

Will a hung parliament endanger fiscal consolidation?

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Many commentators fear the detrimental effects of a hung parliament on the speed and depth of fiscal adjustment. Yet an election that fails to deliver a clear majority for a single party need not spell fiscal disaster, says [Joachim Wehner](#) – it all depends on how the resulting government manages the situation.



The argument that minority or coalition governments are less able to respond to economic shocks gained prominence with a paper by Nouriel Roubini and Jeffrey Sachs published in 1989 (see [here](#)). They presented empirical findings that countries with minority or coalition governments ran higher deficits following the 1973 oil crisis. Alberto Alesina and Allan Drazen explained this situation as a 'war of attrition' in which competing interest groups attempt to pass on the pain of adjustment to other groups, creating a stand-off that delays adjustment (see [here](#)). The argument is highly plausible at first sight, but there are strong reasons to doubt the inevitability of such an outcome.

For a start, a string of papers casts doubt on the empirical findings presented in the article by Roubini and Sachs. Some reanalyses find that minority governments, but not coalitions, are associated with higher deficits, others that the type of government makes no difference at all for fiscal performance. In addition, cross-national studies point to an empirical regularity that minority administrations account for about one third of governments in parliamentary systems (see [here](#) for the study by Kaare Strøm). Among the countries with frequent minority governments is Sweden, which is currently touted as the poster boy of fiscal consolidation. Clearly, minority government does not necessarily have to be bad for fiscal performance.

The key is how minority or coalition governments manage the political context, according to a major study by Mark Hallerberg, Rolf Strauch and Jürgen von Hagen (see [here](#)). In Sweden, recent Social Democratic minority administrations ensured a strong role for the finance minister vis-à-vis cabinet colleagues and used co-operation agreements with other parties in the legislature, which ensured broader support for budgetary measures. With coalition governments, one successful strategy is to negotiate 'fiscal contracts' at the time a government is formed. This is common practice in countries such as the Netherlands, where coalition agreements bind the participants to key fiscal policy commitments. In other words, procedural devices can help to ensure that minority governments have majority support in the legislature, or that coalitions with competing interests adhere to overall fiscal targets. Which approach is suitable depends on the precise constellation of power in a [hung parliament](#). Of course, whether these solutions can be adopted in the context of Westminster's adversarial style of politics remains an open question – but it might well be well worth a try.