

**The Political Economy of Austerity: Distributive Outcomes and their Implications in Southern Europe**

Sofia A. Perez (Boston University, [sperez@bu.edu](mailto:sperez@bu.edu)) and  
Manos Matsaganis (Politecnico di Milano, [Emmanuel.matsaganis@polimi.it](mailto:Emmanuel.matsaganis@polimi.it))

Manuscript prepared for submission to *New Political Economy* Special Issue

October, 2016

When in 2010 the sovereign debt crisis in the Eurozone began to spread from Greece to other countries, European leaders responded by demanding that “stressed” countries – those facing deteriorating domestic and external financial conditions -- impose a strategy of austerity as a condition for financial support. Alongside Ireland, the Southern European states were either forced - or pushed - by the Troika (the EU, ECB and IMF) to impose heavily pro-cyclical fiscal consolidation measures, either as formal conditions for emergency financial assistance or through “implicit” conditionality exercised principally by the ECB. This response by European elites was shaped by a myriad of factors – among them the no-bail out clause enshrined in the design of the Eurozone and the desire to shield financial institutions in creditor states. However, it was also premised on the assumption that the Eurozone’s debtor states could successfully pursue a particular macro-economic strategy out of the crisis - one of “internal devaluation” – to rectify their external imbalances and eventually **grow** themselves out of debt.

The choice to impose austerity and seek internal devaluation in the Eurozone’s debtor states has been criticized for deepening and prolonging the post-2008 economic crisis (Ball 2013). Even the IMF and OECD have recognized that its costs have been far greater than anticipated (Blanchard and Leigh 2012; IMF 2016; OECD 2014a). Yet to understand its consequences fully also need to pay attention to another type of consequence: its impact on the income distribution of the debtor states. Pro-cyclical fiscal consolidation at the height of a world financial crisis was not a path fitting standard economic practice. But it was critical to the “internal devaluation” argument not only because fiscal profligacy was assumed to be a root cause of the periphery’s financial problems but also because it would serve to reduce domestic demand for imports and thereby help rectify the Eurozone’s internal current account imbalances.

The recent political economy on post-Fordist growth models, however, raises serious doubts about the viability of the internal devaluation strategy. It does so by emphasizing the key role of government spending policies in shaping distributive outcomes and sustaining adequate levels of economic demand for growth. Though, as we explain, there are significant differences in how political economists conceive of the dilemmas of post-Fordist economies, most authors coincide in emphasizing the central importance of adequate government spending policies in defining a country’s growth prospects and the distributive outcomes that come along with these.

There is a general presumption in the political economy literature that austerity policies contribute to income inequality. However, the precise way in which they do so needs to be explored. The experience of the Southern European states shows that fiscal **consolidation** measures can be designed in various ways in order to modulate their distributive impact. Indeed, we argue that the intensity of the Eurocrisis created strong incentives for governments to limit the impact of fiscal consolidation on lower income households. However, even where the costs of consolidation were allocated in a “progressive” manner and reduced Gini coefficients by compressing incomes downward this has not prevented a

dramatic rise in rates of poverty and material deprivation across Southern Europe. Moreover, because fiscal consolidation was imposed in such an intensely pro-cyclical way in Europe, the inequality reducing “first-order” effects of progressively designed austerity measures were almost always wiped out by the effect of collapsing domestic demand on market incomes. This suggests that internal devaluation strategy in the debtor states is likely to have very negative distributive consequences with serious implications for long-term growth in these countries, in particular when it has not been accompanied by fiscal stimulus in the Eurozone countries that have the fiscal space.

In what follows, we proceed in five steps. In the first section, we place the “internal devaluation” argument that has served to justify the EU’s response to the debt crisis in the context of the literature on post-Fordist growth models and discuss how this literature is, and is not, helpful in thinking about the distributive consequences of austerity. In the next section we describe the impact of the economic crisis on the distribution of household incomes in Southern European countries (specifically Greece, Portugal, Italy and Spain) and discuss the specific role of fiscal austerity measures in these outcomes. In gauging the impact of the crisis, we highlight the importance of anchoring poverty measures and emphasize the need to take into account the re-ranking of households over the income distribution. In the last section we turn to the question of why governments in the four countries pursued fiscal consolidation to differing degrees, in different ways and with divergent distributive results.

## **I. Growth Models and the distributional impact of fiscal austerity**

The choice of European creditor state governments and institutions to demand fiscal austerity at the height of a major financial crisis from the Eurozone’s deficit states as a condition of financial assistance is often explained as an effort to shield creditor state financial institutions. Yet, while there is little doubt that such considerations played a key role in the 2010-2013 period, the “austerity” response also conformed to a particular economic doctrine that, as some have argued, underpinned the design of the Eurozone as reflected, most succinctly, in its no-bail out clause. Stockhammer (2015), for instance, has argued, that the Eurozone’s design was premised on an “orthodox” or “neoliberal” growth strategy according to which participating states should maintain competitiveness by restraining labor cost growth and domestic demand in order to emulate the German model of export-led growth.<sup>1</sup> Fiscal consolidation was one key pillar of the strategy of “internal devaluation” that debtor states were expected to pursue (the other being labor market deregulation). It would serve to reign in consumption (and hence imports) helping these countries to restore their external balances.

---

<sup>1</sup> In actual practice, he argues, growth in the Eurozone up to 2008 relied on the complementarity between what was really a neomercantilist strategy based on wage-suppression in Germany and debt-driven growth in the Eurozone’s periphery. Stockhammer view is thus that the Eurozone’s growth model is not a stable one.

Stockhammer's argument places the problematic of the Eurozone in the context of a broader political economy literature according to which we can think of advanced industrialized countries as following different kinds of "growth models" – or alternatively "growth regimes" or "macro-economic growth strategies" - each of which has its own distributive consequences. For some authors (including Stockhammer 2015; Pontusson and Bacarro 2016) the distributional consequences of different growth models are closely linked to the source of demand upon which growth relies: specifically, whether the engine of growth is internal or external demand. We can refer to this particular view of growth models as the demand-centered view (it has also been referred to as Kaleckian or Post-Keynesian).

In the demand-centered view, export-led growth depends on a declining domestic wage share that serves to suppress domestic consumption and maintain labor cost competitiveness. A declining wage share, in turn, implies rising inequality, which reinforces the strategy by lowering domestic consumption (as the rich save more than the poor). Domestic demand can be propped up in spite of rising inequality through an expansion of private debt (the model often attributed to the Anglo-Saxon countries). Yet in order for this to be sustainable, that debt would have to be monetized (an option prevented by the Eurozone's design). Lastly, Pontusson and Bacarro argue that some states (notably Sweden) have found their way to a third path in which the public sector fills a critical role in sustaining wage-led growth by supporting employment demand and the growth of high wage/productivity sectors. Though exports of high value added goods also play an important role in this last case, the sources of demand are more balanced, with more robust wage growth implying lower earnings inequities.

While the demand-centered view of growth models focuses on the problem of maintaining adequate economic demand in the transition from industrial to service-based economies, other comparative political economists have developed other typologies that focus more on national institutional differences which shape supply-side conditions in Eurozone countries. Two factors have received particular attention. One set of authors have emphasized differences in domestic wage setting institutions, attributing to these the determining role in whether economies are "demand," "wage" or "consumption" led as opposed to export led (see Hancke...; Iversen and Soskice 2013; Johnston 2016; Johnston and Regan 2015). This literature argues that countries in the Eurozone can only succeed if domestic institutions produce wage moderation, an essential ingredient in export-led growth. Other authors, however, have focused more on the role of the state in supporting more (rather than less) equitable growth by promoting skills and productivity growth through public investment. Wren (2013), for instance, argues that more (rather than less) equitable growth is possible as countries transition to post-industrial service-based economies if the state supports the growth of a high-tech service sector through the promotion of a highly skilled and flexible labour-force. A modern welfare state that can compensate the inherent inequalities of a post-industrial economy, she argues, depends on state-organized education, in particular early childhood and tertiary education.

For yet another set of authors (Beramendi et al. 2014) what matters more broadly is the propensity of a state towards various forms of public investment (including, but not limited, to education, child care or research and development). These types of investments offer long-term returns in the form of labor productivity growth. But the ability of states to pursue them depends first and foremost on two factors: 1) the overall fiscal capacity of the state and 2) whether governments are beholden to “hegemonic political coalitions” that benefit from public consumption (if they are, they argue, state’s will spend their resources on public consumption rather than long-sighted public investment). Only where states have maintained high levels of public investment in the last few decades, they show, has the rise in inequality been mitigated. Beramendi et al. (2015)

Both the demand and the state capacity/investment centered views of growth would lead us to expect significant distributive consequences from the imposition of a forced-paced, pro-cyclical fiscal consolidation the midst of a major downturn. But they do so for different reasons. From the state-capacity/ public-investment centered view of growth models, two factors matter in particular: 1) the extent to which public capital formation and education expenditure are cut and 2) how the states’ fiscal capacity is affected. From the demand-centered view, any fiscal consolidation strategy that aims to suppress domestic consumption can be expected to reduce the wage share in the economy and hence increase inequality. Two important questions, however, are: 1) whose disposable income ends up being cut and 2) how much the suppression of domestic demand (both investment and consumption) affects future potential output. Indeed, from the demand-focused view of growth, the distributive consequences of austerity themselves have long-term implications for growth, as rising inequality implies a suppression of domestic consumption but does not necessarily translate into rising investment (as savings may flow elsewhere in search of higher returns).

It is less clear, however, whether the typologies described above can help us understand how austerity was implemented in the Eurozone’s debtor states. The kind of “politics” that applies in a context of rapid, pro-cyclical fiscal consolidation is bound to be substantially different from the self-reinforcing producer group coalitions or social block equilibria emphasized in the growth model literature. For some Eurozone debtor states, the design of austerity measures depended on external negotiations and direct demands by the Troika. It also created the type of context in which technocratic elites (internal as well as external) often seize the opportunity to institute reforms that break long-standing political equilibria.

There are, nonetheless, some general expectations we can lay out about the distributive consequences of austerity. First, in a context of a rapid, pro-cyclical fiscal contraction we expect fiscal consolidation to fall heavily on public investment both for political and economic reasons. Public investment has far more uncertain political pay-offs than public consumption, and those pay-offs are likely to be reaped by future governments. Cuts in social outlays typically elicit much stronger political opposition than public investment cuts. Public investment cuts thus present a path of least resistance when government’s have to meet external deficit targets. Public investment cuts may also be chosen over public consumption cuts because the latter have more immediate effects on disposable incomes

and thus can be expected to aggravate a crisis more intensely. If, as Beramendi et al. argue, low public investment for an extended period is an important determinant of rising inequality, we should expect several years of austerity to raise inequality in the Eurozone's debtor states. The timeframe for this particular type of effect, however, too long for us to observe it at this point.

Secondly, there is the question of how austerity impacts state fiscal capacity. Tax increases and reforms to improve tax compliance and administration demanded by the Troika could improve state fiscal capacity if they extend beyond the crisis period. However, in the midst of a recession, they also have pro-cyclical (demand-dampening) effects. Because such an effect is greatest where tax increases fall on the lower and middle part of the income distribution, debtor state governments thus had incentives to limit the regressiveness of their austerity measures, including tax increases, in order to limit the multiplier effects of falling disposable incomes. Other ways in which they could do so was by limiting the extent to which social transfer cuts fell on the lowest households or by relying on public sector wage cuts, as civil servants tend to fall into higher income categories. Nevertheless, we would also expect governments to seek to limit the impact on key constituencies with strong electoral capacity such as pensioners. The most vulnerable segments of the population would thus have been those households and individuals whose economic position changed as a result of the crisis, in particular the unemployed or others that form part of jobless households, as well as those who are ineligible for existing social programmes.

In the next section, we compare these expectations to the results of distributional impact studies of fiscal consolidation episodes that include the Eurozone's debtor states. Before doing so, three caveats are in order. First, our analysis does not extend to Ireland because Irish distributional-impact studies often rely on different models raising technical issues of comparability. **Second**, the data in most studies ends with 2013, as it was in the 2010-13 period that the largest fiscal austerity measures directly affecting disposable incomes were taken. Third, our analysis here focuses specifically on fiscal consolidation measures. It does not include the impact of other measures pushed by the Troika such as labor market reforms or cuts in funding of public services, although these too are sure to have had distributive effects.

## **II. Distributional Change in Southern Europe in the period of Austerity**

Economists have sought to explore the relationship between episodes of fiscal consolidation and income distribution finding a variety of outcomes. The distributional effects of economic crises themselves depend on a variety of factors, including the presence of a tax-benefits system that can absorb the effects on household disposable incomes (Atkinson 2009; Nolan 2009; Jenkins et al. 2013). Some studies find that progressive taxation, in particular, and generous unemployment benefits can limit the inequality increasing effects of crises (Agnello and Souza 2012; Ahren et al. 2011; Fournier and Johansson). However, in reviewing actual fiscal consolidation episodes, Woo et al. (2013) and Ball et al. (2011) show that, on balance,

the costs of fiscal consolidation across a large number of past episodes – particularly in the context of low growth - were not shared equally, with lower-income groups experiencing heavier losses, and wages declining more than profits.

How has income distribution evolved in the Southern European countries in the post-crisis period and what role can we attribute to austerity measures? Before reviewing the evidence, it is important to keep in mind the differing dimensions that the crisis took in the four countries, and in particular its far more extreme character in Greece. As Figures 1 and 2 reflect, while the four countries collectively have suffered greatly, the crisis in Greece has far exceeded that in the other three. GDP per capita in Greece in 2015 stood at less than 75% of its value in 2007, while the other three countries hovered between 90 and 95% of their 2007 GDP per capita. The contraction in the Greek labor markets was also the most extreme with a fall in the employment rate of almost 14 percentage points between 2008 and 2014, although here Spain came in a close second, with a contraction in the employment rate of 10.2 percentage points (measured in full time equivalents). By contrast, the employment rate in Portugal over the period declined by 4.2 per cent and in Italy by 4.7 per cent (that is to say, less than half the decline in Spain and a third that in Greece).

Figure 1: GDP (2007=100)

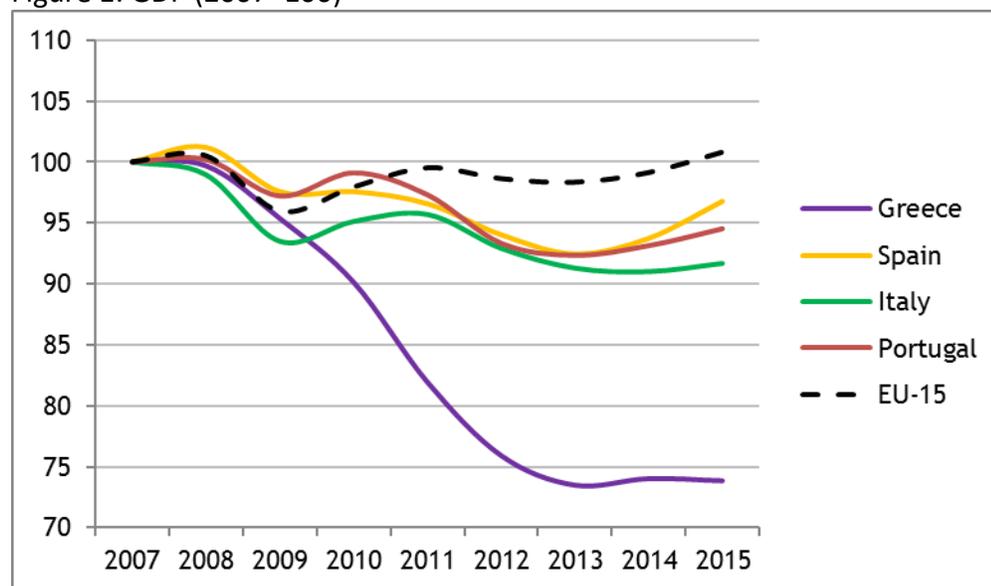
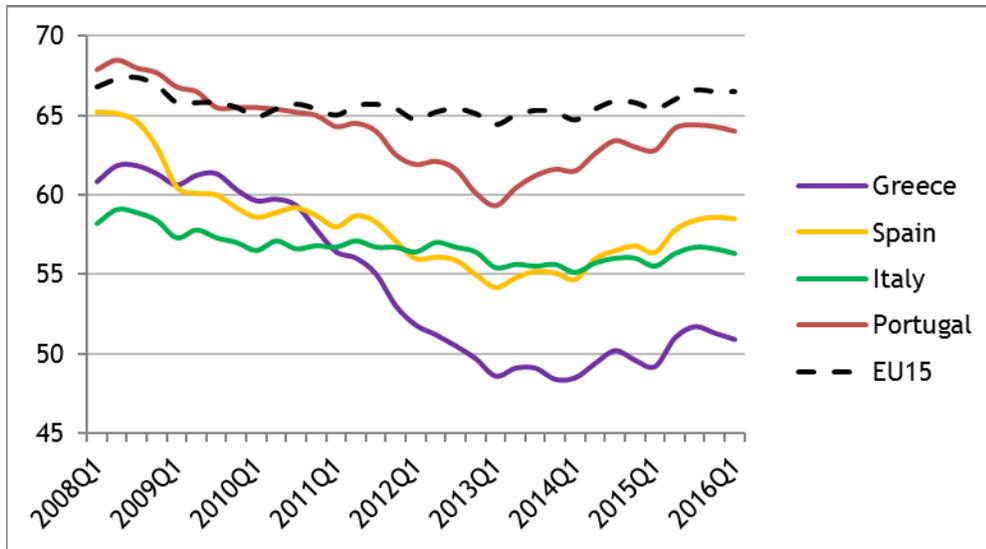


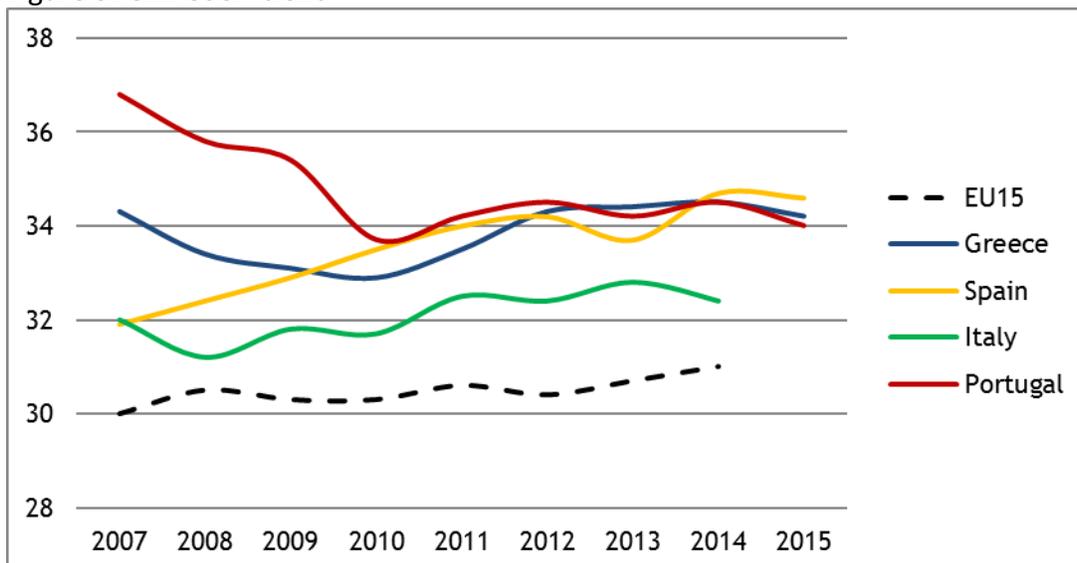
Figure 2: Employment Rate



Source: Eurostat

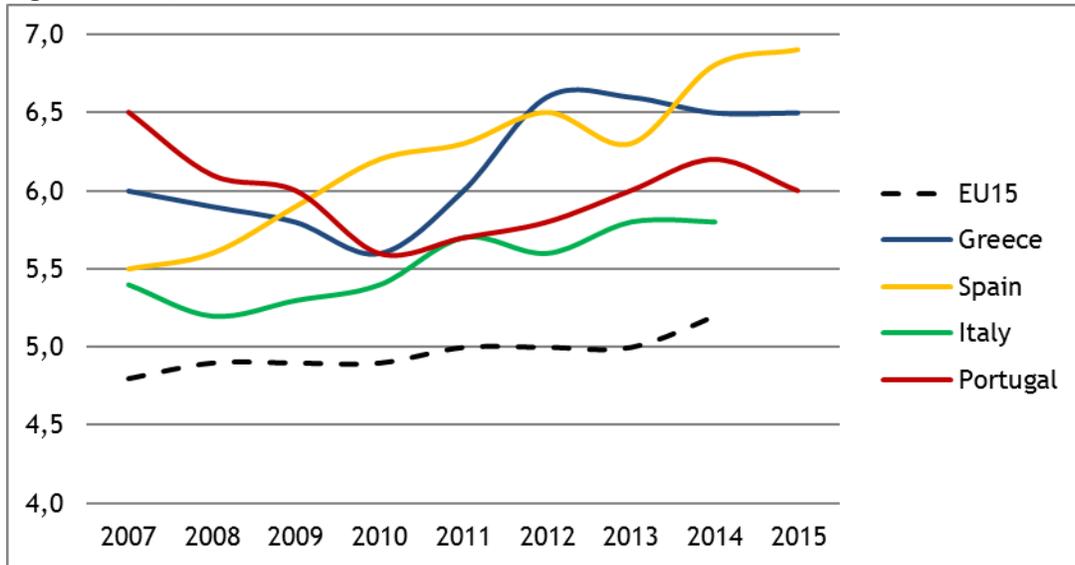
Looking at the evolution of the Gini coefficients of equivalised household incomes after transfers (Figure 3), we see that the global financial crisis in some countries was followed by rising income inequality from the start (in particular in Spain, but also, to a modest extent in Italy). In the other two - Greece but in particular Portugal (which started with the highest inequality level of all four) - it resulted in a reduction of overall income inequality, at least until 2010 when the turn to austerity was generalized across the four states. From that point on the declining trend in income inequality in Greece and Portugal reversed. Nonetheless, it is noteworthy that the Greek Gini coefficient did not rise above the levels in Portugal and Spain. Another striking finding is that the Portuguese coefficient remained remarkably steady even after the start of austerity, raising the question of why Portugal did not see a rise in income inequality between 2008 and 2014.

Figure 3: Gini Coefficient



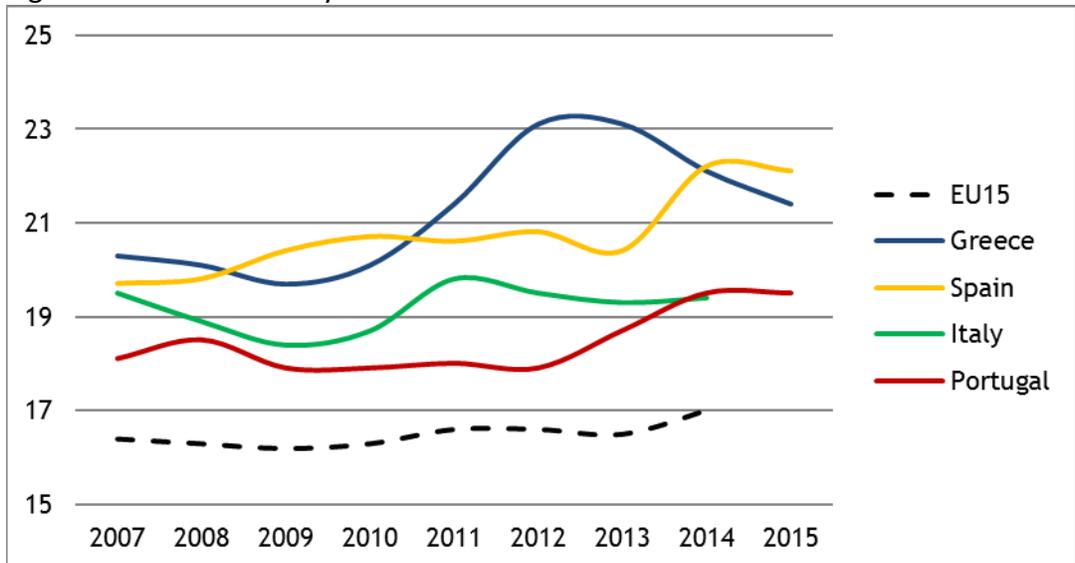
However, given that the Gini coefficient is particularly sensitive to changes across the middle of the income distribution, it can miss important developments at the extremes of the distribution. The S80/S20 income ratio (which tells us how much higher the incomes of those in the top quintile of the income distribution are compared to those in the bottom quintile) is thus a helpful complement. Figure 4 shows that, by the end of 2015, Spain had seen by far the highest rise in this ratio and Italy by far the lowest, with Greece falling in the middle. In Portugal, the S80/S20 ratio actually fell over the period, although it did so principally in the first half of the period. As with the Gini coefficient, the S80/S20 ratio suggests that, in Greece and Portugal the rise in inequality only began when austerity measures were put in place (in the Greek case, dramatically so). Prior to that, the crisis had produced a decline in inequality. This suggests that the initial decline in incomes produced by the world financial crisis fell principally on the upper quintile of the income distribution until austerity measures were instituted in those countries.

Figure 4: S80/S20 Income Ratio



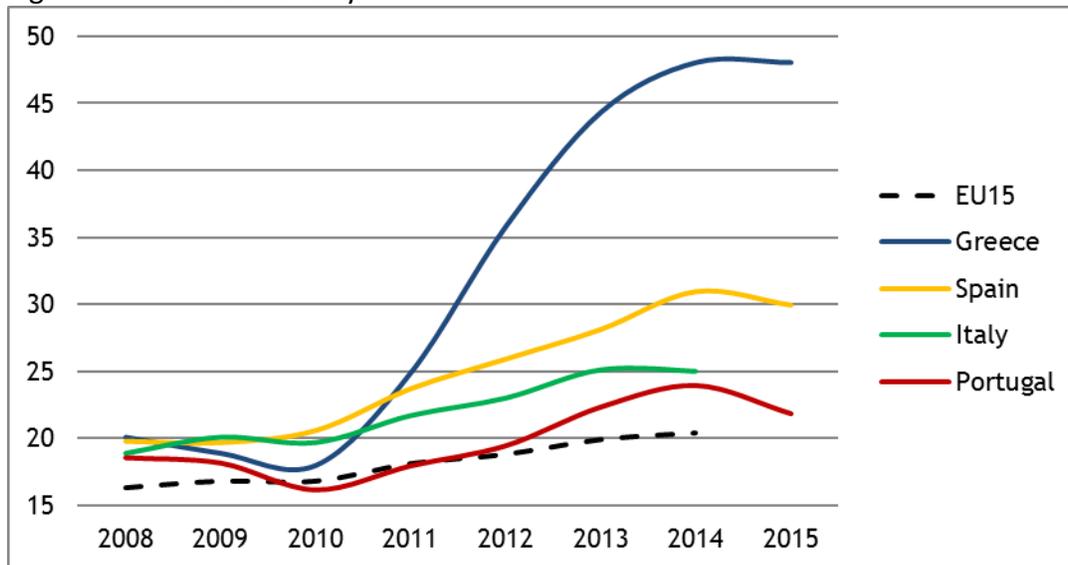
Inequality, however, is not the only distributive outcome that matters. Relative poverty – i.e. the proportion of households with incomes that fall under 60% of the median income – gives us a sense of how many people are excluded from ordinary standards of living and material well being in a society. Figure 5 shows the evolution of relative poverty as traditionally measured- that is by resetting the poverty line based on the median income every year. Relative poverty began to rise steadily in Spain from 2007 on. In the other three states it declined initially (up to 2009 in Greece, 2010 in Italy and 2013 in Portugal), rising thereafter in the period when austerity policies were hardened.

Figure 5: Relative Poverty



However, because the crisis was so intense and incomes fell so rapidly in some countries, we do not think the traditional way of measuring relative poverty properly describes the impact that the crisis had on households and the hardship it has entailed. In a fast moving crisis, the median income on which the poverty threshold is being calculated is also falling rapidly. To capture the real deterioration in living standards experienced by households, we think it more relevant to “anchor” the poverty threshold at the level at which it stood at the start of the crisis. Figure 6 depicts relative poverty with the threshold for each country anchored at its level in 2008.

Figure 6: Anchored Poverty



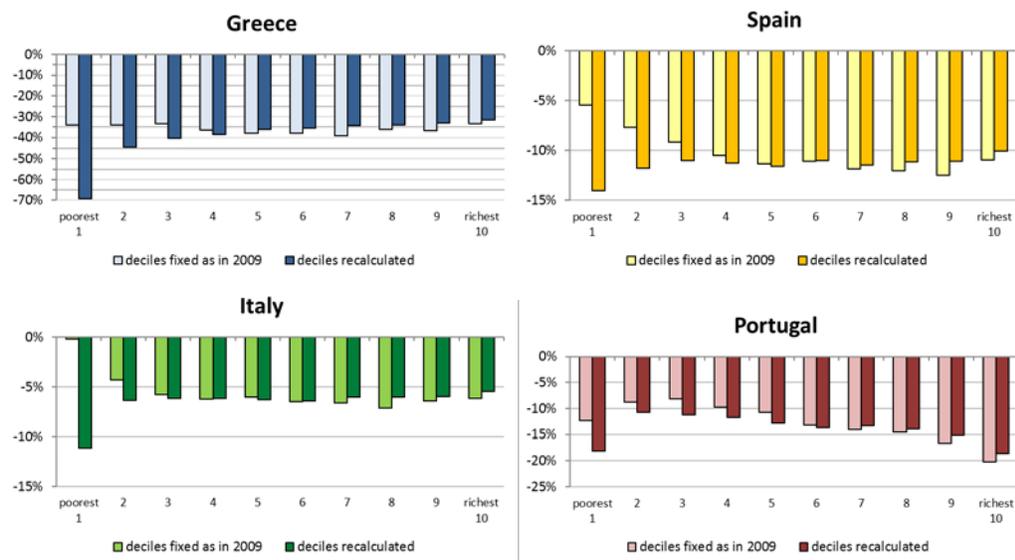
The contrast between the two graphs is striking, with Figure 6 showing a far harsher reality than the unanchored figures in Figure 5. Anchored poverty rose in all in the period from 2008 to 2014, and it did so dramatically in some cases compared to the unanchored measure. In Greece, anchored poverty increased by a full 27.9 percentage points from 2008-2014, while poverty measured in the conventional way (with the floating poverty line) rose only by 2 percentage points. The difference in the two figures for the other countries is not as dramatic but still significant, with anchored poverty increasing by 11.1 rather than 2.4 percentage points in Spain, 5.4 rather than 1 percentage points in Portugal; and 6.1 rather than 0.5 percentage points in Italy. While the social consequences of the crisis in Italy appear far more contained than in the other countries when looking at other measures (such as employment destruction), anchored poverty in Italy in fact rose by more than in Portugal.

The aggregate measures looked at so far, however, do not settle the question of how the costs of the crisis were distributed across the income distribution: whose losses or gains account for changes in the aggregate measures. To get a sense of this, we turn to estimates of the disposable income losses suffered by households in different income segments. This has been done by way of simulation exercises using micro-data on households (Avram 2013;

De Agostini et al. 2014; Figari 2016). Here we rely on the results of Matsaganis and Leventi (2014a) because their simulation, using micro-level SILC data, takes into account the phenomenon of household re-ranking across income deciles over the course of the crisis. Matsaganis and Leventi (2014b) estimate that between 2009 and 2013 such income decile “re-ranking” affected a remarkable 65% of households in Greece, 35% of households in Spain and Portugal, and 16% of households

Whether or not this re-ranking of households over the period is taken into account results in significantly different estimates of the types of income losses suffered by different segments of the population. It also tells us more about just who suffered the largest losses. Figure 7 show the losses in disposable income estimated by Matsaganis and Leventi, once keeping the composition of each decile as it was in 2009 (the lighter bar), and once taking into account the re-ranking of households across deciles in every year of the period (second, darker bar).

Figure 7: Changes in income by decile (2009-2013), with and without re-ranking effects



Note: Estimates are based on the EUROMOD micro simulation model version G1.0.

Source: Matsaganis and (2014a)

The case of Greece poignantly illustrates the importance of distinguishing between those who found themselves in each decile in 2009 (first bar) and those who found themselves in that decile in 2013 (second bar). Those who found themselves in the poorest decile in 2009 had – by 2013 -- experienced income losses of 34%, similar to the average across all deciles (36%). By contrast, if we look at those who found themselves in the poorest decile in 2013, these households had experienced a drop of 69% of their disposable income over the period. The “new poor” thus experienced far larger income losses than the “old poor.” The contrast between the two measures is not as stark in the other cases, but the general pattern observed in Greek case holds. Those in the lowest income decile in Spain in 2013 had experienced income losses more than three time the size of those who were in

that decile in 2009. In Italy, those in the poorest decile in 2009 experienced only minimal income losses, whereas those that found themselves in that decile by 2013 had experienced a decline of over 10% in their disposable income. In Portugal the difference between the two groups was smaller, but still significant.

Looking across the entire income distribution, we also observe some important differences depending on whether or not household re-ranking is taken into effect. In the case of Greece, losses would appear to have been rather evenly spread across deciles when we do not take household re-ranking into account. Yet, when we do, the distribution of losses looks far more skewed towards the lower end of the income distribution. In Spain and Italy, keeping the household composition of deciles fixed in 2009, income losses appear to have been mitigated significantly for those in the bottom two to three deciles (the old poor), increasing progressively up to the 10<sup>th</sup> decile. However, once we account for re-ranking, this apparently progressive distribution of losses in the two countries disappears. Only in Portugal do we see a substantial departure from this pattern. While income losses were also particularly steep for the poorest of the newly poor (those in the bottom decile in 2013), the distribution of losses across the remaining deciles had a more progressive character whether or not we take re-ranking into account.

The most striking general pattern across the four countries is thus to be found in the particularly high losses suffered by those that found themselves in the bottom decile in 2013 rather than those who fell into that decile in 2009. It is the “new” poor rather than the “old” poor who experienced the biggest adjustment. Those “new poor” were also considerably poorer than the old poor had been. And they included more unemployed workers, particularly so in Greece and Spain, followed by Portugal. The bottom quintile also included fewer people over the age of 65, again particularly in Greece. This is not to say that pensioners and those in work were better off than in 2009.<sup>2</sup> Indeed, the numbers of working poor also rose significantly over the period. It is simply that the more extreme relative poverty of those newly in the bottom decile pushed other groups up the income distribution, even if they too had suffered losses. All this is consistent with our expectations that governments would in fact try to limit the regressiveness of their austerity measures, but that they would do so principally by protecting key constituencies such as pensioners at the expense of many of the individuals who were hit hardest by the crisis.

### **III. The role of fiscal consolidation measures in the crisis’ distributional outcomes**

Because economic crises in and of themselves have distributional consequences, estimating the role of austerity measures in these distributional outcomes is not a straightforward matter. Fiscal consolidation measures have direct effects on the incomes of individuals and households by changing taxes, benefits, or public wages and employment status. However, they also have second order effects via their macro-economic impact on aggregate demand, which in turn affects the market incomes of households. Indeed the

---

<sup>2</sup> Matsaganis and Leventis (2014a), unpublished figures.

direct and dynamic effects of fiscal consolidation may be at odds with each other: policies that compress the income distribution in the short-term may widen it through their second-order effect on growth and employment. Fiscal consolidation that may appear more progressive because it relies more on tax increases than spending cuts may reduce growth and employment and thereby increase income inequality down the line (OECD 2013). But it may also be that spending reductions that increase inequality (such as cuts to social assistance) have a more negative effect on consumption and thereby on growth and employment down the line.

It is reasonable to assume, nevertheless, that elected governments are more keenly attuned to the first-order distributional consequences of their measures than to their second order effects. To estimate these first-order effects, they need to be distinguished from the overall effects of economic conditions, which include the second order effects of earlier policies. This, again, is best done by simulating the effects of policies using micro-level data. Micro-simulation of the effects of policy changes allows us to disentangle the direct effects of each policy from other macroeconomic developments (such as the rise in unemployment), taking into account the complex ways in which taxes interact with benefits and with each other. A direct analysis of actual data, when these become available, cannot do this as well.

Matsaganis and Leventi (2014a; 2014b) provide us with estimates based on such a microsimulation exercise, relying on the European tax-benefit micro-simulation model EUROMOD for the years from 2009-2013. Although their model does not capture second-order effects, it does move beyond other work (Avram et al. 2013; De Agostini et al. 2014) in that it takes into account the first order impact of austerity measures on market incomes and labour market transitions (to and from employment).<sup>3</sup> Table I shows a summary of their estimates of the effects of austerity policies on anchored poverty and on the Gini coefficient for each country.

---

<sup>3</sup> The EUROMOD model relies on survey data on gross incomes, labour market status and other household characteristics which it then applies to the tax-benefit rules in place to simulate direct taxes, social insurance contributions and entitlements to cash benefits. The underlying micro data are drawn from the 2010 European Union Statistics on Income and Living Conditions (EU-SILC), reporting incomes earned in 2009. The full list of the austerity measures identified by Matsaganis and Leventi (2014a) can be accessed in the appendix of the paper at <http://econpapers.repec.org/paper/hdlimprov/1404.htm>.

Table I: Disaggregating the redistributive effect of austerity on Anchored Poverty and Gini Coefficients

(A: Effect of austerity measures, B: full effect of Crisis)

	2009	2010		2011		2012		2013		2009-2013	
		A	B	A	B	A	B	A	B	A	B
<b>Greece</b>											
anchored poverty	19.4	22.4	25.4	29.1	32.7	33.6	40.0	41.7	45.2	9.3	25.8
Gini coefficient	0.321	0.317	0.328	0.325	0.336	0.335	0.354	0.354	0.364	0.007	0.043
<b>Spain</b>											
anchored poverty	21.4	21.5	22.0	24.0	23.5	24.3	24.6	25.9	25.8	4.3	4.4
Gini coefficient	0.314	0.311	0.314	0.314	0.316	0.312	0.314	0.314	0.318	0.008	0.003
<b>Italy</b>											
anchored poverty	17.9	18.5	19.0	20.3	19.9	21.5	21.2	21.2	20.9	3.5	3.0
Gini coefficient	0.308	0.308	0.312	0.312	0.313	0.311	0.313	0.311	0.311	0.003	0.003
<b>Portugal</b>											
anchored poverty	16.7	17.1	16.6	20.1	20.0	20.8	22.0	23.1	23.0	5.8	6.3
Gini coefficient	0.322	0.320	0.320	0.319	0.318	0.311	0.311	0.309	0.310	0.012	-0.012

Notes: 'A' shows the first-order effect of changes in policies in year t on anchored poverty rates and Gini coefficients in year t-1 (i.e. before their interaction with wider changes in the economy). 'B' shows the full changes in income distribution in year t relative to year t-1 (including the interaction of policies with wider changes in the economy).

As is quickly evident from looking at the signs of the coefficients, the first order effect of austerity measures in many cases was to reduce the Gini coefficient (inequality) while simultaneously increasing poverty. Indeed, except for Greece, the estimated first order effects of austerity measures were responsible for the bulk of the estimated rise in poverty even as those same measures reduced inequality by compressing incomes downward.

Except for Portugal, the estimated reduction of the Gini inequality was outbalanced by the inequality-increasing effect of economic conditions.<sup>4</sup>

Some austerity measures in Europe thus mitigated the rise in inequality, but at the same time pushed more and more people under the anchored poverty line. The size of this poverty-increasing effect nonetheless varied significantly between countries and across the period. In Greece, for instance, about half of the total increase in anchored poverty in 2010 and 2011 can be attributed to the first-order effect of austerity policies in those years, while in 2012 and 2013 the poverty-inducing first order effects of austerity policies explain a much smaller (but still substantial) proportion of the increase in anchored poverty (13 per cent and 33 per cent, respectively). In Spain, austerity policies alone had a very limited effect on poverty in 2010. By contrast, in 2012 they explained more than 70 per cent of the total increase in anchored poverty. Indeed, in both 2011 and 2013 the estimated first order effect of austerity policies would have raised anchored poverty more than economic conditions ultimately did. The latter was also the case in Italy (all years except 2010) and Portugal (all years except 2012).

Table 2 shows the estimated impact of different types of austerity policies on inequality. Tax measures, in general, had the largest effect across the four countries. The 3.67 point estimated reduction in the Portuguese Gini coefficient attributable to tax policy changes in 2013 is particularly striking (although it is important to note that social spending cuts that same year worked in the opposite direction in Portugal). Public sector pay measures also appear to have contributed consistently to a decline in the Gini coefficient (reduced inequality) across countries.<sup>5</sup> This may be attributed to the fact that steady employment and assortative mating places many public sector workers into the upper levels of the income distribution. Social benefit cuts might have been expected to increase inequality (as was the case with the 2011 and 2014 measures in Portugal). Yet in some cases they were designed so as to limit the impact on those worst off, helping to reduce the Gini coefficient. This was the case, in particular, in Greece in 2013. Pension cuts typically decreased inequality modestly, as the very lowest pensions were spared in most countries, although the Greek and Portuguese pension cuts of 2013 had the opposite effect.

## **Table 2: Effects of Austerity Policies by Type on Inequality**

---

<sup>4</sup> Relative to a counterfactual rise in inequality under a different set of austerity policies that would have had inequality-neutral first-order effects and exactly the same second-order effects as the actual policies, austerity measures served to contain the rise in the Gini coefficient by 69 per cent in Spain, 52% in Italy, and 14% in Greece. In the case of Portugal, the inequality-reducing effect of austerity measures accounts virtually for the entire decline of the Gini coefficient over the period.

<sup>5</sup> The one instance of a significant inequality-increasing public sector pay measure in Portugal in 2013 involved a reversal of earlier cuts.

	change in the value of the Gini index (%)			
	2010	2011	2012	2013
<b>Greece</b>				
public sector pay	-0.57	-0.10	-0.31	-0.52
taxes / SIC	-0.84	-0.13	0.07	0.98
pensions and related policies	-0.30	-0.06	-0.41	0.90
other social benefits	0.35	-0.16	0.25	-1.47
<b>Spain</b>				
public sector pay	-0.12	-0.12	-0.23	:
taxes / SICs	-0.47	0.04	-1.11	-0.02
pensions and related policies	-0.06	-0.04	-0.04	-0.02
other social benefits	-0.30	-0.01	-0.23	0.07
<b>Italy</b>				
public sector pay	0.06	0.00	0.02	0.01
taxes / SICs	0.01	-0.52	-0.42	0.00
pensions and related policies	0.00	0.00	-0.01	0.00
other social benefits	-0.04	-0.06	-0.06	-0.20
<b>Portugal</b>				
public sector pay	:	-0.53	-1.04	0.96
taxes / SICs	-0.39	-1.93	-0.60	-3.67
pensions and related policies	-0.16	-0.01	-1.15	0.69
other social benefits	-0.18	1.97	-0.13	1.15

Source: Matsaganis and Leventi (2014b)

Another micro-simulation study (Figari et al. (2016)) estimates the impact of austerity measures through 2012 by income deciles. It confirms that the losses exacted by public wage and salary cuts were, indeed, distributed progressively across all four countries, but more dramatically so in Portugal, followed by Greece. Public pension cuts were similarly distributed in a progressive manner. The big exception to this was Spain, where only the bottom decile was spared and the impact across the remaining deciles was quite regressive. Lastly, in Portugal, where public wage and pension cuts were applied in a progressive manner (so that higher incomes suffered greater losses), spending cuts on social benefits other than pensions nonetheless fell heavily on households in the lowest income decile. This helps explain Matsaganis and Leventi's finding that income losses were distributed progressively in Portugal but only from the second decile up.<sup>6</sup>

Taken together with the aggregate income distribution measures discussed above, these studies suggest that austerity measures were designed, on the whole, so that their first order effect was to compress incomes downward. Yet at the same time they pushed a rising proportion of the population under the 2008 poverty threshold. This pattern of downward income compression with rising poverty likely had particularly severe effects on domestic demand, helping to deepen and prolong the economic crisis. It is hence not surprising that, with the notable exception of Portugal, the first-order reductions in inequality produced by fiscal consolidation measures were wiped out by the rising inequality in market incomes that

<sup>6</sup> Figari et al.'s study covers measures taken only through 2012 and does not consider household re-ranking.

the long crisis produced. The end result has been a rise in inequality along with higher levels of poverty. Indeed, the newly poor (bottom decile) suffered great losses in material wellbeing even in Portugal, where austerity was most progressively designed and in Italy where fiscal consolidation was most limited.

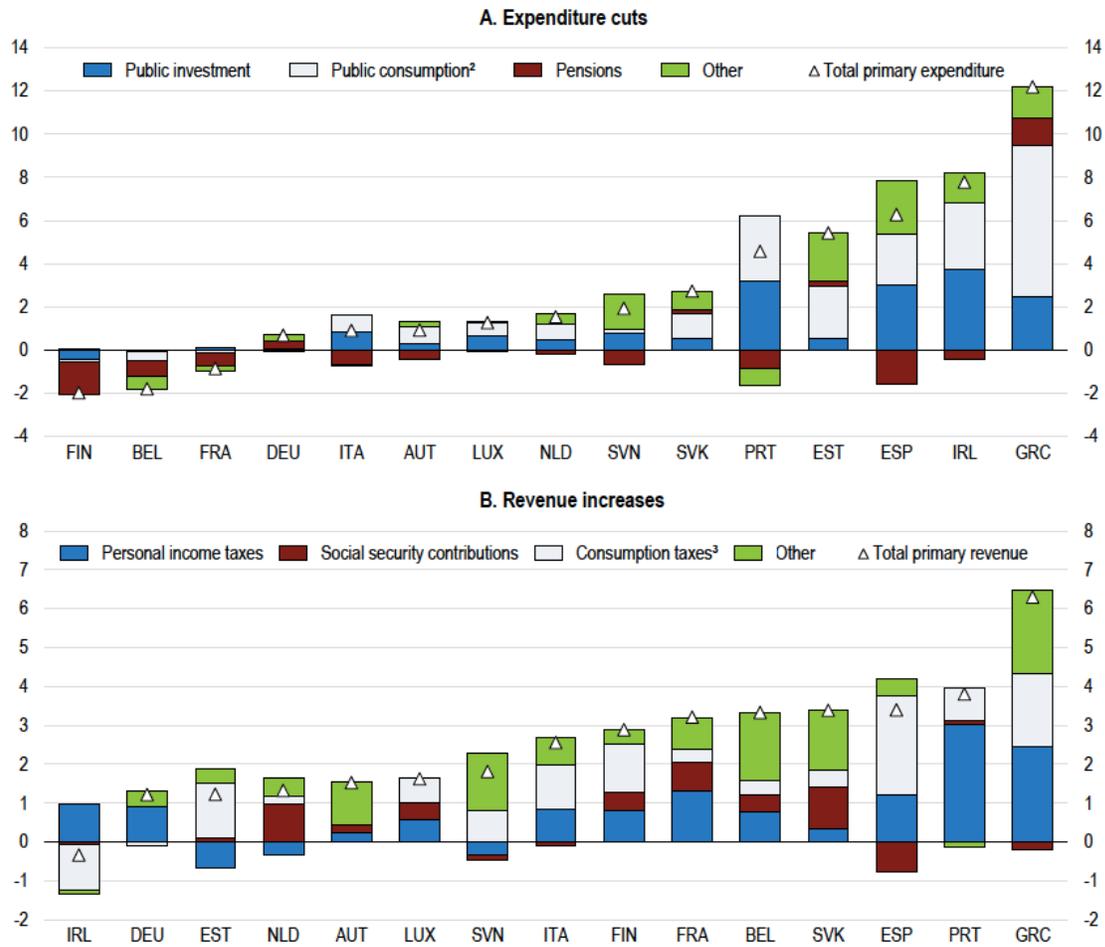
How are these distributional outcomes likely to impact the future growth trajectory of the Southern European states. The growth model implied in the austerity measures – that of the “internal devaluation” strategy – relies heavily on the expectation that cost-competitiveness will allow economic recovery and that the rest of the world will provide the necessary demand for Southern Europe to grow. From this particular perspective, rising internal inequality, does not appear as a particular concern. From the standpoint of the post-Keynesian view of growth models, however, the large rise in poverty and inequality contributes further to the demand problems of post-Fordist capitalism, because of Kalecki’s observation that lower income groups have a higher propensity to consume rather than save relative to higher income groups. On the other hand, from the standpoint of those who believe that growth following the ICT revolution depends on public sector investment in labor force development **and skills**, what matters most is how austerity has affected spending on these factors.

Figure 8 shows estimates by Pina (2016) of how fiscal consolidation was distributed across revenue and spending categories, and Table 3 shows the percentage change in budgetary categories from 2010 to 2013. Though there are important cross-country differences that we turn to in the next section, public investment, as we expected, was a major target of spending cuts in all countries. It was cut by 50 per cent in Greece, 66.6 per cent in Ireland, 61 per cent in Portugal, 59 percent in Spain and 24 per cent in Italy.<sup>7</sup> Education, a category falling under public consumption yet particularly relevant to the investment centered view of growth models, was also one of the spending categories that suffered heavily, falling by 15 per cent in Greece, 16 per cent in Ireland, almost 8 per cent in Italy, over 18 per cent in Portugal and 11 per cent in Spain. These cuts run directly counter to the requirements spelled out in the growth model literature for more equitable growth. And although tax revenue also increased over the period, the heavy emphasis on consumption taxes in some countries raises questions about the extent to which this increased “state” capacity is compatible with equitable growth.

Figure 11: Contributions of revenue and expenditure changes to fiscal consolidation (% potential GDP)

---

<sup>7</sup> Between 2009 (just prior to the austerity measures) and 2015, the share of gross fixed capital formation in total government expenditure declined from 10.6 to 6.9 per cent in Greece, from 6.7 to 4.5 per cent in Italy, from 8.2 to 4.5 per cent in Portugal, and from 11.2 to 5.7 per cent in Spain. Source: Eurostat



Source: Pina (2016)

Table 3: Cumulative Change in Revenue and Spending Categories over 2010-13 Fiscal Consolidation Episodes

Cyclically adjusted data in current prices, percentage change over the episode

	AUT	BEL	EST	FIN	FRA	DEU	GRC	IRL	ITA	LUX	NLD	PRT	SVK	SVN	ESP
<b>Total primary revenue</b>	<b>15.6</b>	<b>20.1</b>	<b>22.6</b>	<b>16.2</b>	<b>12.4</b>	<b>11.6</b>	<b>9.1</b>	<b>4.6</b>	<b>8.4</b>	<b>19.5</b>	<b>7.6</b>	<b>10.9</b>	<b>24.3</b>	<b>7.6</b>	<b>13.2</b>
Personal income taxes	14.3	19.6	5.2	17.3	23.7	19.7	42.1	17.7	10.9	23.3	-0.1	57.3	26.4	-2.6	21.2
Social security contributions	13.5	15.3	19.6	14.3	9.9	8.5	-7.2	4.2	1.7	19.5	11.3	2.4	22.9	2.1	-3.1
Corporate income taxes	44.8	49.4	7.4	8.9	28.8	27.1	-25.8	-9.8	4.3	8.2	7.9	21.6	34.4	-30.5	0.0
Environmental taxes	8.8	5.1	42.7	19.7	11.1	3.1	42.2	8.3	17.5	13.6	1.5	-9.4	7.0	22.8	20.5
Other consumption taxes	12.0	17.3	36.9	23.2	9.0	7.3	13.7	-8.5	14.7	23.8	7.2	9.6	19.3	11.7	52.0
Taxes on immovable property	7.3	15.7	46.4	20.3	12.0	5.6	357.2	58.6	140.4	24.9	28.1	34.0	26.9	26.7	58.5
Other property taxes	85.1	48.7	..	39.0	14.5	34.9	-5.4	9.7	-41.9	23.6	-11.7	-6.9	-63.4	-14.3	4.8
Sales of goods and services	13.2	22.8	12.7	12.0	6.5	18.2	-27.5	8.3	9.7	29.0	-1.5	-1.7	43.2	33.4	4.7
Other primary revenue	39.2	32.7	25.2	3.4	2.5	0.7	8.6	-6.4	2.8	5.0	28.2	-17.2	24.5	26.5	-12.5
<b>Total primary expenditure</b>	<b>9.9</b>	<b>16.4</b>	<b>3.4</b>	<b>14.1</b>	<b>7.3</b>	<b>6.8</b>	<b>-28.2</b>	<b>-14.3</b>	<b>0.6</b>	<b>11.6</b>	<b>0.8</b>	<b>-8.8</b>	<b>5.5</b>	<b>-1.2</b>	<b>-12.0</b>
Education	8.2	18.7	-2.3	5.3	4.2	8.5	-15.2	-16.3	-7.7	14.9	-0.2	-8.6	18.3	-1.1	-10.9
Health	10.7	15.4	10.2	14.2	7.5	9.9	-42.5	-10.8	-0.5	8.8	4.5	-12.0	6.4	2.4	-11.2
Other wages and intermediate consumption	5.2	11.4	5.9	10.8	6.2	8.0	-36.3	-11.8	-0.3	9.6	-1.4	-15.3	3.0	4.4	-7.0
Pensions	15.5	20.9	14.9	26.7	10.7	4.8	-14.0	16.6	7.3	14.5	7.2	8.7	10.2	9.5	22.6
Sickness and disability	13.0	19.8	1.7	11.0	10.4	12.6	-32.6	-7.7	-1.5	12.8	-1.5	2.5	12.7	-4.1	-5.5
Unemployment benefits	20.5	4.4	35.2	-1.9	9.7	-21.7	-61.5	28.2	26.9	-2.4	11.0	-7.2	9.4	40.9	-50.2
Family and children	-2.2	15.3	0.9	10.3	8.3	3.3	-48.8	-17.5	-6.7	-7.4	-19.4	-32.6	-4.5	-9.5	-39.9
Subsidies	-6.1	27.9	1.7	1.8	-0.1	-17.8	733.8	-5.5	19.7	-9.5	-15.2	-20.4	-9.4	-43.0	-13.1
Public investment	1.3	14.2	9.4	22.2	2.3	6.7	-49.6	-66.6	-23.8	-2.4	-7.9	-61.0	-4.1	-13.6	-58.7
Other primary expenditure	17.7	15.0	-52.6	15.4	7.7	26.1	-19.2	-8.9	-1.3	45.3	10.1	58.5	3.3	-13.1	-10.4

Source: Pina (2016)

#### IV. Did governments make fundamentally different distributive choices? Explaining variation in the design of austerity.

Austerity programs in the Southern European countries, we have seen, caused an important rise in poverty rates across all four countries, although the magnitudes of this rise in Greece far exceeds the other three cases. Although some measures were designed to reduce inequality in each country, this effect was generally wiped out by the negative effects of depressed demand on market incomes. Nevertheless, the information in Figure 8 and Table 3 also reflects significant differences in the design of fiscal consolidation across the four countries. These include the relatively small size of the overall fiscal adjustment in Italy compared to the other three countries and the considerably higher reliance on tax revenue increases – in particular income taxes - in Portugal. Also striking is the considerably greater reduction in spending on unemployment benefits built into fiscal consolidation in Greece and Spain, the two countries experiencing the largest employment destruction over the period.

These differences in the composition of fiscal consolidation help explain some of the contrasts in distributive outcomes we have observed. They help explain why Italy experienced a smaller rise in its Gini coefficient and a lower level of employment destruction

over the period than the other countries,<sup>8</sup> and why income losses were distributed more progressively in Portugal (although, as we have noted in Figure 7, this did not shield the new poor in the lowest income decile). The latter outcome is particularly striking given that like Greece, Portugal had to seek a sovereign debt bailout in 2011 and had considerably less leeway in dealing with foreign creditors than either Spain or Italy. Can these differences in policy design be attributed to differences in the politics of austerity across the four countries?

As we have noted at the outset, the set of factors that drive policy in the face of an acute balance of payments crisis differ from the self-reinforcing feedback mechanisms emphasized in much of the “growth model” literature. There is the obvious role of foreign creditors in the form of the Troika whose very objective it was to overrule normal domestic political constraints. The intensity of the fiscal consolidation demanded of Greece, responded entirely to assumptions that had been questioned by the IMF’s staff itself in 2010 (Blustein 2016). Yet the contrast among the other three countries cannot be explained by their relative leverage vis a vis foreign creditors. Rather, we find some plausible explanations for the differences in the design of austerity policy in other features of these countries’ policies: in particular, the relative importance of party patronage linkages along with features of their political systems and legacies.

Two features of Portuguese politics may help explain the more progressive design of austerity policies in Portugal (in particular, its greater reliance on progressive income taxation). Fishman (2013) has argued that the nature of Portugal’s political transition predisposes the country to more progressive politics because it produced particularly rapid social and cultural change in that country. Portugal lagged other Southern European states economically in the 1970s and still had the highest Gini coefficient in Western Europe in 2008, a situation often attributed to the country’s late introduction of universal schooling). The revolutionary character of the Portuguese transition, however, produced more progressive attitudes and particularly high popular support for poverty alleviation and redistributive fiscal policy in that country across ideological lines. This social consensus was reflected in the strong mobilization against the first two austerity packages presented by the Socialist government of prime minister Jose Socrates in 2010 and 2011 and their rejection in parliament.

Afonso et al.’s (2014) comparison of the fiscal consolidation processes in Portugal and Greece, on the other hand, draws attention to another feature of Portuguese politics: the relatively shallow character of political patronage linkages in that country. The authors show that key aspects of fiscal consolidation in Portugal were decided in a co-operative manner among the major parties in 2010 and 2011. And even if that cooperation saw greater tension after the conservative (PSD) victory of 2011, even the PSD government sought and attained the support of the PS in drafting austerity its measures in 2012. This contrasts with

---

<sup>8</sup> It should nonetheless be noted that Italy started the period with the highest “poverty gap” of all four countries.

the antagonistic style of policy-making that characterized Greece throughout the period, which Afonso et al. attribute to the critical role of public sector employment (including public corporations) as a source of party patronage politics in that country (see also Pappas 2009; 2013). This made spending cuts involving the public sector a mayor stumbling block for agreement in Greece, weakening the position of Greek governments vis a vis the Troika. Patronage linkages in Portugal, by contrast, were less developed creating more room for compromise among political parties (on this point, see also Jalali et al. 2012). This co-operation allowed Portuguese governments to maintain greater control over their austerity program.

Can this explanation be extended to the Italian and Spanish cases? It is of course risky to compare the fiscal consolidation efforts of two countries that had to seek sovereign debt bailouts (i.e. Greece and Portugal) to two that did not (i.e. Spain and Italy). The two larger countries had far more leverage in dealing with external demands for austerity, as reflected in the fact that the ECB heavily intervened in Spanish and Italian debt markets in 2011 and changed its policy stance to Outright Monetary Transactions (OMT) in 2012 precisely to stop bond market contagion to Italy and Spain. Despite this similarity, however, the response of governments in the two countries differed sharply. The PSOE government of prime minister Rodriguez Zapatero was much more responsive to creditor government demands for a turn to austerity and structural reforms than the Berlusconi government in Italy and even, by some measures, the Monti government (Perez 2014). Following the May 2010 Brussels summit, the Spanish government promptly reversed the efforts at counter-cyclical demand management it had undertaken during 2008-09 to slow employment destruction. This U-turn was based on a cross-party consensus, which allowed the Zapatero government, with the support of the conservative opposition in parliament, to pass a constitutional amendment committing the Spanish state and its regional governments to comply with public deficit limits established by the European Union.<sup>9</sup> Thus, although Spain had considerably more leverage in dealing with its Eurozone partners, its total fiscal consolidation effort in 2010-13 virtually matched that of a Portugal. The character of Spanish austerity measures (including tax increases and social outlay cuts), however, suggest that cross-party cooperation did not, by itself, imply a more progressive course.

If Spanish political elites chose compliance with external demands, the Italian government of Silvio Berlusconi, by contrast, resisted such demands in 2010 and continued to do so even after the ECB attempted to condition its support of Italian government debt through its SMP program on more substantial fiscal consolidation measures in the Fall of 2011. Indeed, the breakdown of the Berlusconi coalition in the Italian parliament in the Fall of 2011 was prompted by the conflict over pension reform measures demanded by the ECB, which the Berlusconi's coalition partner, the Lega Nord, refused to accept (Perez and Rhodes 2015). The importance of pensions and public sector employment (including employment in public corporations) as a source of political support for political parties in Italy may have contributed to this outcome. Like Greece, Italy scores high in indices of political patronage and clientelism (Kopecky and Mair 2012; Kitschelt 2011), substantially higher in any case than either Portugal or Spain.

---

<sup>9</sup> A subsequent law committed Spanish governments to limit deficits to 0.46 per cent of GDP.

The two contrasts between Italy and Spain on the one hand and between Spain and Portugal on the other points to other features of the countries' political systems: in particular those that strengthened the hand of governments in the face of anti-austerity protests. In Portugal, the first austerity packages produced the collapse of the Socialist government, and, even under pressure from the Troika it behooved the conservative government to design a program that could be accepted by the outgoing Socialists. In Italy, the strong bicameralism requiring governments to maintain support in both the lower and upper houses, created particularly strong obstacles to a more aggressive austerity program. Thus, even during the interregnum of the technocratic Monti government that followed Berlusconi's fall, key measures such as the reform of the pension system and of employment regulation were rolled back as they went through parliament (Perez and Rhodes 2015). Italy's fiscal consolidation hence proved much smaller than in the other countries. Patronage linkages, nonetheless, may have been important in leading Italian governments to lean more on revenue increases (relative to spending cuts) as the latter are more encumbered by patronage linkages. The capacity for political mobilization against fiscal retrenchment was more limited in Spain given that its political system functioned in a quasi majoritarian way thanks to the "constructive vote of no-confidence" rule which protects incumbents even when, as was the case with the Zapatero government, they do not hold an absolute majority. The intensity of Spain's austerity measures, nonetheless, resulted in a severe shake-up of the Spanish party system with the emergence of the anti-austerity *Podemos* party, leading to a hung parliament following the elections of December 2015 and new elections in 2016.

Lastly, given the quasi-majoritarian quality of Spanish government, how do we explain the fact that Spain's fiscal consolidation took a less progressive character than the Portuguese? Given Spain's decentralized governance structure, we might have expected that Spanish governments to have relied more on tax increases than spending cuts (as spending is what the regional governments do). In this case, path dependence and electoral timing seem must be added to constitutional design. Spain experienced particularly large drops in government revenues from 2007 to 2009 partly due to a tax reform passed by the Zapatero government in late 2006. This ill timed reduction in fiscal capacity was ironically largely a consequence of monetary union itself, as Spain's booming economy led to several years of government surpluses, leading the Zapatero government to embrace the argument of some of its technocrats that lowering taxes could be "leftist." The reduction in personal, corporate and property taxes applied in 2007 just before the onset of the World Financial crisis increased the progressivity of personal taxation in Spain somewhat but lowered its redistributive impact well below that in Italy and Portugal from that year on (Picos 2009; Joumard et al. 2012). This would ultimately require larger spending cuts that would otherwise have been necessary once Spanish governments embraced the austerity agenda.

## **V. Conclusion:**

The growth model literature suggests that fiscal austerity imposed at the height of a financial crisis is likely to have negative consequences for long-term growth, either by falling particularly heavily on public investment or by overestimating the extent to which foreign

demand can compensate for collapsing disposable incomes at home. It also suggests that the internal devaluation logic that inspired the demand for austerity from the Eurozone's debtor states is likely to increase inequality, but by limiting the contribution of public investment to more equitable growth in the long-term or by reducing the wage-share in GDP.

Our review of the experience of the Southern European countries suggests that governments did have room to shape the distributive consequences of fiscal austerity even when it was applied in a pro-cyclical fashion. At least one of the four countries considered (Portugal) was able to limit the impact of austerity on inequality as measured by the Gini coefficient and the S80/S20 ratio. However, even where it was applied in a more, rather than less, progressive manner, austerity caused relative poverty to increase, and did so dramatically if we anchor the poverty line at the start of the period. Inequality-reducing fiscal consolidation measures compressed incomes downward without preventing rising numbers of people from falling under the poverty line and experiencing higher levels of material deprivation (in particular in the case of the new poor) than in the past. These measures may have limited overall inequality in the short-run. But they are also likely to have had particularly pernicious demand side effects (by simultaneously increasing poverty), helping to prolong the crisis and with it the fiscal capacity of states. The estimates discussed show that the inequality-reducing first-order effects of some austerity measures were wiped out by the overall effects of the crisis, which include the second-order effects of austerity on market incomes, e.g. via business closures, job losses and wage cuts. We also confirm that the pro-cyclical fiscal consolidation efforts carried in the Southern European states fell particularly heavily on public investment expenditures, an outcome that, the growth model literature suggests, will result in greater inequality in the long-run.

Fiscal consolidation measures are of course not the only determinant of the four Southern European countries' economic performance. While the fast paced application of fiscal austerity measures is now widely recognized to have worsened the crisis in the four countries, they also differ in other respects. In Portugal, for instance, the negative shock to domestic demand has been mitigated by a very large rise in exports. By contrast, in Greece, the poor performance of exports has revealed further structural flaws in the country's growth model. In Spain, distributive outcomes have also been influenced by regulatory reforms intended to decrease labor market segmentation, which have, however, resulted in a dramatic deterioration of employment conditions. In the case of Italy, less employment destruction may have been achieved at the cost of declining productivity, raising questions about the ultimate impact of the crisis. In all four countries, on the other hand, the social protection system has failed to prevent the expansion of the ranks of the poor, including those in work. Without a macro-economic environment that allows countries to address the circumstances of these vulnerable population segments, rising inequality and social exclusion are likely to become lasting features.

These observations raise serious doubts about the logic of unilateral "internal devaluation" in the creditor states that informed Europe's response to the Eurozone debt crisis. Without complementary fiscal stimulus in the Eurozone's creditor states, the effects of fiscal consolidation on levels of poverty and material deprivation in its debtor states are likely to present ongoing obstacles to economic recovery and, in particular, to more

equitable growth in those countries. The challenge remains that of re-balancing Europe's macro-economic approach so that both core and periphery countries can prosper within the Eurozone. The first step toward that goal is to conceive of a growth-model that applies to the Eurozone as a whole, rather than its constituent states.

## References

- Afonso, A., Zartaloudis, S., Papadopoulos, Y. (2015) "How party linkages shape austerity politics: clientelism and fiscal adjustment in Greece and Portugal during the eurozone crisis," *Journal of European Public Policy*, vol. 22, No. 3, 315–334
- Agnello L. & Souza R. (2012), 'Fiscal adjustments and income inequality: a first assessment', *Applied Economics Letters* 19 (16) 1627-1632.
- Ahren R., Arnold J. & Moeser C. (2011), The sharing of macroeconomic risk: who loses (and gains) from macroeconomic shocks? OECD Economics Department Working Paper 877. Paris: Organisation for Economic Cooperation and Development.
- Alcidi C. & Gros D. (2012), Why is the Greek economy collapsing? A simple tale of high multipliers and low exports. CEPS Commentary (21 December 2012). Brussels: Centre for European Policy Studies.
- Alesina A. & Ardagna S. (2012), The design of fiscal adjustments. NBER Working Paper 18423.
- Atkinson A. B. (2009), 'Stress-testing the welfare state'. In B. Ofstad, O. Bjerkholt, K. Skrede and A. Hylland (eds) *Rettferd og politikk: festskrift til Hilde Bojer på 70- årsdagen (Justice and Politics: Festschrift for Hilde Bojer on her 70th birthday)*. Oslo: Emiliar Forlag.
- Avram S., Figari F., Leventi C., Levy H., Navicke E., Matsaganis M., Militaru E., Paulus A., Rastringina O. & Sutherland H. (2013) The distributional effects of austerity measures: a comparison of nine EU countries. EUROMOD Working Paper EM2/13, ISER, University of Essex.
- Ball L., Furceri D., Leigh D. & Loungani P. (2013), The distributional effects of fiscal austerity. IMF Working Paper 13/151. Washington: International Monetary Fund.
- Ball L., Leigh D. & Loungani P. (2011), 'Painful medicine', *Finance and Development* 20-23 (September).
- Beramendi, P. Häusermann, S. Kitschelt, H. and Kriesi, H. (eds), 2015, *The Politics of Advanced Capitalism*, Cambridge University Press
- Blanchard O. & Leigh D. (2013), Growth forecast errors and fiscal multipliers. IMF Working Paper 13/1. Washington: International Monetary Fund.
- Brandolini A., D'Amuri F. & Faiella I. (2013), 'Country case study – Italy'. In: S.P. Jenkins, A. Brandolini, J. Micklewright & B. Nolan (eds), *The Great Recession and the distribution of household income*. Oxford: Oxford University Press.
- Callan T., Nolan B. & Walsh J. (2011), 'The economic crisis, public sector pay, and the income distribution'. In H. Immervoll, A. Peichl, & K. Tatsiramos (eds), *Who loses in the downturn? Economic crisis, employment and income distribution*. *Research in Labour Economics* (32), 207–225.

- De Agostini P., Paulus A., Sutherland H. & Tasseva I. (2014) The effect of tax-benefit changes on income distribution in EU countries since the beginning of the economic crisis. EUROMOD Working Paper EM9/14, ISER, University of Essex.
- ECB (2012), Monthly Bulletin December 2012. Frankfurt am Main: European Central Bank.
- ECB (2016). "Public Investment in Europe." Economic Bulletin, Issue 2: 75-88.
- European Commission (2012), European Economic Forecast, Autumn 2012. European Economy 8/2012. Luxembourg: Publications Office of the European Union.
- European Commission (2013), EU Employment and Social Situation Quarterly Review (March 2013). Luxembourg: Publications Office of the European Union.
- Eurostat (2014), Online statistics database (last accessed: March 2014), Luxemburg: Eurostat.
- Featherstone, K. and Papadimitriou, D. (2008) The Limits of Europeanization: Reform Capacity and Policy Conflict in Greece , Basingstoke: Palgrave Macmillan.
- Figari F., Paulus A. & Sutherland H. (2016 forthcoming) The design of fiscal consolidation measures in the European Union: distributional effects and implications for macroeconomic recovery. Oxford Economic Papers.
- Fishman, R. (2013) "The Iberian Divergence in Political Inclusion" in Pedro Alcantara da Silva and Filipe Carreira da Silva (eds.). *Ciencias Sociais: Vocacao e Profissao. Homenagem a Manuel Villaverde Cabral*. (Imprensa de Ciencias Sociais)
- Hopkin, J. (2001) 'A "southern model" of electoral mobilisation? Clientelism and electoral politics in Spain', *West European Politics* 24(1): 115–36.
- Jalali, C., Silva, P. and Moreira, D. (2012) 'Party patronage in Portugal: treading in shallow water' in P. Kopecky´ and P. Mair (eds), *Party Patronage and Party Government in European Democracies* , Oxford: Oxford University Press, pp. 294–315.
- Johnston, A., Regan A. 2015. "European Monetary Integration and the Incompatibility of National Varieties of Capitalism" *JCMS: Journal of Common Market Studies* 54 (2), 318-336
- Kitschelt, H. (2013) 'Dataset on the Democratic Accountability and Linkages Project (DALP)', Durham, NC: Duke University, available at <https://web.duke.edu/democracy/index.html> (accessed 20 September 2014).
- Kopecky´, P. and Mair, P. (2012a) 'Conclusion: party patronage in contemporary Europe', in P. Kopecky´, P. Mair and M. Spirova (eds), *Party Patronage and Party Government in European Democracies* , Oxford: Oxford University Press, pp. 358–74.
- Kopecky´, P. and Mair, P. (2012b) 'Party patronage as an organizational resource', in P. Kopecky´, P. Mair and M. Spirova (eds), *Party Patronage and Party Government in European Democracies* , Oxford: Oxford University Press, pp. 3–16.
- IMF (2012), *World Economic Outlook: coping with high debt and sluggish growth*. Washington: International Monetary Fund.
- IMF (2014), *Fiscal policy and income inequality*. IMF Policy Paper (23 January 2014). Washington: International Monetary Fund.

Jenkins S.P., Brandolini A., Micklewright J. & Nolan B. (eds) (2013) *The Great Recession and the Distribution of Household Income*. Oxford: Oxford University Press.

Joumard, I., M. Pisu and D. Bloch (2012), "Less Income Inequality and More Growth – Are They Compatible? Part 3. Income Redistribution via Taxes and Transfers Across OECD Countries", OECD Economics Department Working Papers, No. 926

Leventi C., Navicke J., Rastrigina O., Sutherland H., Ozdemir E. & Ward T. (2013), Nowcasting: estimating developments in the risk of poverty and income distribution in 2012 and 2013. Research Note 1/2013. Social Situation Monitor: European Commission.

Magalhães, P.C. (2012) 'After the bailout: responsibility, policy, and valence in the Portuguese legislative election of June 2011', *South European Society and Politics* 17(2): 309–27.

Matsaganis M. & Leventi C. (2014a) The Distributive Effects of the Crisis and Austerity in Seven EU Countries. ImPROVE WORKING PAPER No. 14/04

Matsaganis M. & Leventi C. (2014b) The distributional impact of austerity and the recession in Southern Europe. *South European Society and Politics* 19 (3) 393-412.

Nolan B. (2009), Background note for roundtable discussion on monitoring the effects of the financial crisis on vulnerable groups. Paris: Organisation for Economic Co-operation and Development.

OECD (2015) *In it together: why less inequality benefits all*. Paris: Organisation for Economic Cooperation and Development.

OECD (2013), How much scope for growth and equity-friendly fiscal consolidation? OECD Economics Department Policy Notes 20. Paris: Organisation for Economic Cooperation and Development.

OECD (2014a), OECD forecasts during and after the financial crisis: a post mortem. OECD Economics Department Policy Notes 23. Paris: Organisation for Economic Cooperation and Development.

OECD (2014b), *Society at a glance 2014: the crisis and its aftermath*. Paris: Organisation for Economic Cooperation and Development.

Paulus A., Sutherland H. & Tsakoglou P. (2010), 'The distributional impact of in-kind public benefits in European countries', *Journal of Policy Analysis and Management* 29 243-266. 34 ImPROVE WORKING PAPER NO. 14/04

Pappas, T. (2009) 'Patrons against partisans: the politics of patronage in mass ideological parties', *Party Politics* 15(3): 315–34.

Pappas, T. (2013) 'Why Greece failed', *Journal of Democracy* 24(2): 31–45.

Perez, S.A.. 2014. "Eurozone Crisis and Social Models: What We Can Learn from Italy and Spain," Open Forum Paper \$20, Minda de Gunzburg Center for European Studies. Harvard University.

Perez, S. A. and Rhodes, M. (2015), "The Evolution and Crises of Social Models in Italy and Spain," in Andrew Martin, (eds.), *European social models from crisis to crisis: Employment and inequality in the era of monetary integration*, (Oxford, UK: Oxford University Press), pp. 177-214

Picos, F.; Díaz de Sarralde, S.; Moreno, A.; Torrejón, L. (2009), "Microsim-IEF Renta y la simulación de reformas fiscales: una aplicación a la reforma del IRPF 2007", in Picos, F. and Díaz de Sarralde, S. (eds.), *Las reformas fiscales bajo el microscopio*, Instituto de Estudios Fiscales, Madrid.

**Pontusson, J. Baccaro, L. 2016. "Rethinking Comparative Political Economy," *Politics and Society* 44 (2)**

Woo J., Bova E., Kinda T. & Zhang Y.S. (2013), *Distributional consequences of fiscal consolidation and the role of fiscal policy: what do the data say?* IMF Working Paper 13/195. Washington: International Monetary Fund.