

Preferences for Austerity during the Eurozone Crisis

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Spain in crisis

- 20-25% unemployment; >50% youth unemployment; generation of “never educated, never worked”
- **mass protests** in 2011-2012 against status quo policies; 2-party system; now **new parties (Podemos, Ciudadanos)**
- New round of **fiscal consolidation** ahead (deficit at 5.2 per cent in 2015, debt close to 100 as % GDP) (general austerity/ “adjustment” packages)
- Project: political consequences of the crisis

This piece: Assessing support for austerity

- Contentious policy, **divides public** & macroeconomists (though see IMF report)
- **Little research** on its correlates, despite much research on support for public **spending/redistribution**
- **Question: what explains support for austerity? What factors should matter?**

Baseline expectations

Would the correlates of austerity be same as those of government spending?

- If so, then would expect the following to matter:

- income

- left ideology

- outsider status

- income shocks

Also plausible: attitudes towards EU/euro

Problems in measuring austerity preferences

We identify two confounding issues:

- Austerity is a **package of policies: spending cuts & tax increases**. Hard to know which citizens oppose/support more. What is a preference for “fiscal balance”?
- Austerity is pursued in the **context of EU approval/demands**; some perceive it as a policy needed to stay in EU/eurozone. Difficulty in separating this.

Research Design

We ask people their preferences on austerity, but

- Randomize: a) **content** (what is austerity **composed of**)
- Randomize: b) **external endorsement** (who supports it – chiefly which **European external actors**)
- Re: (b) – any “EU” effect might be driven by belief about role of other **European governments, or German government**.
 - See large literature on endorsement effects in other literatures (party cues, interest groups, etc).

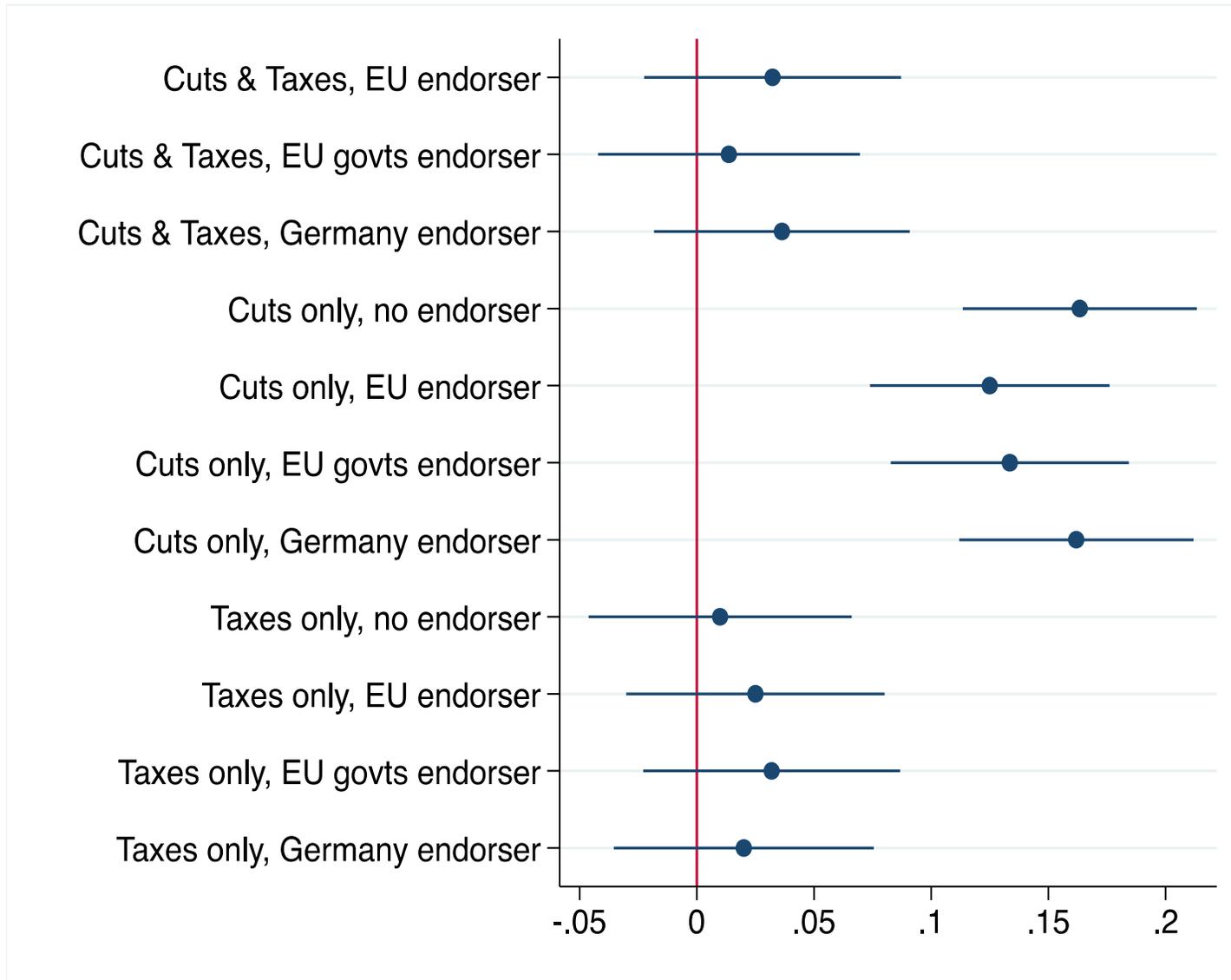
Research Design

- Fielded Internet survey by Netquest in October 2015, n=6000
- Measure support for austerity (wording to follow); recode answers as binary
- Randomize on these two dimensions

Austerity preference question

- “As you may know, with the aim of reducing the public deficit during the current crisis, the Spanish governments have followed a policy of: {spending cuts and tax increases / spending cuts / increased taxes} {no text / consistent with the recommendations of the institutions of the European Union / consistent with the recommendations of other European governments / consistent with the recommendations of the German government}. To what extent do you favor or oppose this policy?” [Response options: strongly favor, somewhat favor, neither favor nor oppose, somewhat oppose, strongly oppose].

Treatment group	Fiscal Policy Content	Endorsement
Group 1	Spending Cuts & Tax Increases	None
Group 2	Spending Cuts & Tax Increases	EU
Group 3	Spending Cuts & Tax Increases	Other European governments
Group 4	Spending Cuts & Tax Increases	German government
Group 5	Spending Cuts	None
Group 6	Spending Cuts	EU
Group 7	Spending Cuts	Other European governments
Group 8	Spending Cuts	German government
Group 9	Tax Increases	None
Group 10	Tax Increases	EU
Group 11	Tax Increases	Other European governments
Group 12	Tax Increases	German government



Experiment 1 conclusions

- Content **matters (cuts)**; external endorsement does not. And, there is no causal effect of a policy being endorsed by the EU (contra theories about “imposed” policies)
- Effects for framing spending cuts very large (**~15 pp**)
- **Not driven** by obvious moderators (income, left-wing, unemployed, partisan support, such as *Podemos*)
- Question: *why* is austerity so unpopular? (Recall baseline is only about **15%** support)
- Are endorsement effects that small? Other EU considerations?

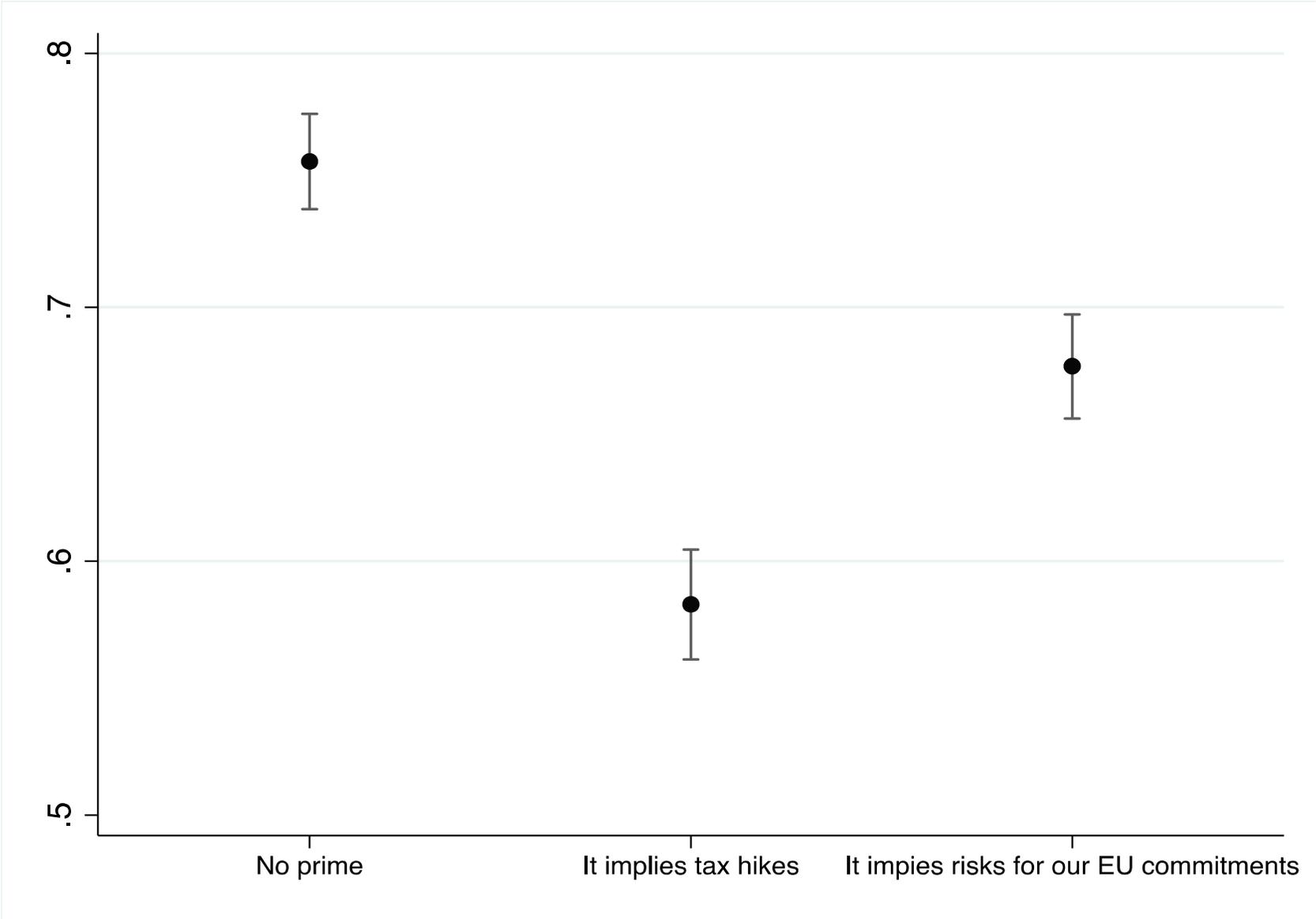
Experiment 2: assess support for social spending

- Ask question on more straightforward social spending
- Randomize a) making **taxes** salient; b) making breaking of fiscal promises to **EU** salient
- Re: a) this is common wording in surveys on redistribution, but not many experimental tests of it, and we have reason to think it matters in a crisis-hit state
- Re: b) a stronger implication than just “endorsement” from first experiment

Redistribution question

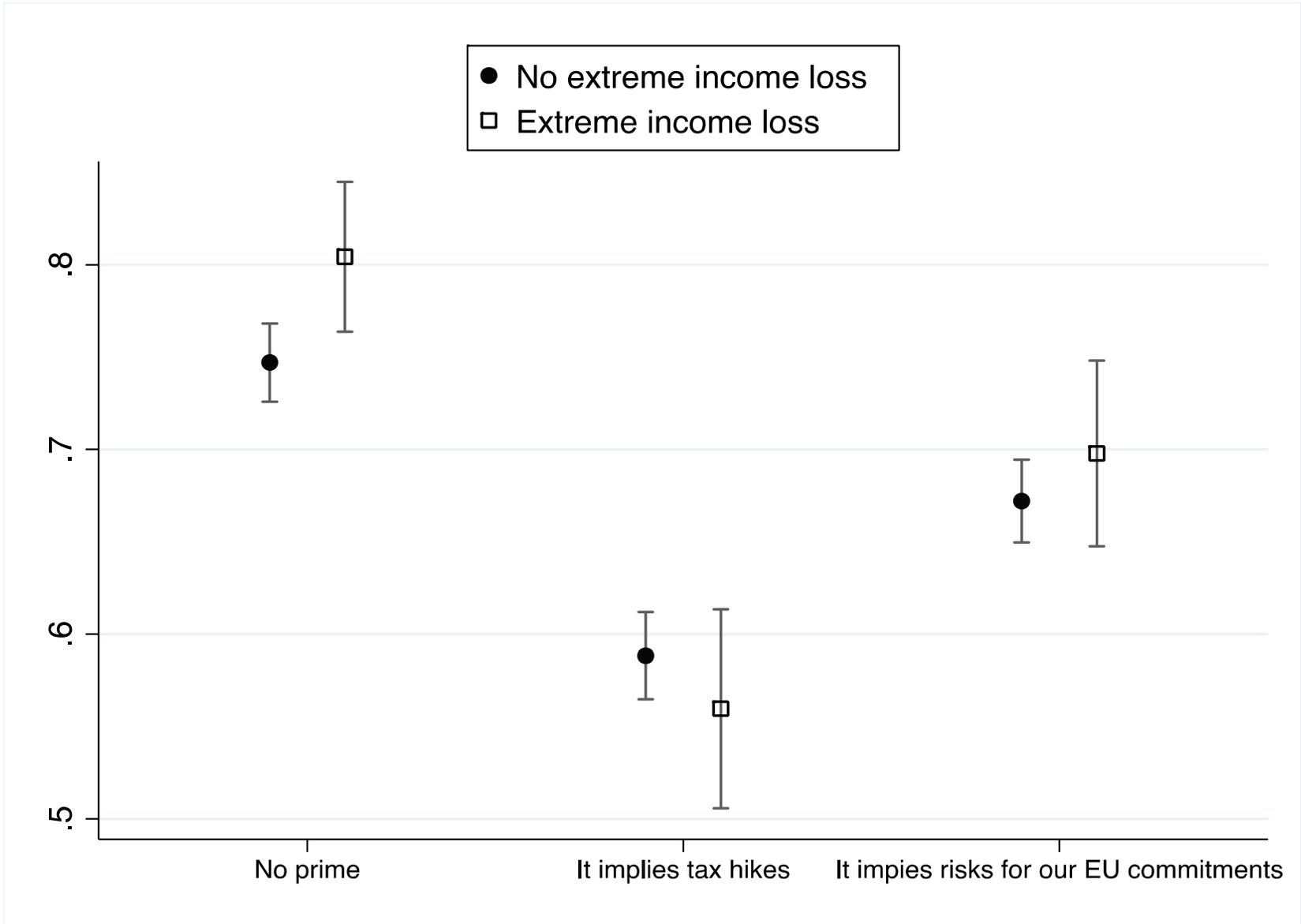
“Are you in favor or against increased government spending targeted for the less well-off, {no text / even if it means raising taxes are increased / although this could endanger commitments with the European Union to reduce spending /?” [Response options are strongly favor / somewhat favor / neither favor nor oppose / somewhat against / strongly against]

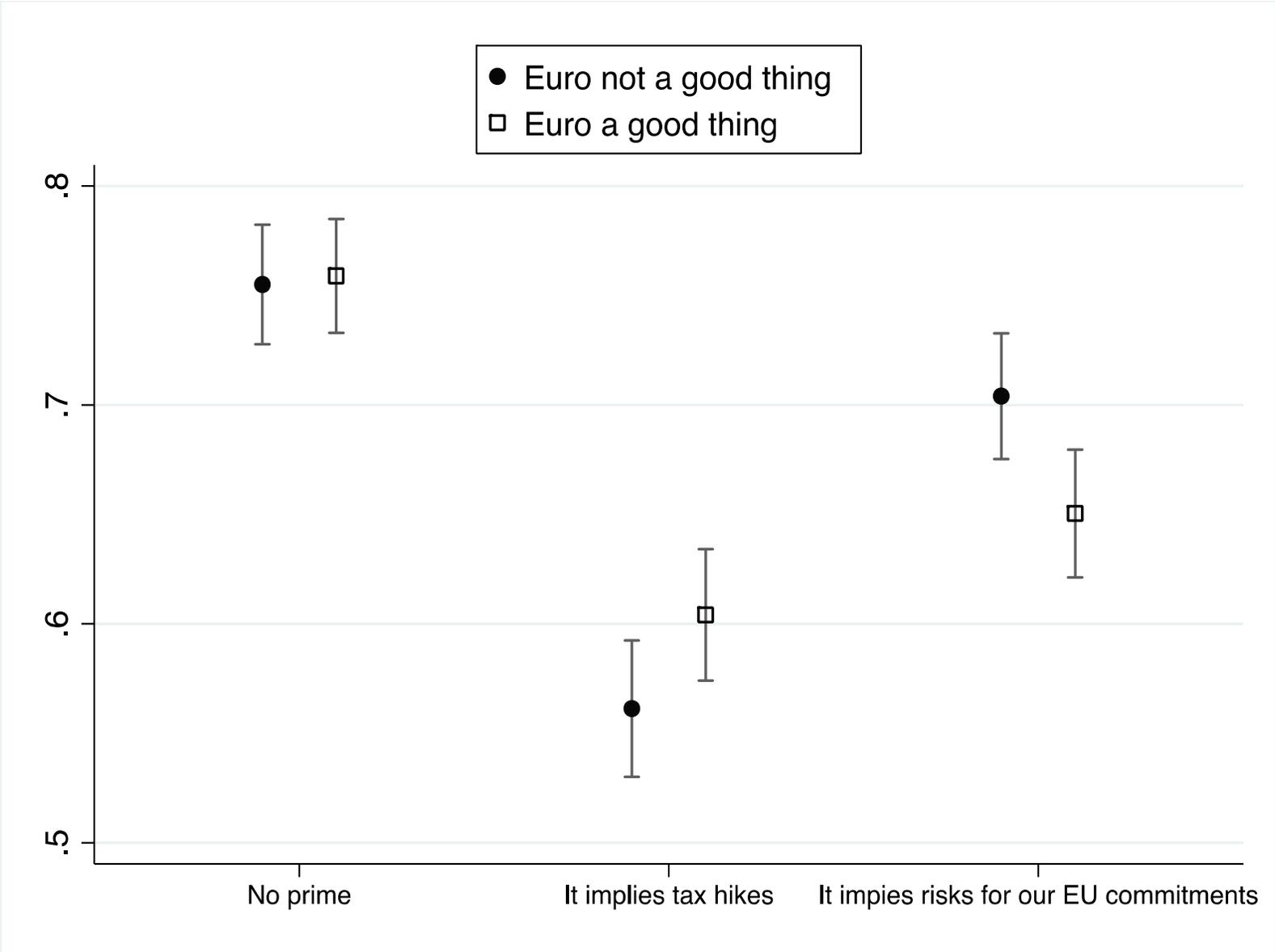
Baseline condition: 75% support



What might drive these large effects?

- Drawing on theory section:
- **Income shocks** might make people sensitive to tax increases
- **Euro/EU orientation** might make people sensitive to EU commitments





Follow up: do *euro* considerations matter?

- Is this a related reason why people might tolerate austerity
- Is the 15% baseline from Study 1 the only way to measure austerity support?

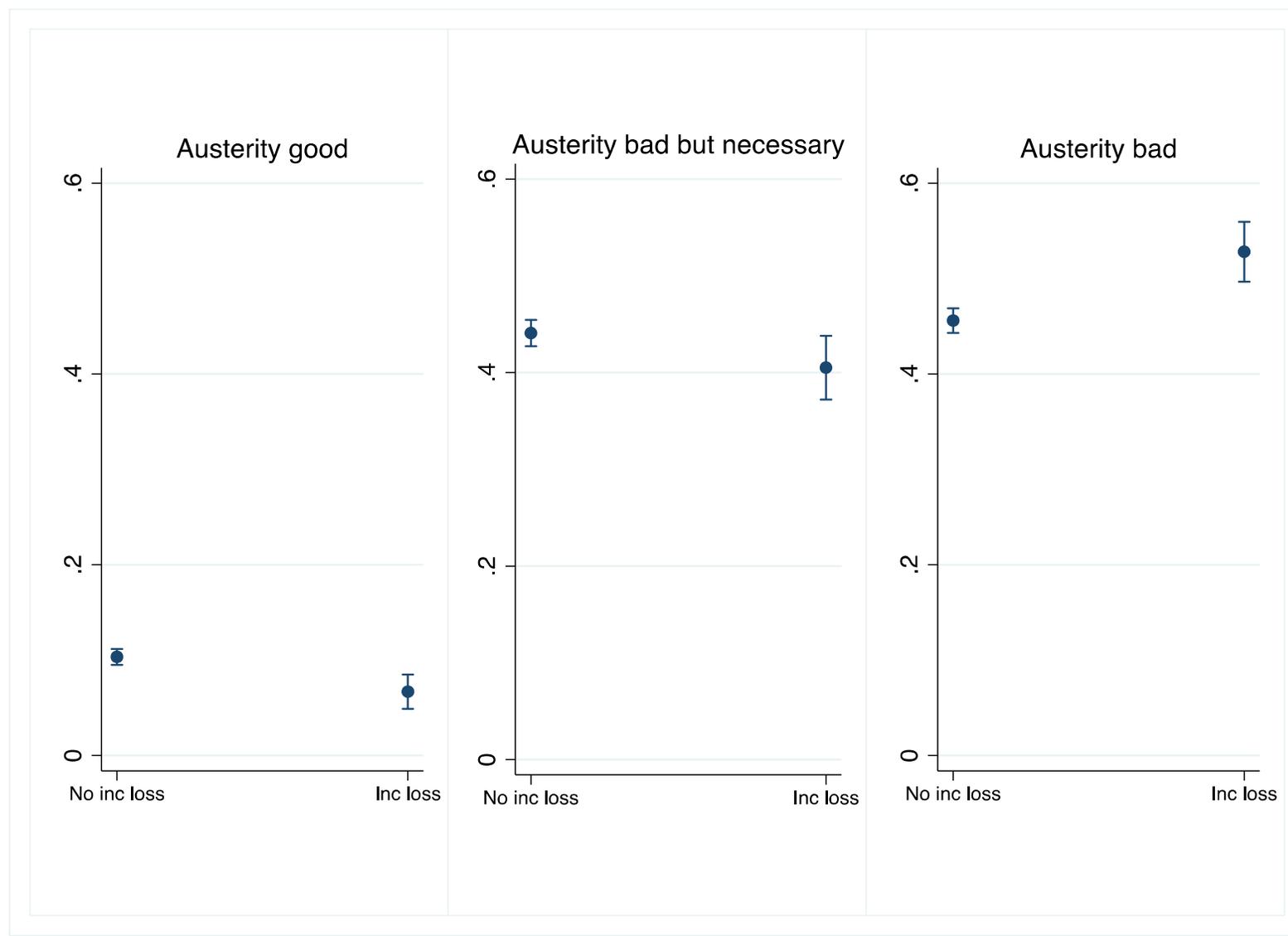
Follow up: alternative measure of austerity support?

As you might be aware, in the context of the economic crisis, the government has tried to reduce the public deficit by tax increases and spending cuts. What sentence best reflects your views towards these policies? {These policies are beneficial / These policies are harmful, but are necessary because we would otherwise put our euro membership in risk / These policies are harmful, we should have not adopted them.”}

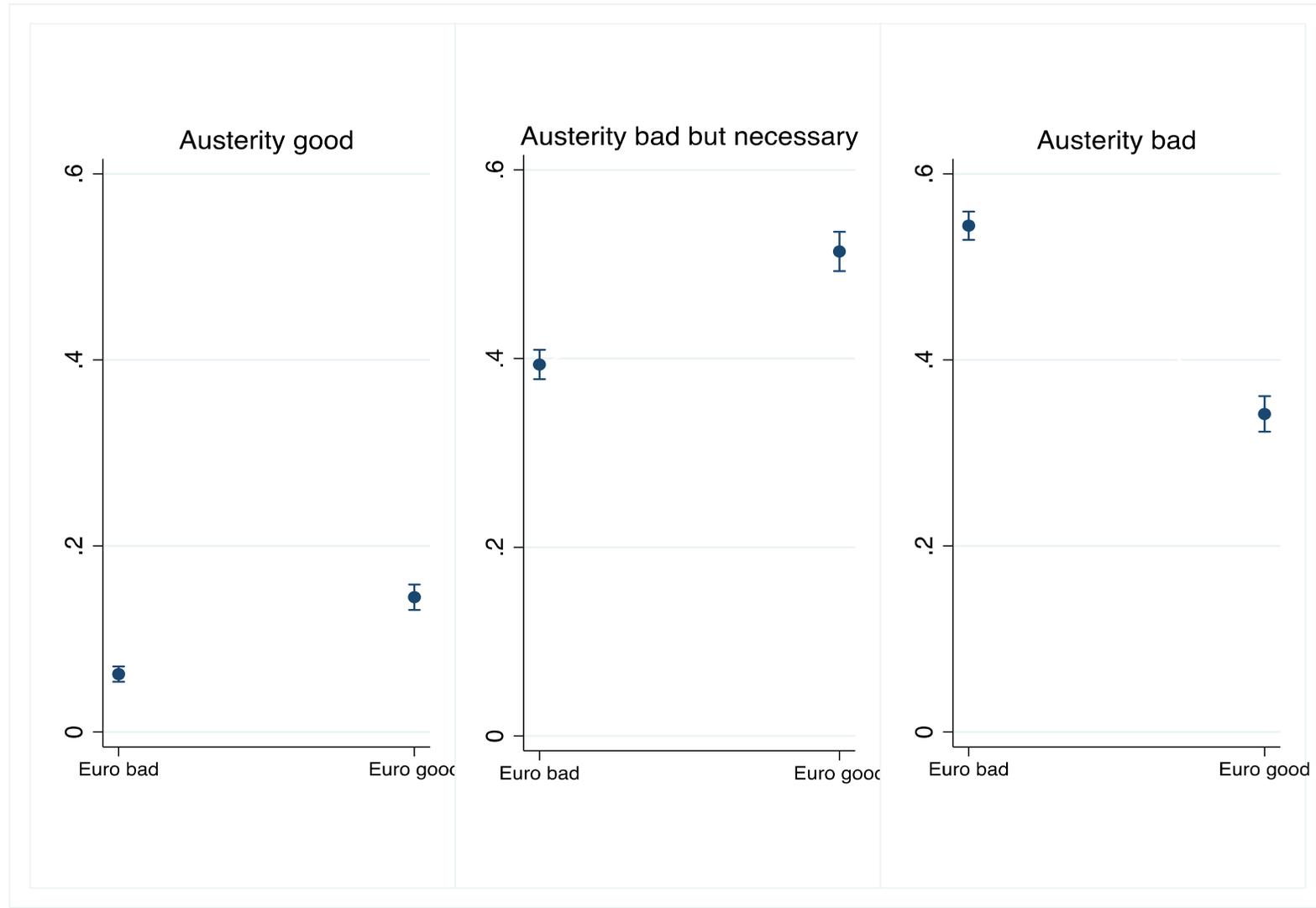
Descriptives

- 9% think austerity has been beneficial
- 43% think harmful but necessary for the euro
- 47% think harmful and should not have been adopted
- Do euro attitudes and crisis suffering matter? (Moderators from last experiment)

Predicted probs based on income shocks



Predicted probs based on euro views



Study Conclusions

- Strong baseline **opposition** to austerity
- Austerity content matters more than endorsements (at least for EU endorsements)
- But **EU salience** can matter if costs are made salient
- Results driven by: income shocks, euro support