

The Politics of Fiscal Austerity: Democracies and Hard Choices

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Fiscal Balances OECD (2007-2013)

			2007	2008	2009	2010	2011	2012	2013
United States									
	Actual balance		-2.9	-6.6	-11.6	-10.7	-10.0	-9.3	-8.3
	Underlying balance		-3.8	-6.3	-8.9	-8.5	-7.9	-7.7	-6.8
	Underlying primary balance		-1.8	-4.5	-7.4	-6.8	-6.0	-5.6	-4.5
	Gross financial liabilities		62.1	71.4	85.0	94.2	97.6	103.6	108.5
Japan									
	Actual balance		-2.4	-2.2	-8.7	-7.8	-8.9	-8.9	-9.5
	Underlying balance		-4.4	-4.4	-8.3	-7.7	-8.0	-8.3	-8.6
	Underlying primary balance		-3.7	-3.5	-7.2	-6.6	-6.7	-6.8	-6.7
	Gross financial liabilities		167.0	174.1	194.1	200.0	211.7	219.1	226.8
Euro area									
	Actual balance		-0.7	-2.1	-6.4	-6.3	-4.0	-2.9	-1.9
	Underlying balance		-1.8	-2.8	-4.7	-4.1	-2.8	-1.4	-0.4
	Underlying primary balance		0.9	-0.1	-2.3	-1.7	-0.3	1.3	2.5
	Gross financial liabilities		71.8	77.0	87.6	92.9	95.6	97.9	98.2
OECD									
	Actual balance		-1.3	-3.4	-8.3	-7.7	-6.6	-5.9	-5.1
	Underlying balance		-2.8	-4.3	-6.8	-6.4	-5.7	-5.0	-4.2
	Underlying primary balance		-0.9	-2.5	-5.1	-4.6	-3.8	-2.9	-2.0
	Gross financial liabilities		73.3	79.7	91.4	97.9	101.6	105.7	108.4

Source: OECD Economic Outlook 90 database.

Note: Actual balances and liabilities are in percent of nominal GDP. Underlying balances and underlying primary balances are in percent of potential GDP.

The underlying balances are adjusted for the cycle and for one-offs. The underlying primary balance is the underlying balance excluding the impact of the net debt interest payments

Total OECD actual balance excludes Chile and Mexico.

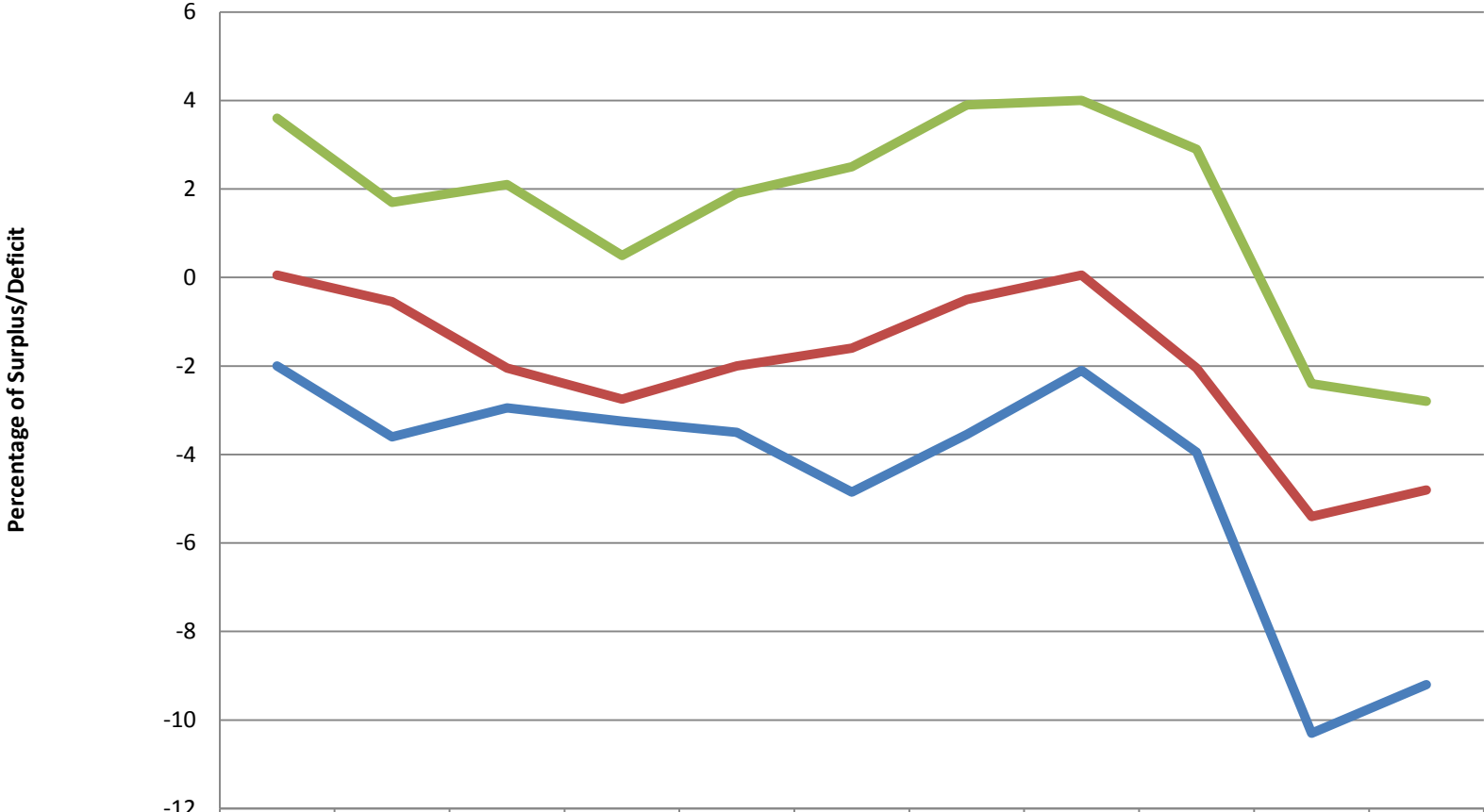
Total OECD underlying balance excludes Chile, Mexico, Slovak Republic and Turkey.

Total OECD underlying primary balance excludes Chile, Mexico, Slovak Republic and Turkey.

Total OECD gross financial liabilities excludes Chile, Mexico, and Turkey.

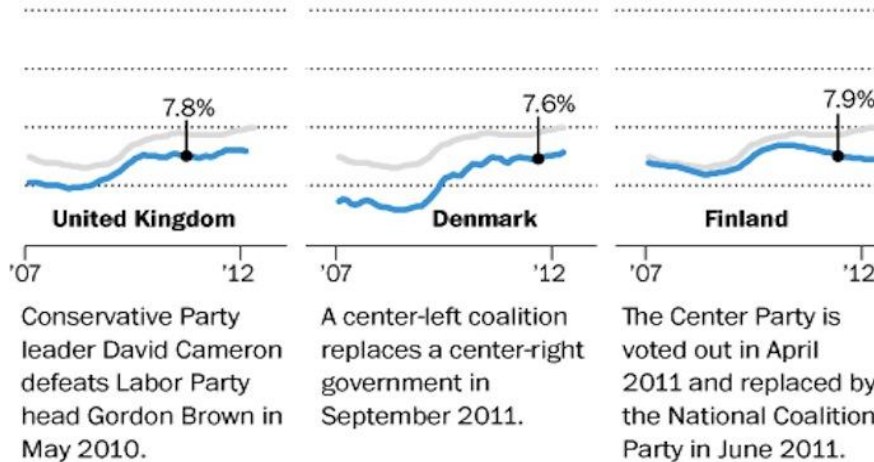
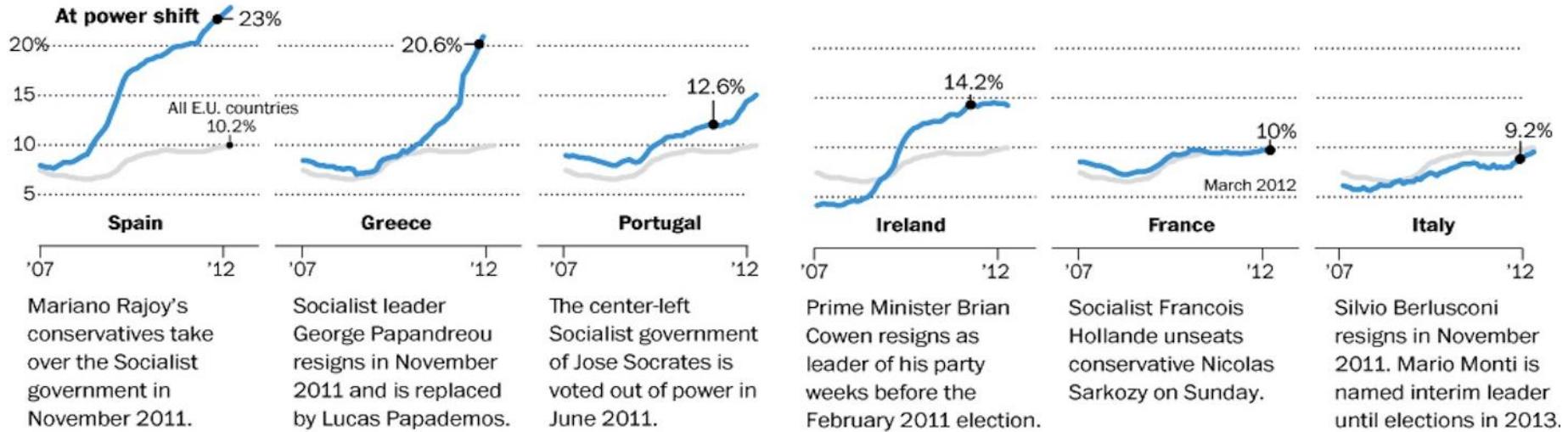
Deficit/Surplus as a Percentage of GDP (2000-2010)

Surplus/Deficit as Percentage of GDP

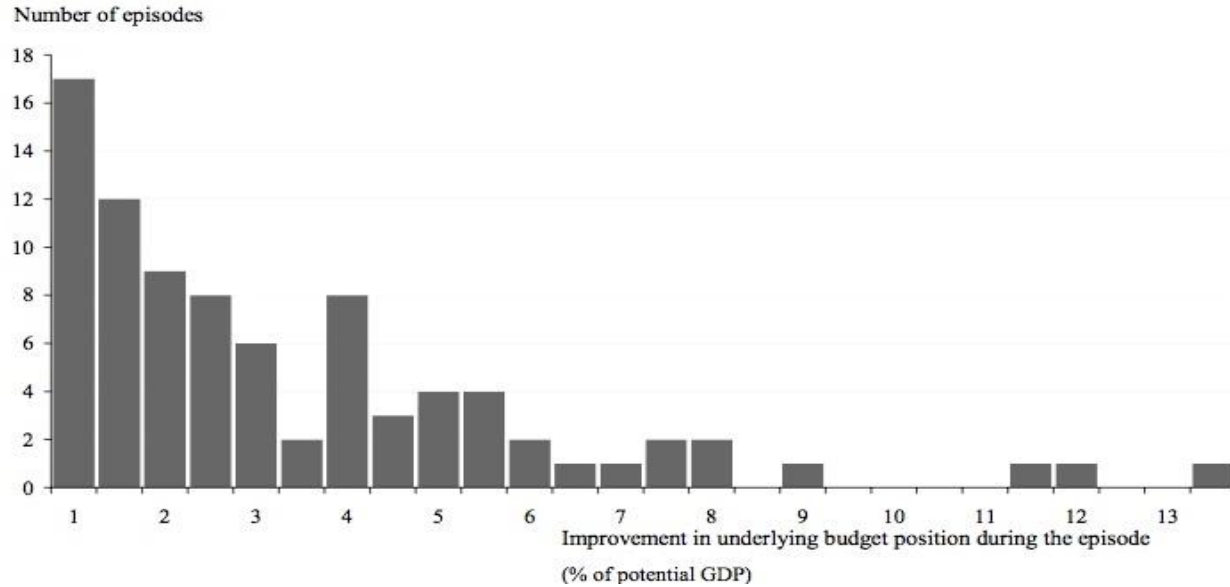


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Median Bailout Nations	-2	-3.6	-2.95	-3.25	-3.5	-4.85	-3.55	-2.1	-3.95	-10.3	-9.2
Median OECD Nations	0.05	-0.55	-2.05	-2.75	-2	-1.6	-0.5	0.05	-2.05	-5.4	-4.8
Median Surplus Nations	3.6	1.7	2.1	0.5	1.9	2.5	3.9	4	2.9	-2.4	-2.8

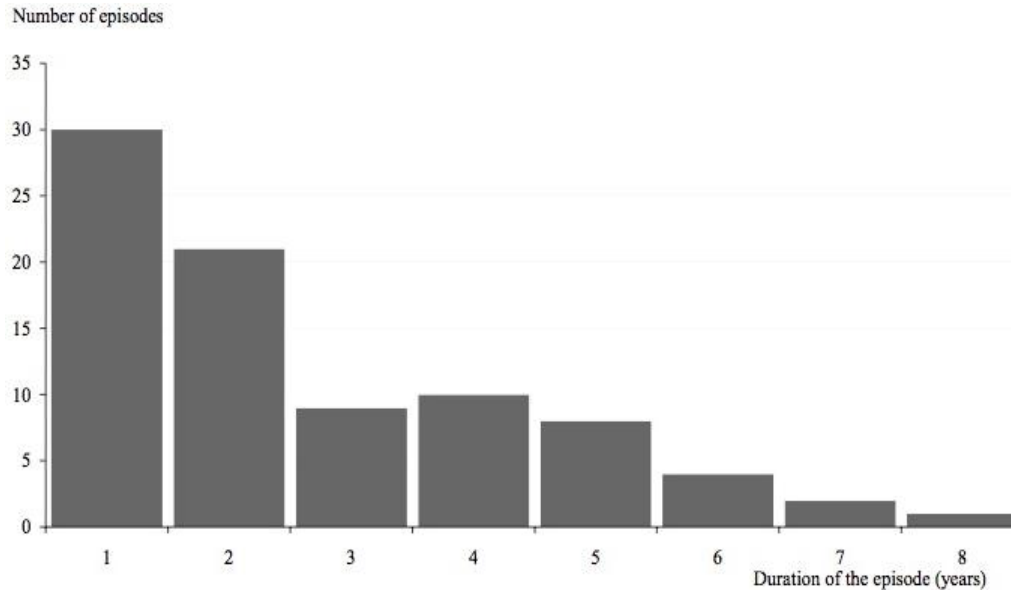
Political Fallout of Nine European Nations



Frequency and Size of Fiscal Consolidations (1978-2007)



Frequency and Duration of Fiscal Consolidations (1978-2007)



Fiscal Swings for Major Consolidations OECD

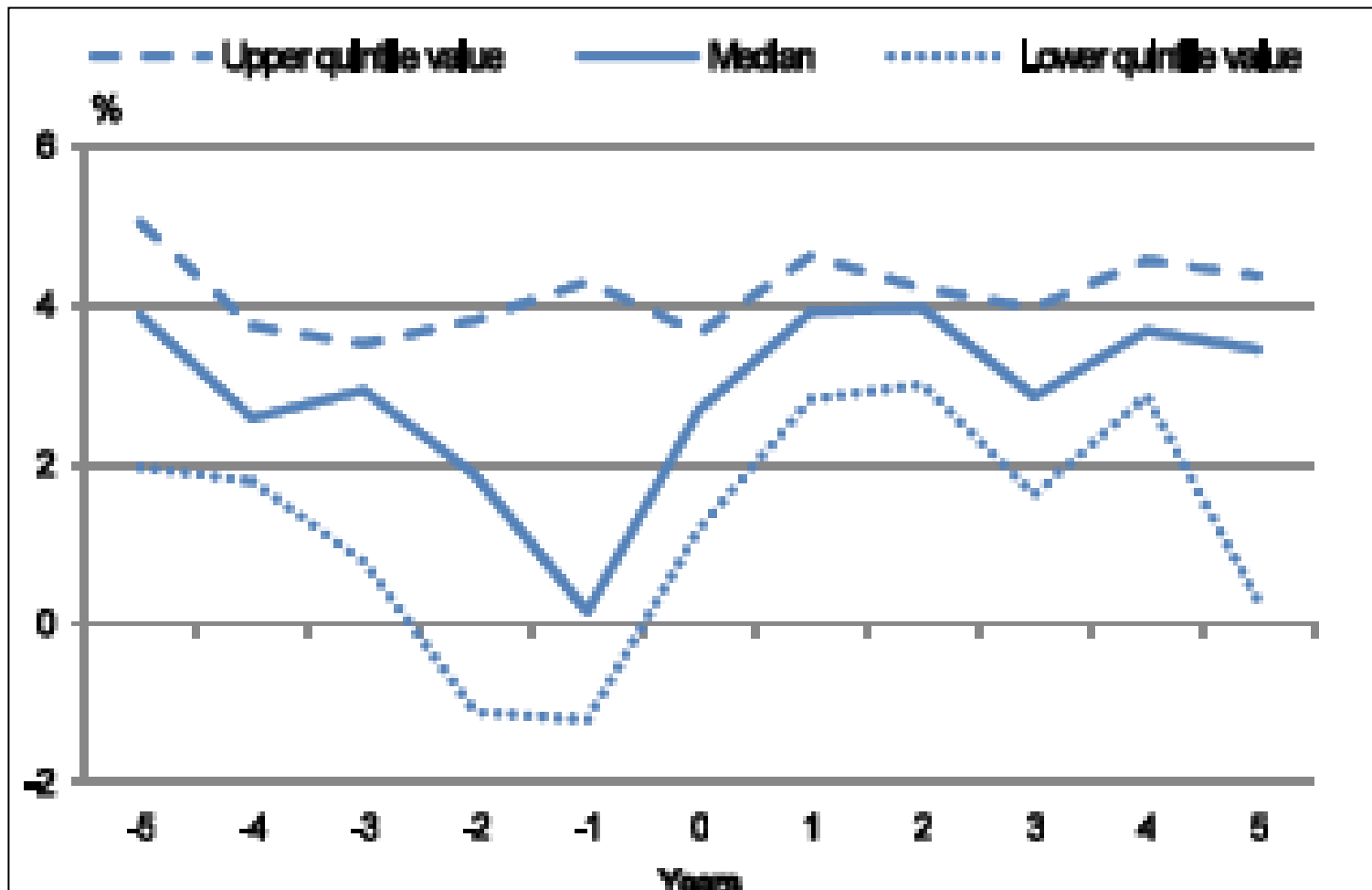
Nation	Period	Fiscal Swing as %GDP
Australia	1992-2000	7.5
Canada	1992-2000	11.1
Finland	1992-2000	12.3
New Zealand	2000-2006	5.9
Sweden	1993-2000	14.9
United Kingdom	1993-2000	11.7
United States	1992-2000	7.4

Fiscal Consolidation Triggers for Case Study Nations

Country:	Triggers		
	Market Crisis	Economic Pressures	Political Blame Avoidance
Canada (1993-97)	1	3	2
Australia (1994-98)	1	2	3
Sweden (1994-97)	3	2	1
United States (1990-98)	1	2	3
New Zealand (1984-93)	3	2	1

1= least important
3 =most important

Economic Growth rates and Consolidation



Political Systems

	Presidential Unified	Presidential Divided	Parliamentary Single Party	Parliamentary Coalition
Australia (1994-98)			X	X
Canada (1993-97)			X	
New Zealand (1984-93)			X	X
Sweden (1994-97)				X
United States (1990-98)	X	X		

Cold Shower vs. Gradual Consolidations

	Type of consolidation		No. of years	Total No. of years	Sample period	
	Cold-shower	Gradual				
BE	1977, 1982, 1984, 1993, 2006	1985, 1986, 1987, 1996, 1997, 1998	5	6	11	1971-2006
BG			-	-	0	2003-2006
CZ	2004		1	-	1	1998-2006
DK	1983, 1984, 1986	2003, 2004, 2005	3	3	6	1971-2006
DE	1982, 1989, 2000	1983, 1984, 1985, 1992, 1993, 1994	3	6	9	1971-2006
EE	2000, 2003		2	-	2	1996-2006
IE	1976, 1983, 1988, 2004	1991, 1992, 1993, 1994	4	4	8	1971-2006
EL	1974, 1982, 1986, 1987, 1991, 1994, 1996, 2005, 2006		9	-	9	1971-2006
ES	1986, 1992, 1996		3	-	3	1971-2006
FR	1996	2004, 2005, 2006	1	3	4	1971-2006
IT	1976, 1982, 1983, 1991, 1992, 1993, 1997		7	-	7	1971-2006
CY	2000, 2004, 2005		3	-	3	1999-2006
LV	1996, 2000	2003, 2004, 2005	2	3	5	1996-2006
LT	1998, 1999		2	-	2	1996-2006
LU	1983, 1985, 1993, 1997	1994, 1995, 1996	4	3	7	1983-1987, 1991-2006
HU	1999, 2003		2	-	2	1998-2006
MT	1999, 2004, 2005	2000, 2001, 2002	3	3	6	1999-2006
NL	1985, 1991, 1993, 1996, 2005	1971, 1972, 1973, 1981, 1982, 1983, 1984	5	7	12	1971-2006
AT	1984, 1996, 1997, 2001		4	-	4	1971-2006
PL	2005		1	-	1	1996-2006
PT	1977, 1982, 1983, 1984, 1986, 1992, 2002, 2006		8	-	8	1971-2006
RO	1997, 1998, 1999		3	-	3	1996-2006
SI	2002		1	-	1	2001-2006
SK	1998, 2001, 2003		3	-	3	1997-2006
FI	1976, 1981, 1984, 1988, 1996, 1998, 2000		7	-	7	1971-2006
SE	1971, 1976, 1983, 1987, 1995, 1996	1980, 1981, 1982, 1984, 1985, 1986, 2003, 2004, 2005	6	9	15	1971-2006
UK	1974, 1980, 1982, 1996, 1997, 1998, 2000		7	-	7	1971-2006
Total			99	47	146	

Imposing Losses: Strategies

- Shared Sacrifice
- Compensation of Losers
- Phasing in Cuts/Backloading
- Broad Sweeping Changes
- Long-term Reforms

Electoral Success of Surplus vs. Deficit Nations

Country	# of times surplus was achieved (2000-2008)	# of times governing party changed (2000-2008)		Election after GFC
		Elections	Change in Government	
Surplus Nations				
Australia	9	3	1	Incumbent won
Canada	6	4	1	Incumbent won
Denmark	8	2	0	Opposition won
Finland	9	2	2	Opposition won
Korea	9	5	3	No election held yet
Luxemburg	8	1	0	Incumbent won
New Zealand	9	3	1	Incumbent won
Norway	9	2	0	Incumbent won
Sweden	7	2	1	Incumbent won
Deficit Nations				
Greece	0	2	1	Incumbent won/lost
Portugal	0	2	0	Opposition won
Spain	3	2	1	Opposition won
Italy	0	2	3	Opposition won
Hungary	0	2	1	Opposition won

Key Questions

- How can nations balance the risks of fiscal action and inaction in the face of the current economic downturn?
- Has the current crisis provided an inflection point that will alter the future of budgeting?
- Can budget offices respond to the current crisis by avoiding the next one?
- How has the current economic crisis changed the kinds of cutback strategies that budget offices can use?
- Is incrementalism incompatible with fiscal consolidation?

Key Questions

- Must budget offices wait for a crisis?
 - Fiscal goals
 - Transparency
 - Endogenous crises
 - Fiscal norms