δ Abstention	Δ Polarization
<i>Pre-2008 Crisis</i>					
Finland (1991-1995)	7.9%	-1.2%	1.9	-0.2%	0.07
Sweden (1994-1998)	6.5%	-8.9%	5.6	5.4%	0.2
Belgium (1981-1985)*	5.9%	-4.7%	-5.5	0.9%	-0.02
Ireland (1982-1987)	5.9%	-15%	4.3	-0.4%	0.17
Italy (1992-1994)	5.8%	-46.6%	10.8	1.2%	0.51
<i>Post-2008 Crisis</i>					
Portugal (2011-2015)	11.9%	-11.7%	8.2	2.2%	0.23
Ireland (2011-2016)	10.1%	-23.5%	13.5	4.4%	0.4
Ireland (2007-2011)	8.4%	-29.6%	8.7	-2.9%	0.17
Spain (2011-2015/2016)	7.8%	-13.2%	14.5	-4.3%/3.4%	0.59
Belgium (2010-2014)*	5.7%	-1.5%	-5.2	-0.2%	-0.10

Note: Austerity = cumulated consolidation during electoral term; Δ Gov Support = change in vote share of parties in government; Δ NMP = change in non-mainstream party vote share; Δ Abstention = change in turnout. Data on fiscal consolidation events by Alesina et al. (2019), other by www.parl.gov.org and the Comparative Manifesto Project. * Note that in Belgium, voting is compulsory, which means that turnout is traditionally high and there is very little change in turnout over time.

Table 2 lists the countries, the respective legislative period and the cumulative size of the adjustment packages implemented during a given electoral cycle as well as changes in non-mainstream party vote, changes in abstention and polarization.¹⁶ In what follows, we provide a synthesized account of how austerity, implemented by mainstream parties and uncontested by mainstream opposition parties affected the mainstream party vote, turnout, and polarization. In addition, we highlight developments in a number of countries, which serve to exemplify the general trends.

Mainstream party support and positions: For all elections after substantive fiscal adjustments, the vote share of parties in government declined, often considerably. The combined

¹⁶Table A8 and Table A9 in the Appendix provide a detailed overview of losses and gains of all parties for these cases.

decline can be as little as 1 percentage point (as in Finland in 1995) or as high as 30 percentage points (as in Ireland in 2011).¹⁷ A closer look also confirms that the mainstream parties in opposition presented a credible alternative for some, but definitely not for all dissatisfied voters. In almost all of the cases, the mainstream opposition could not fully absorb the loss of support for government parties. For instance, the Finnish Social Democrats or the Portuguese Socialists who were in opposition in 1995 and 2015, respectively, (see Table A8 and Table A8 in the appendix) gained voters after the government implemented austerity. However, their increase in vote share was substantially lower than the decline in the combined vote share for parties in government.

Non-mainstream party support: The difference between government party losses and mainstream opposition gains was absorbed by non-mainstream parties. All but one austerity episode was followed by an increase in the vote share of non-mainstream parties. Prior to the Great Recession, the increase in non-mainstream party vote varied between 2 percentage points in Finland to slightly over 5.5 percentage points in Sweden. After the Great Recession, the increase in non-mainstream party vote varies between 8 percentage points in Portugal and 14.5 percentage points in Spain. The type of non-mainstream parties that benefited from austerity vary widely in their ideology. While in Finland leftist fringe parties, such as the Social Democratic party and the Left Alliance, experienced an increase in voter support, Sweden saw an increase in the support of the conservative Christian Democrats (Kd) and the leftist/communist *Vänsterpartiet*. After the Great Recession, we often see parties that positioned themselves considerably to the left of the mainstream parties winning votes, e.g., *Podemos* (0% to 12.7%) in Spain, the Portuguese *Bloco de Esquerda* (5.4% to 10.6%), or the

¹⁷The general election of 1994 in Italy was the first election after the discovery of *Tangettopoli* (scandals related to corruption and party financing at the highest levels of government) and the ensuing legal processing of the scandal (*Mani pulite*). These events led to the collapse of the Italian Christian Democrats and the post-WWII Italian party system more generally and overshadowed the austerity measures. We thus dismiss this case in our discussion.

Irish Worker’s Party (prior to the Great Recession).

Turnout: We also see an increase in abstention in five out of the ten cases presented in Table 2. Here, it should be noted that voting is compulsory in Belgium, which stabilizes turnout. More broadly, the tendency in abstentions after fiscal adjustments is in the expected direction, although less pronounced as for non-mainstream party vote.

6 The micro behavior

6.1 Survey and experiment design

In the last part of our analysis, we aim to provide solid micro-level evidence of the mechanisms creating the macro-level patterns that we describe in the previous sections. In a survey experiment fielded in four countries, we examine voter reactions to different fiscal austerity proposals from the main centre-left and centre-right parties. This means that we can test which parties voters support if both mainstream parties advocate austerity.

This experimental approach is useful because it allows us to vary the positions of the main political parties towards austerity. In an observational study, it is difficult to assess how the main parties’ positions on austerity matter for vote choice as many party- and country-specific factors co-vary together with the policy option pursued. Indeed, a key counterfactual, namely that either both mainstream parties or even just the mainstream left oppose austerity, is arguably rarely observed. Moreover, an experiment allows us to present specific and clear policy stances by mainstream parties. In an experiment, we can be sure that it is responses to the policy dimension we manipulate that drive behaviour. Moreover, as argued above it is difficult to gather data on opposition party responses to government austerity programs.

We conducted original survey experiments in four countries: Britain, Germany, Portugal

and Spain.¹⁸ The four countries were chosen for multiple reasons. First, a survey in multiple countries allows us to uncover commonalities in responses across different contexts, which enhances our confidence into the generalizability of the results. Second, voters in the different countries were exposed to differing degrees of austerity in the recent past. Portugal and Spain experienced a debt crisis and received international bail-out packages; the UK was hit by a short-term financial crisis and long-term austerity, but was not bailed out internationally; and Germany has proved comparatively resilient since 2008. Third, the four countries also have different party systems that create variation in the types of contestation around austerity. In Spain and Germany, party-based opposition to austerity is strongest on the radical left (*Podemos* and *Die Linke*). In Portugal, the radical left is opposed to austerity, but so is, in a more moderate way, the Socialist Party. In the UK, Labour used to take a market-friendly approach in the last decades, but moved towards a strong anti-austerity stance during the Corbyn-years.

Table 3: Main political parties per country

	Center Left	Center Right
Germany	Social Democrats (SPD)	Christian Democrats (CDU/CSU)
Portugal	Partido Socialista (PS)	Partida Social Democratica (PSD)
Spain	Partido Socialista (PSOE)	Partido Popular (PP)
UK	Labour Party	Conservative Party

We conducted an experiment embedded in population-based surveys. The surveys were implemented by *respondi*, making use of different country-specific online access panels. Respondents were selected from these access panels; quotas based on age and gender were implemented. The sample is restricted to voting-age nationals. In each country, we surveyed

¹⁸We also ran the experiment in Italy just after its election in 2018. However, the experiment was difficult to adapt to that country given that the government was in transition and two non-mainstream parties dominated the party system. While we used *Forza Italia* and the *Partito Democratico* in our experiment, these were clearly not the most relevant parties in the context anymore.

around 2,200 individuals.¹⁹ In the experiment, we presented respondents with hypothetical scenarios concerning policy proposals by the two main parties in each country. Table 3 lists the main center left and center right parties in the countries covered by our survey experiment.²⁰ In the experiment we also varied which party was described as the government party and which as the main opposition party. We do this to be able to examine whether the credibility of the announcement among voters differs for government and opposition parties.

To illustrate the details of the experiment for the UK, we present a possible vignette that respondents saw after an introductory screen in table 4.²¹ Within the same challenging context of high deficit and increasing debt, the vignettes presented respondents with the following varying information: party in government, main opposition party, policy proposal of each party. The treatment (policy proposal in the second row) could take one of the following two values: ‘*cut spending and increase taxes*’ or ‘*keep government spending stable without tax increases*’. This yields in four different combinations of policy proposals: (1) both parties want to cut spending, (2) the center-left party keeps spending as is, while the center-right party cuts spending, (3) the center-right keeps spending as is, while the center-left cuts spending, and (4) both parties keep spending as is. We focus on the comparison between the ‘both cut’ scenario and the two counterfactual scenarios (2) and (4), where either

¹⁹The appendix provides more details about the country specific panels and other aspects of the data collection process.

²⁰In Spain, PSOE and PP are historically the main governing parties, and no other party has held the office of prime minister. We therefore decided against including newer competitors (*Ciudadanos* and *Podemos*).

²¹The 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. Sometimes, the Conservative Party is in government, and the Labour Party is the main opposition party. And sometimes, the Labour Party is in government, and the Conservative Party is the main opposition party. Please indicate which party you would support in each scenario.*’

the mainstream left or both mainstream parties keep spending as is. Below, we disregard option (3), since it is unrealistic that the center-right keeps spending as is while the left cuts. However, we kept this option in the design of the experiment for sake of completeness.

Table 4: Experimental setup

	Government	Main Opposition Party
	Labour Party	Conservative Party
Policy proposal	Keep government spending stable without tax increases	Cut spending and increase taxes

Each respondent was presented with three – randomly selected – vignettes out of the eight possible vignettes (four possible proposal vignettes \times two possible government-opposition assignments as outlined above). After each vignette our respondents were exposed to they had to indicate which party they would vote for given the policy scenarios presented. Specifically, we asked: *‘For which party would you vote in the next election?’*. This became our outcome variable (DV).²² All political parties were included as response options, not just the two main parties. We also allowed respondents to state *‘Would not vote’* and *‘Don’t know’*. Respondents’ reactions to these vignettes give us an idea of which policy proposal is more attractive to them in different combinations and, more importantly how the combination of party and policy proposal influences their vote choice.

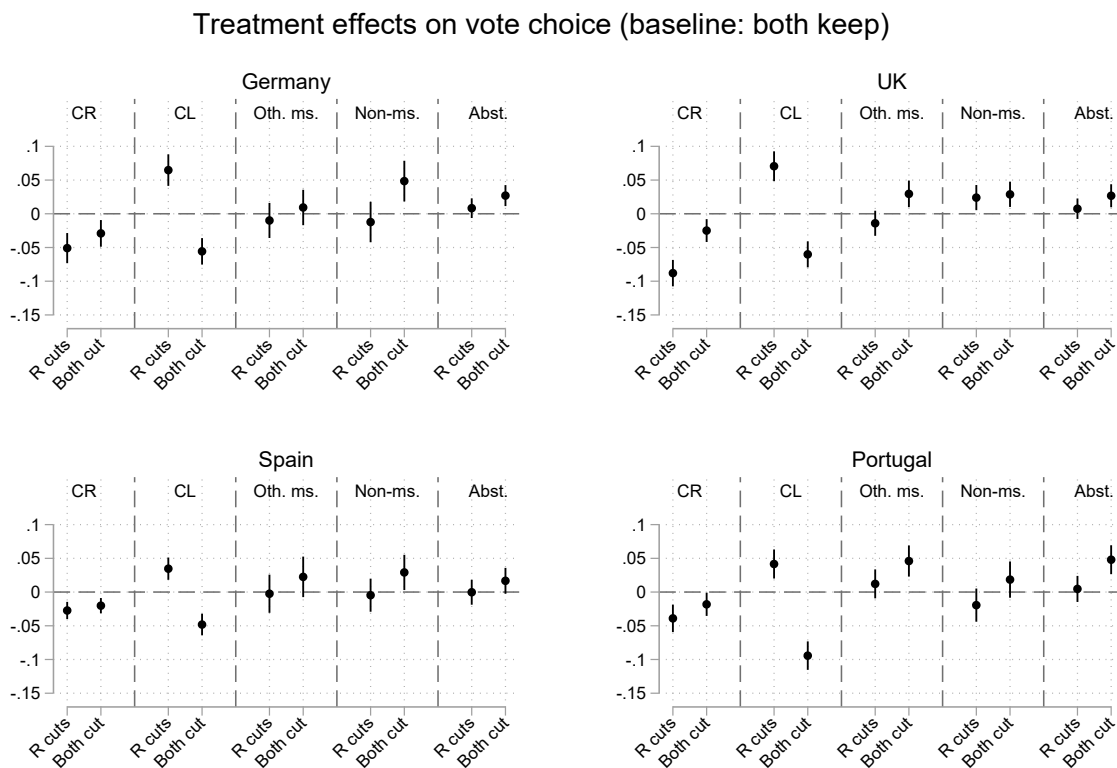
6.2 Results

Figure 3 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 baseline category is the scenario in which both parties propose to keep spending as it is. Here, we code non-mainstream parties as in the macro analysis, namely as radical-right, radical-left and Green competitors. We always control for simple demograph-

²²Given that we have three assessments per respondent, the following analyses cluster standard errors by respondent.

ics (age, education, gender and income) as well as for party choice in the prior election as well as economic ideology.

Figure 3: Fiscal consolidation and voter flows



Note: Multinomial logistic regression with vote choice as DV and treatment as IV. CR=Centre-Right, CL= Centre left, ms=mainstream. Three of four policy treatments 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 shown averaging over these two conditions. For full results with all parties, see Figure A5 to Figure A8

As noted above, we also varied which of the two parties was described as the government party. In our analyses, this is interacted with the austerity treatment, and the results below average over the government and opposition conditions. We do so because we did not find any statistically significantly different reactions to policy proposals depending on whether the party was described as governing or not. While this is consistent with our claim above

that voter responses to austerity proposals do not depend on who is in government, we do not see this as strong evidence, as it could just be that our government-opposition treatment was somewhat abstract in the context of a hypothetical scenario. We now turn to the key results.

The results support H1b, which stated that mainstream parties that support austerity receive less support. When only the centre-right cuts while the centre-left promises to maintain current levels of spending, the centre-left does particularly well (and the centre-right particularly badly). However, the overall support for mainstream parties is similar when both parties propose maintaining current levels or when only the left does. This is easily visible when looking at the effects of the categories capturing ‘other mainstream parties’, ‘other non-mainstream parties’ and ‘abstention’ (Figure 3).

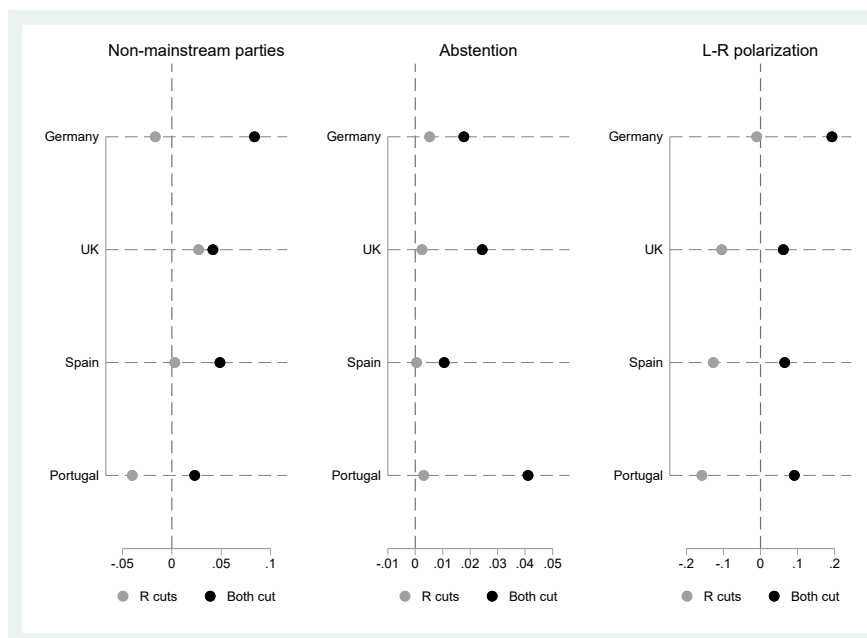
The results also support H2b: what leads voters to abandon the left without rewarding the right is a context in which both parties support cuts. This will increase fragmentation. Thus, Figure 3 shows that the vote for other parties increases in the ‘both cut’ scenario in all party systems, be they mainstream or non-mainstream parties. Abstention increases as well, albeit to a lesser extent. The effects of both parties promising austerity on voting for other parties and on abstention are comparable across countries.

In terms of polarization, we can see that the vote for non-mainstream parties increases across the board, even if not significantly in Portugal. In other words, voters’ reactions to the experiment lead to more polarized party landscapes. More detail is provided in the Appendix, which shows full results by country. There, we can see that in Germany the left competitor party (*Die Linke*) benefits most if both main parties propose to cut spending (see Figure A5 in the Appendix). The same pattern exists in Portugal (Figure A8, appendix), where the leftist ‘*Bloco de Esquerda*’ benefits most from a scenario in which both main parties propose to cut. In Spain *Ciudadanos* and *Podemos*, two relatively new competitors benefit from

voters defecting the main parties (see Figure A7 in the appendix). Overall, voters also move to comparatively centrist parties such as the Lib Dems in the UK or *Ciudadanos* in Spain. While there is movement to the extremes, voters also defect to mainstream alternatives.

Hence, as expected the situation where both parties cut is particularly conducive to engendering changes in voter decision-making, at least in terms of other party vote, non-mainstream vote and abstention. This scenario essentially emulates the situation most parties faced in the aftermath of the Eurozone crisis or during any other prolonged economic and fiscal crisis. The finding is also in line with the results from the macro-level analysis.

Figure 4: Aggregate Effects of treatment conditions



Note: Non-mainstream vote share is the difference in the proportion of respondents voting for non-mainstream parties as defined in the previous sections. Abstention measured as the proportion of non-voters in each treatment condition. Left-right polarization measured as the weighted standard deviation of left-right positions (as provided by the ParlGov database).

Finally, and to link the micro-analysis back to the macro-level findings, we present aggregate-level results from each proposal type in Figure 4. For this, we treat each vi-

gnette type as a hypothetical election and present the aggregate results for the four outcome variables of our macro analysis: the change in vote share of non-mainstream parties, abstention, and left-right polarization based on ParlGov-provided expert scores for parties. For non-mainstream party vote, we can see a clear and strong increase in all countries, especially when both parties pledge to implement an austerity package. The effects on turnout are smaller, which coincides with the macro results. Most importantly, polarization increases compared to the other two experimental scenarios across all four countries, with the most pronounced effects in Germany. The reduced level of polarization when only the right proposes to cut can be explained by the resulting increased support for the mainstream left, which lowers polarization compared to when neither party proposes to cut spending.

Overall, the aggregated effects from the experimental analysis are consistent with the findings from our macro analyses in the previous sections. They confirm that economic policy-making, and in particular fiscal consolidation, have a significant impact on the party landscape in representative democracies.

7 Conclusion

In this paper, we use macro- and micro-level analyses to study the political effects of austerity. We focus on the consequences of austerity policies by mainstream political parties for voter behavior and systemic implications of austerity. We find that votes for non-mainstream parties decrease and electoral abstention increases if mainstream parties implement austerity. As a result, political polarization increases. Voters who are dissatisfied with fiscal policies and who do not find a credible anti-austerity alternative among the mainstream parties turn towards smaller existing or new parties. Since parties at the edges of the political spectrum advocate most strongly against austerity, they often win particularly strongly, which increases political polarization.

These results have important consequences for our understanding of the long-term effects of fiscal policy. Most existing work has examined how economic conditions, such as financial crises or trade shocks, which are partially beyond the control of governments, affect parties. We highlight instead how the policy choices made by the key political parties affect the stability of the party system. The failure of mainstream parties to offer distinct fiscal policy propositions to voters can have important long-term consequences for political stability. Greater polarization inhibits the ability to build viable and stable coalition governments and leads to more difficulties in putting together a coherent government policy agenda, ultimately increasing political instability (Konstantinidis, Matakos and Hutlu-Eren, 2019) and policy gridlock (Lee, 2015). Ironically, these political developments then also undermine the effectiveness of fiscal institutions that aim at limiting public spending and keeping fiscal deficits low (Wehner, 2010; Frye, 2010).

Naturally, the question arises how long-lasting the effects of austerity on party systems will be. The answer, at this stage, can only be speculative. However, qualitatively assessing the mechanisms driving party system change reveals that a drop in turnout usually precedes the establishment of a new party, which will then stand in future elections. Such processes can evolve over several electoral cycles, which implies that the changes in party landscapes are likely here to stay. More broadly, once non-mainstream parties enter into parliament, e.g. after an austerity episode, this consolidates their political standing over time (Bischof and Wagner, 2019). Austerity policies, therefore, can have profound longer-term effects that analyses of the short-term effects on government popularity cannot uncover. Even if austerity does not lead to immediate government breakdown, the policies still contribute to the reshuffling of votes within the party system.

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