Preferences for Austerity during the Eurozone Crisis

José Fernández-Albertos
CSIC

Alexander Kuo
Oxford University
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].
<table>
<thead>
<tr>
<th>Treatment group</th>
<th>Fiscal Policy Content</th>
<th>Endorsement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group 1</td>
<td>Spending Cuts &amp; Tax Increases</td>
<td>None</td>
</tr>
<tr>
<td>Group 2</td>
<td>Spending Cuts &amp; Tax Increases</td>
<td>EU</td>
</tr>
<tr>
<td>Group 3</td>
<td>Spending Cuts &amp; Tax Increases</td>
<td>Other European governments</td>
</tr>
<tr>
<td>Group 4</td>
<td>Spending Cuts &amp; Tax Increases</td>
<td>German government</td>
</tr>
<tr>
<td>Group 5</td>
<td>Spending Cuts</td>
<td>None</td>
</tr>
<tr>
<td>Group 6</td>
<td>Spending Cuts</td>
<td>EU</td>
</tr>
<tr>
<td>Group 7</td>
<td>Spending Cuts</td>
<td>Other European governments</td>
</tr>
<tr>
<td>Group 8</td>
<td>Spending Cuts</td>
<td>German government</td>
</tr>
<tr>
<td>Group 9</td>
<td>Tax Increases</td>
<td>None</td>
</tr>
<tr>
<td>Group 10</td>
<td>Tax Increases</td>
<td>EU</td>
</tr>
<tr>
<td>Group 11</td>
<td>Tax Increases</td>
<td>Other European governments</td>
</tr>
<tr>
<td>Group 12</td>
<td>Tax Increases</td>
<td>German government</td>
</tr>
</tbody>
</table>
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?
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