

# Fiscal responses to the Great Recession: the politics of stimulus and distribution

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## Abstract

Why did governments' (aggregate demand) response to the global financial crisis and subsequent recession vary? What explains differences in who gained and who lost out from these policies? While both 'big' and 'progressive' responses to crisis may be seen as both favored by left parties, and difficult under high-debt conditions, I argue that the fiscal and distributive responses to crisis are both conceptually and empirically distinct. There is no necessary logical association between deficits and pro-poor policy.

The ideological position of incumbent governments should affect the distribution of the fiscal response across economic groups, as politicians seek to benefit their core constituencies. This may have less effect on overall fiscal stance, as stabilisation and a return to growth are key indicators of competence, though left parties are seen as more inclined to expansionary policies. Meanwhile, objective economic conditions in general, and the extant level of debt in particular, should have more effect on governments' capacity to engage in deficit stimulus. I assess the empirical evidence using quantitative cross-national comparisons of both policy choices and economic outcomes in European countries between 2000 and 2012, and find not only that progressivity and fiscal stance are as empirically independent as the theoretical concepts imply; but also that the different drivers of the two policy types— political orientation for distribution, economic capacity for budgetary stance— indeed drive outcomes as hypothesised.

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## Fiscal responses to the Great Recession: the politics of stimulus and distribution

This paper makes two main arguments. First, that budgetary stance and distributive impact are not only conceptually distinct elements of fiscal policy, they are also empirically distinct. That is, not only in theory but also in practice, we observe progressive and regressive fiscal policy with both expansionary and contractionary budget stances; and policies for budget stimulus or consolidation with quite varied distributive impact. Second, political processes matter to these outcomes; and to the distributive outcomes in particular. While economic constraints and state capacity loom larger in dictating the need for consolidation, who bears the burden of this adjustment is a political choice, and one where the partisan orientation of the responsible ministers makes a big difference for outcomes.

Counter-cyclical budgetary stance— the expansion of deficits to stimulate the economy in an economic downturn— is typically associated with the political left, largely based on the idea that the unemployment consequences of downturns affect working class constituencies more badly. Meanwhile, the interest rate and inflationary changes associated with economic stimulus fall more heavily on the traditional constituents of right parties. Equally, government policy has direct effects on the distribution of income through decisions about spending on transfers and services, but also through decisions about who bears the tax costs of government activity. Here, too, the *prima facie* logical expectation would be that political parties try to redistribute towards their typical supporters. However, just because both budgetary policy and progressivity are associated with the same left-right political dimension, they are analytically distinct. It is entirely possible to have regressive stimulus policies, or progressive consolidations. This difference is particularly important in the context of the Great Recession after 2008, when the distributive impact of the downturn was not so obvious. In the context of white-collar insecurity, and middle-class fears about mortgage payments, for example, right parties too had strong electoral reasons to seek a rapid return to growth.

What accounts, then, for variation in the expansionary efforts across countries in the

crisis period? The existing literature on partisanship is generally mixed, but we should expect that governments be constrained in their ability and inclination to borrow by economic constraints. In particular, a high existing debt burden limits the fiscal ‘room to manoeuvre’ in response to the crisis. In contrast, the economic constraints on precisely how revenues are raised are less powerful. Thus in the context of the two aspects of fiscal response to the crisis—stimulus and distribution—the former should be dictated largely by economic factors. The latter, though, should be strongly influenced by the partisanship of the government.

The paper proceeds as follows. In section 1, I outline the conceptual and practical differences between distributive and budgetary stance. Section 2 summarises recent literature on the determinants of both progressivity and budgetary stance, and provides some examples of how the two are conflated in popular and political rhetoric. What existing work indicates is important for fiscal stance is not the same as for progressivity. The following section, 3, both describes the two dependent variables of interest and illustrates their independence in practice. Section 4 presents the main empirical evidence for the argument that political variables matter for distributive orientation, while economic constraints are more important for budgetary stance, while section 5 concludes.

## **1 Fiscal policy choices: austerity versus distribution**

The first point to be examined is that, both in terms of politics and in terms of economics, economic stimulus and progressive fiscal policy are distinct.

In economic and conceptual terms, this difference is relatively straightforward. The [glossary of economics?] defines fiscal expansion or stimulus as [government spending and investment greater than taxation—used countercyclically]. Economic stimulus is definitionally identical to running a cyclical budget deficit. In contrast, progressivity has to do with the relative burdens and benefits imposed by government at different positions in the income distribution. While there is a difference between redistribution and

progressivity as typically construed, for the purposes of this article this distinction is not important, and we can follow Piketty and Saez (2007) in defining the government's stance as progressive to the degree that income inequality after taxes and spending (including, at least conceptually, both indirect taxes and the public provision of goods and services) is lower than the spontaneous distribution of income by the market. <sup>1</sup>.

The analytical difference between stimulus and progressivity is thus quite clear. A couple of concrete examples serve to reinforce this point. In particular, a government which is perfectly balancing its budget (so engaging in neither stimulus nor budget consolidation) can be as progressive (or regressive) as it chooses. For example, raising revenues from a highly progressive income tax, and spending exclusively on generous income support for the poor would be a highly progressive policy, yet would have no effect on the government's budget balance. Conversely a general sales tax spent on matching savings or investments (or subsidising yachts) would be budget neutral but regressive. Indeed, most of the canonical political economy models of optimal taxation and redistribution explicitly assume a balanced budget— that is, no fiscal stimulus Meltzer and Richard (1981), Romer (1975), Saez (2001).

Thus unlike the size of government (a government that raises no taxes at all *is* constrained in the amount of redistribution that it can do), fiscal austerity or stimulus in theory places no constraints on progressivity. The converse is also (mainly) true: a government seeking fiscal expansion can make tax cuts or spending increases targeted to particular segments of the income distribution. This claim should be somewhat tempered, though: some types of tax cut and spending increase may be more effective at stimulating economic activity than others. In the original Keynesian formulation, progressive expansions (tax cuts, or increases in transfers) targeted on the poor are advocated since the poor have a higher marginal propensity to consume out of any additional income. However, more recently, the more common argument (in the context of consolidations) is

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<sup>1</sup>As typically conceived, redistribution and progressivity are distinct since the 'progressivity' of the spending side is usually considered relative to a lump-sum counterfactual, rather than the counterfactual where spending is proportional to original income. Thus a great deal of redistribution can be accomplished by a tax and transfer system that is not 'progressive' (proportional taxes and lump sum spending) since the lump sum distribution is typically much more equal than the original distribution.

that austerity is less harmful to growth if focused on reductions in spending rather than increases in taxation Alesina, Perotti, Giavazzi, and Kollintzas (1995), McDermott and Wescott (1996).

Figure 1 thus illustrates the fiscal policy space graphically. The two independent dimensions comprise budgetary stance and redistributive stance. In principle, therefore, fiscal policy in general, and tax and spending choices in particular, could be located anywhere in this space. Further to the left, policy is more pro-poor; further to the top, more expansionary.

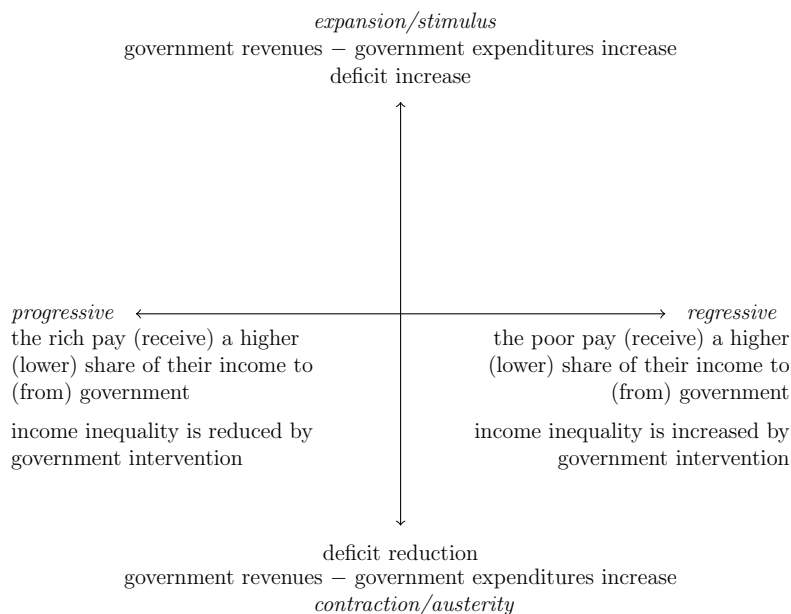


Figure 1: Fiscal policy and distributive impact: conceptual dimensions.

Politically, too, the dimensions are distinct. While both countercyclical demand management— particularly in terms of expansionary responses to recession— and redistributive social policy have been historically associated with parties of the left, they have not been equally emphasised in all times and places. For example, compared to its stance in the 1970s, New Labour’s approach in late 1990s and early 2000s Britain placed much more emphasis on progressivity (albeit ‘redistribution by stealth’) than on explicit Keynesian demand management (**refs**). Equally, the immediate US response to the financial crisis showed generally consensual fiscal expansion to bolster the economy, while political divisions over progressivity still polarised opinion. The (non-)expiry of the Bush tax cuts

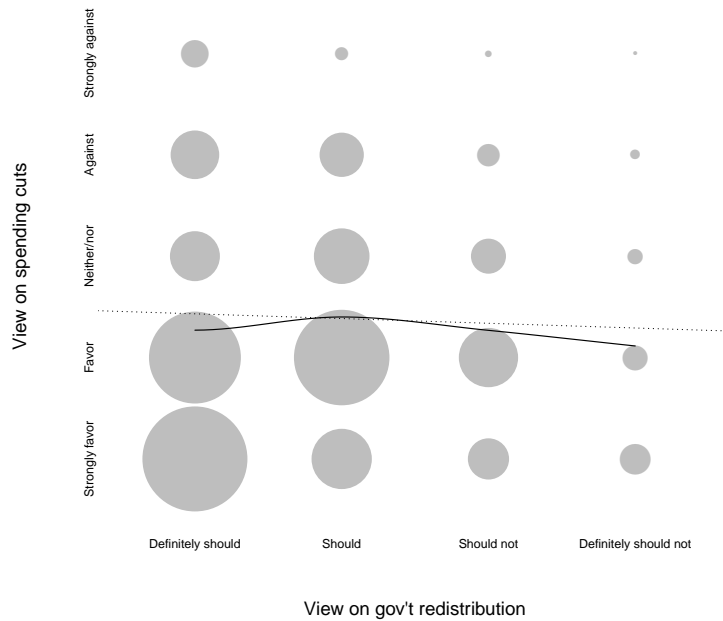


Figure 2: Public preferences over redistribution (progressivity) and spending cuts (one element of fiscal consolidation). The size of the grey circles indicate the share of the population at each possible preference combination. Solid line is loess smooth local regression line, and the dashed line a linear model fit, which yields  $\beta = -0.05$ ,  $p < 0.01$ ,  $R^2 < 0.005$  ( $N = 21975$ ). Source: author’s calculations based on ISSP (2006).

illustrated this directly: while both sides of the debate were concerned with the ‘fiscal cliff’– the sudden contractionary impact of the tax increases– there was no such consensus on any potential redistribution of the tax burden.

Figure 2 illustrates popular preferences on the two dimensions, using data from the International Social Survey Program (2006). Since public attitudes to fiscal expansion or consolidation were not asked about (indeed, they are not common in large attitude surveys), I use attitudes towards spending cuts overall to illustrate budgetary stance preferences. This is not entirely accurate, as many of those who prefer spending cuts may also prefer equal (or greater!) cuts to taxes, expanding rather than contracting the deficit. However, since no explicit mention is made of taxes in this question (spending cuts appear as one among many ‘things the government could do to help the economy’), the contractionary interpretation is made as likely as possible.

With such a large number of respondents (21975), the slightly negative regression line

is in fact statistically significant.<sup>2</sup> Those who oppose government efforts to reduce income differences between rich and poor are more likely to also favour spending cuts. However, the substantive size of this association is surprisingly tiny, given the linkage of the two in political ideology and rhetoric. Further, as the grey circles illustrate, the bulk of the respondents articulate preferences in favour of both budget consolidation (spending cuts) and progressivity (redistribution). Thus, according to popular preference, governments who are tasked with cutting spending should nevertheless adopt pro-poor (or perhaps anti-rich) positions.

Do policies exist to populate all of this theoretical space for fiscal policy? That is, the conceptual distinction between stimulus and progressivity may be of little relevance if all feasible progressive policies are stimulative, and vice versa. In fact this is not the case. In general terms, this is because, particularly on the tax side, revenues can be raised with some degree of targeting across income groups. This is most obviously true via the income tax, but other policies also populate the full space. Figure fig. 1 gives some concrete examples of policies positioned in the two-dimensional space (these are illustrative, and in the correct ‘quadrant’ only, rather than reflecting relative positions within the quadrants). As is also noted in the figure, the difference between progressive and regressive expansions typically reflects a different emphasis on stimulating consumption versus investment.

There are a few limitations to the policy space that arise from the technical and economic realities in which policy is set. First, regressive tax increases can only raise revenues to the point where subsistence concerns of the poor arise. Similarly, progressive taxes will raise more revenue the more concentrated the tax base is among the wealthy. That is, the contribution of taxes to the budget is limited in a direct way by the distribution of income: under very unequal distributions, highly regressive taxes will raise little money, and under more egalitarian ones, progressive taxes cannot make much of a dent in deficits. The revenue-generating capacity of different taxes will also depend on the behavioural elasticities involved, and the administrative capacity of the state. Similarly, the scope for

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<sup>2</sup>The results here are from a linear model: results of ordered logit and ordered probit models are substantively identical but more difficult to display graphically, hence the choice of the linear associations here.

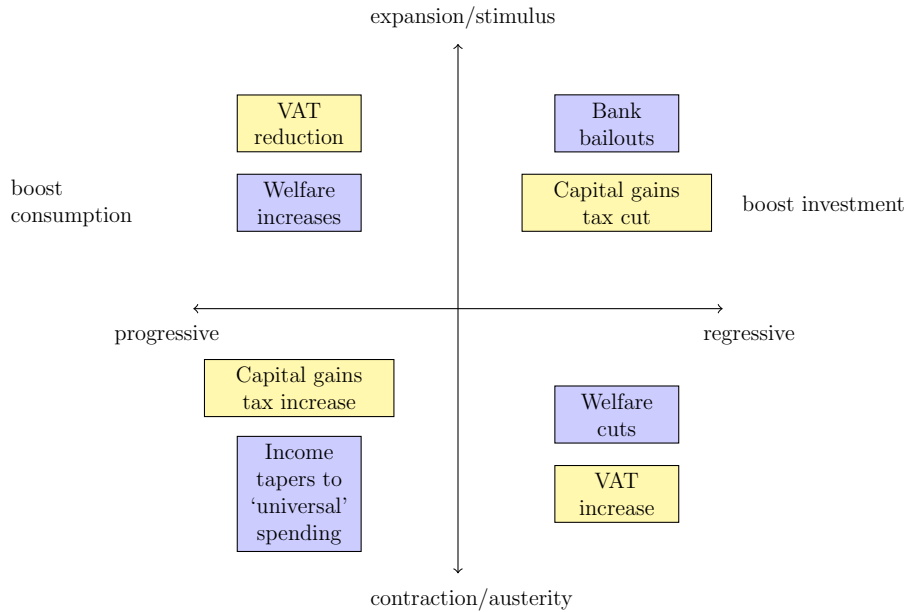


Figure 3: Fiscal policy and distributive impact: policy typology. Yellow boxes reflect tax policies while the blue boxes show spending side decisions.

both spending and tax changes in any direction depends on the status quo ante. In many advanced industrial democracies, the revenues available from progressive, spending side changes may be limited by the absence of spending policies that are consistently targeted on the rich.<sup>3</sup> Other spending programs which may more indirectly benefit the better off, in their role as investors and shareholders, such as reductions in corporate investment and R&D subsidies might be another example.

The distinction between budgetary and redistributive stance is particularly important in understanding the role of politics in the aftermath of the financial crisis. Even if we accept the budgetary imperatives— for expansion in the immediate aftermath of the financial crisis, followed by the subsequent (contested – see Blyth (2013)) need for austerity—the distributive impact of these choices was still less dictated by economic circumstance. On the question of who is prioritised in the expansionary phase, and bears the burden of adjustment under consolidation plans are areas where partisan effects are more likely than in the size of fiscal rescue packages in themselves (Armingeon, 2012)— see section 2.

<sup>3</sup>But, for example, the tapering of Child Benefit at high income levels is an example of such a policy.



## **2 Causes and constraints with two types of policy choice**

The importance of distinguishing issues of fiscal balance from those of distribution is particularly important because, as I will argue below, the two types of policy choice have quite different causes. Specifically, I draw on two major literatures in the political economy of taxation and the welfare state to argue that the partisan orientation of government matters much more for distributive choices, while the fiscal capacity of the state and other economic constraints (in particular, the budgetary room for manoeuvre and monetary autonomy) more strongly influence the fiscal response.

### **2.1 Budgetary Stance**

We can divide the determinants of fiscal stance into two main types: the economic and the political. Though much has been said about the political determinants of budgetary stance, I argue that (particularly in the context of a massive dislocation such as the financial crisis) politics will have little purchase on decisions about whether and how to change the overall orientation of the budget: on the crisis side, either needs demand stimulus or automatic stabilisers create deficits mechanically as growth plummets; and subsequently the accumulated stock of debt, combined with international pressures, necessitate consolidation.

#### **Political Factors**

In the aftermath of the financial crisis, the economic literature on government debt and deficits returned to the public agenda with a vengeance (Dellepiane-Avellaneda, 2014). In politics, though, an older trope emerged with parties of the left demonised as spendthrifts, either responsible for the large deficits emerging after the crisis, or insufficiently committed to budgetary consolidation. Though the specifics of the claims varied with the national

context, rightist election campaigns in the aftermath of the crisis were dominated by the return of the idea that leftist pursuit of public spending would lead to irresponsible fiscal policy. Where the left had been in power, for example, British Conservatives claimed that

“The absence of a credible plan to deal with our record budget deficit, the largest of any major economy, . . . could tip Britain back into recession. . . . [T]he greatest risk to our economic recovery is five more years of Gordon Brown”  
(**ToryManifesto2010** ).

Even where the right had been in power, and issues of debt less pressing, the rhetoric was similar:

“[T]he Social Democrats and Socialist People’s Party will increase public spending, and mortgage our children and grandchildren . . . . The Conservative Party will take responsibility for a healthy economy, ensuring a secure future” (**KFManifesto2011** ).

This notion, traced back to Cowart (1978), formed part of the 1990s conventional wisdom (**HahnKamletMowery1995** ), largely on the basis of Alesina, Cohen, and Roubini (1993) who found that left governments were typically associated with higher deficits. However, the preponderance of the research evidence – even at the time – was inconclusive, or pointed in the direction of right governments running higher deficits.<sup>4</sup> Subsequent analyses (CUSACK, 1999) noted that while right governments tend to run larger deficits in good macroeconomic times, left parties show a greater response (in terms of fiscal stimulus) to unemployment. Moreover, this 1999 study found that partisan differences had been declining over time, a feature attributed to increasing international economic interdependence and thus a lack of policy discretion for governments of all ideological types.

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<sup>4</sup>Cameron (1978), Garrett and Lange (1991) find evidence that left-corporatist countries run lower deficits; while **PersonSvensson** provide a theoretical rationale for the incentives underlying these patterns.

Thus the question, in the context of the financial crisis, is whether the magnitude of the economic shock involved was large enough to cause divergent reactions according to political ideology. Most of the existing research literature suggests that there should be few partisan differences in terms of fiscal stance: the trend over time circa 2000 was that differences across parties were decreasing; and the preponderance of the evidence seems to point to little difference across parties. However, the large employment shocks associated with the Great Recession may have led left parties to be particularly pro-stimulus; and certainly the rhetoric of (rightist) political parties is at odds with the expectation of no difference.

Two other important political variables loom large in the explanation of budget deficits. First, the type of government, and second, the timing of the electoral business cycle. The latter is straightforward, and notes that incumbent governments have an incentive to manipulate the timing of fiscal expansions to engineer booms in the run-up to elections, reaping the necessary consolidation in post-election periods where they are relatively insulated from public pressure (**Nordhaus1975** see Aidt, Veiga, and Veiga (2011) for a recent investigation). However, the magnitude of these ‘political’ business cycles compared to the cyclical effects of the crisis are unlikely to be large. That is, when faced with real macroeconomic problems, there is little latitude for politicians to greatly manipulate the timing of expansions to suit their electoral purposes.

The type of government, and in particular its ‘strength’ (where ‘strong’ governments are typically single-party, majority cabinets of long duration) is a more complicated political variable in terms of fiscal stance. First, there are strong theoretical arguments, as well as empirical evidence, for multiparty governments being prone to higher spending (and possibly higher deficits) due to common-pool problems (Persson, Roland, & Tabellini, 2007; Bawn & Rosenbluth, 2006; Perotti & Kontopoulos, 2002). However, a different theoretical logic of coalition policy-making suggests that a greater number of parties in government would tend to lead to inaction in general, as a larger number of veto players exist to prevent radical policy change (Tsebelis, 2002). Indeed, weak governments have

been found not to run higher deficits in general, but to be less well able to adapt to change and reduce deficits once established (SAKAMOTO, 2001). In the context of the recent crisis, however, this same immobility and lack of capacity for radical change has been shown to limit the degree of fiscal stimulus provided in response to the crisis (Armingeon, 2012). That is, multiparty government may slow adaptation in either direction, either towards or away from fiscal stimulus.

## **Economic Factors**

The second type of explanation for changes in budgetary stance is more mundane, and premised on the idea that governments are relatively constrained by the circumstances in which they find themselves when embarking on fiscal expansion or consolidation. Economic conditions for the raising of tax revenue and the disbursement of benefits implicate economic growth directly in budgetary stance. Further, the existence of outstanding debt may change a government's ability to borrow to finance an increasing deficit. Equally, the infrastructure that makes foreign and domestic financing possible may be differentially developed across countries.

First, there are both automatic and discretionary reasons why bad economic times will result in increasing deficits. In advanced welfare states, outlays on social security programs introduce automatic counter-cyclical stabilisers into the economy, increasing deficits when growth is low. Moreover, even in smaller welfare states – liberal countries more reliant on discretionary spending for stimulus and automatic stabilisers on the expenditure side may be less pronounced – the collection of revenue via taxation gives the overall budget a countercyclical stance. In those European countries, the UK and Ireland, where spending-side automatic stabilisers may be expected to do the least, large revenues from taxes on real estate and financial sector profits and transactions meant that in the context of the financial crisis, a large, countercyclical increase in the deficit emerged automatically on the revenue side. Thus, economic growth rates are likely to play a large role in determining fiscal stance at a given point in the economic cycle.

Second, existing levels of debt are likely to shape governments' willingness, and their capacity, to increase deficits any further. On the side of politicians' desire to run deficits, whether motivated from a 'true' desire for good economic stewardship, or in the face of voters' limited willingness to support high debt levels, where debt is already high, politicians will be unlikely to be as sanguine about borrowing to stimulate the economy. Similarly, the expectation of high future commitments— for example because of the entitlements of ageing populations— may act similarly to constrain borrowing ambitions. Countries with high levels of debt are unlikely to borrow as aggressively in response to the crisis, as there is no remaining 'fiscal space' to use for counter-cyclical stimulus (**BeramendiPrinceton; Armingeon, 2012**). On the other hand, high levels of debt may indicate a governments' high credibility as a borrower, both in the eyes of voters and in the eyes of lenders. If this effect dominates, high-debt countries might be more prone to fiscal stimulus.

Thus in general, economic determinants are likely to highly constrain overall budgetary stance. In particular, the level of growth will have automatic effects. More substantively importantly, existing debt levels are likely to limit fiscal reactions. In contrast, the literature on the political determinants of fiscal stance yields very mixed predictions, and indeed it is difficult to construct logical arguments as to why left governments would prefer high deficits in themselves, despite the rhetoric of rightist politicians. A larger number of parties may change the speed of response to crisis, but again the existing evidence is mixed, thus the expectations to take to the data from the crisis period are weak.

## **2.2 Progressivity and Distribution**

In contrast, arguments about the economic necessity of particular distributive policies are much less compelling than those for fiscal stance; while the logic of political causation is much more obvious.

Given the role of the welfare state is the primary vehicle for redistributive policy, the significance of partisanship in distribution has long-been recognised. The expansion of

social programmes and the ‘decommodification’ of workers has been convincingly linked to the power of the political left in general, and to social democratic government in particular (Korpi, 1983, 2006; John D Stephens, 1979). More recent work focusing on the institutional determinants of redistributive fiscal policy implies the importance of left-party governance through its emphasis on the electoral systems that privilege alliances of the middle- with the working-classes, or the geographic concentration of voters (Iversen & Soskice, 2006, 2009; Rodden, 2006).

While there is an important countervailing literature on the role of employers in the expansion of the welfare state (Swenson, 2002), even this stresses that the effects of the welfare state are not limited to its distributive impact, and thus that employers and the mainstream right may support redistributive policies and institutions despite their distributive effects, because of their importance in securing other desiderata (in particular, wage moderation, skills development and international competitiveness (Katzenstein, 1985; Swenson, 2002; Estevez-Abe, Iversen, & Soskice, 2001)). The interest of the political left in more egalitarian distribution is rarely contested.

However, recent years have raised the question as to whether partisanship still plays the same role in mature welfare states as it did in their development (Huber & John D. Stephens, 2001). In particular, the ‘new politics’ of blame avoidance and path dependency has been argued to lead to different political priorities as entrenched constituencies defend their favored programs from cuts, and changes in distributional profile became possibly only under conditions of invisibility, rather than any particular flavour of partisan government (Hacker & Pierson, 2011).

A large debate on the constraining effects of increasing international economic openness on partisan differences also emerged to question the traditional notion that left parties would do more to redistribute income. However, the general consensus among political scientists engaged in this debate was that politics in general, and partisanship in particular, ‘still matters’ (Swank & Steinmo, 2002; Garrett, 1998; Garrett & Mitchell, 2001; Kwon & Pontusson, 2010; Moller, Huber, Stephens, Bradley, & Nielsen, 2003; Korpi &

Palme, 2003; Swank, 2005).

Moreover, in theoretical terms it is less clear why the maturing of welfare states should have affected the different distributive goals of different parties, rather than the tools used to achieve them. That is, although the expansion of overall government budgets may be constrained in hard times, there is greater latitude for different parties to prioritise spending with particular distributive implications: supporting low waged workers through earned income tax credits compared to supporting homeowners with mortgage interest tax relief, for example. Further, it remains the case that votes are cast according to socio-economic position, and that this is more important when parties differ more along the left-right dimension (Jansen, Evans, & de Graaf, 2013). Income differences specifically became more important for vote choice between the 1950s and 1990s (van der Waal, Achterberg, & Houtman, 2007). Further, these differences are consistent with attitudes towards redistributive policy specifically. A low-income – redistributive preference is logical (Romer, 1975; Meltzer & Richard, 1981); but also widely empirically documented as one important driver of political preferences (Kitschelt & Rehm, 2014). The income gap in preferences over redistribution, while somewhat heterogeneous, is universal (Gelman, Shor, Bafumi, & Park, 2008; Rueda & Stegmuller, 2014).

All of this leads to the expectation that, even in extreme economic situations like those faced in the aftermath of the financial crisis, partisan politics will continue to shape the distributive choices made by politicians. While there is little logical reason for left parties to prefer deficits, there is every reason to expect them to try to target fiscal consolidation efforts away from the poorer groups they represent. Raising more money through progressive taxation to consolidate, or seeking to stimulate via spending increases or tax cuts that disproportionately benefit those with lower incomes should be much more characteristic of left governments than those of the right.

A second type of political variable that could be argued to affect distributive outcomes is the number of parties in government. Multiparty governments tend to have more rightist finance ministers (overseeing taxation) and more leftist ministers in charge of spending

departments. Thus though the overall distributive goals of a coalition may still reflect its partisan make-up, outcomes in terms of tax policy may be more regressive than expected, compensated for by the structure of spending. This logic should lead to a negative effect of multiparty government on progressivity as measured here, since I focus on tax outcomes. This also links to a broader debate about the paradoxical appearance of ‘redistribution within one class’, whereby highly redistributive governments tend to rely on (regressive) taxes on labour and consumption, allowing capital to bear a light burden (Cusack & Beramendi, 2006; Beramendi & Rueda, 2007; Kato, 2003; Ganghof, 2006). The need to assuage capital, and finance progressive welfare states without resorting to progressive taxation, is a potential counter-argument to the partisan logic outlined above, which should be borne in mind given the focus of the analysis on tax outcomes. Specifically, it makes the analysis of tax progressivity a ‘hard test’ for the claim that left governments should adopt a distributive stance more favourable to the poor.

### **2.2.1 Economic determinants**

Government borrowing has been less widely examined as a determinant of governments’ distributive stance. Altig and Davis (1989) consider formal models of the interaction between intergenerational transfers (via debt) and redistributive transfers, but with a view to establishing the response of savings under various behavioural assumptions, rather than to directly consider how debts affect policy outcomes. Alesina and Tabellini (1990) consider debt as a way to limit future (different) governments’ spending on policies not preferred by the current incumbent, but this has more direct implications for the size of spending than its distributive structure. Thus the existing literature gives us little reason to believe that high debts should limit progressivity.

However, there are some indirect indications that this should be the case. First, the composition of consolidation efforts– in terms of taxes versus spending– has been argued to determine their success. Specifically, spending cuts have been advocated as a preferable method of consolidation as opposed to tax increases (McDermott & Wescott, 1996). If



(as is typical) spending is more pro-poor than taxation, then this will have distributive implications. However, this is not entirely straightforward: major government spending cuts in reducing public sector wages may have a progressive effect; and spending policies do not benefit the poor alone, thus consolidations within them can be targeted with distortion in mind. The example given in fig. 3 of income tapers for universal benefits is a real one, adopted by the UK government in removing child benefit payments for families with high incomes. Moreover, there is no evidence that on the tax side, progressive increases should be less effective than regressive ones in terms of fiscal consolidation.

The economic determinants more likely to affect progressivity outcomes are those argued to limit the degree of partisan influence, in particular the degree of capital (and arguably, high-income labour) mobility from a country. The strongest case for globalisation-induced limits to redistributive policy has been made with regard to progressive taxation (Beramendi & Rueda, 2007; Swank & Steinmo, 2002). These constraints are discussed further in section 4.1 below.

However, these economic constraints are less obviously heightened by the financial crisis and its aftermath. The problem of debt does not so obviously constrain distribution as it does fiscal stance, while different political ideologies and supporters— and thus partisan orientations— are likely to drive governments in different directions, and also to have some room for manoeuvre.

### **3 Austerity and distribution in advanced industrial countries**

In order to expand the scope of the empirical investigation, I focus on policy outcomes rather than the policy choices that are slightly closer to the theoretical conceptualisation. This is primarily due to a lack of comparable quantitative data on policy changes. That is, it is not possible to investigate the decision-making processes, the content of legislative

debates and their resulting policy changes, in quantitative, cross-national, form. Thus the resort to economic outcomes as measures of policy choice is inevitable as a first analysis. I focus on deficits as a share of GDP, and a measure of progressivity derived from different types of taxes paid by individuals.

The obvious limitation of this shift is that many factors other than political intent drive these outcomes. In particular, the workings of the economy intervene between legislative decisions and the macro-economic outcomes observed. For example, the stubborn persistence of the budget deficit in the UK under George Osborne's austerity program has more to do with the slow return of economic growth than a lack of consolidation effort. Nevertheless, the macroeconomic data are a widely available indicator that should be affected by policy change. This conceptualisation, too, points clearly towards the use of *changes* in these outcomes as the appropriate kind of measure for these outcome variables, as the levels are affected by long historical processes as well as the immediate policy decisions.

Again, while measuring fiscal stance is relatively straightforward, the progressivity of a government's policy orientation is more difficult to capture. I use two measures at the macro-comparative level, one which directly addresses the progressivity of taxation within labour taxes, and the other which measures progressivity more broadly as a function of the tax mix. This second measure is based on the importance of sales taxes in the total tax burden, as these are recognised as the best macro-indicator of overall tax-system stance (Prasad & Deng, 2009). Specifically, I take the ratio of the implicit tax rate on consumption to the total tax rate in GDP, and take its negative so that the measure is one of progressivity rather than regressivity. In principle this measure thus runs from 0 to  $-\infty$ , with values greater than  $-1$  indicating that consumption is relatively less highly taxed than the economy as a whole, and values below  $-1$  the converse (the average value is just on the regressive side of this balance, at  $-1.04$ ).

I supplement this measure with data from the OECD which uses the difference between taxes paid by a relatively high earning household to those paid by a relatively low-earning

household. Using the Taxing Wages database, I can contrast the average (income) tax rate paid by a household at 67 per cent of average earnings with one at 167 per cent.<sup>5</sup>

Figures figs. 4 and 5 illustrate the absence of a general relationship between fiscal stance and progressivity for a broad set of countries. The first uses the OECD progressivity measure, allowing for the inclusion of a larger set of countries. Figure 5 uses the EC progressivity measures – only including European countries. In both cases, though, it is clear that progressive country-years appear across the spectrum of fiscal stimulus versus austerity, and vice versa.

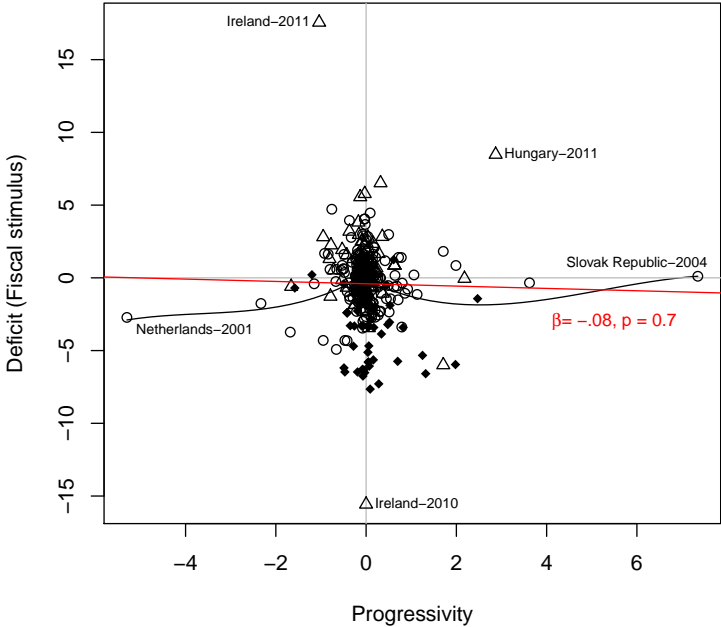


Figure 4: The relationship between changes to stimulus and progressivity in advanced industrial countries, 2000-2012. Stimulus is measured as the deficit as a share of GDP. Progressivity here is given by the difference in average income taxes paid by a household with a single worker earning 67% of average wages and a two earner household with earnings at 167% of average wages (one earner at 100%, one at 67%). Source: OECD.

The figures contain summaries of the bivariate regression of stimulus on progressivity (run in that direction to reflect the orientation of the figures, rather than any causal direction). In both cases, the relationship between the two variables is small, as it was in

<sup>5</sup>In what follows, I compare a household with a single earner at 67% to a household in which one earner makes 100% of the average wage, and the second makes 67% of the average wage. Results using a single earner at 167% of the average wage look very similar. Throughout I compare only households without children, to better separate issues of ‘vertical’ distribution from family policy concerns.

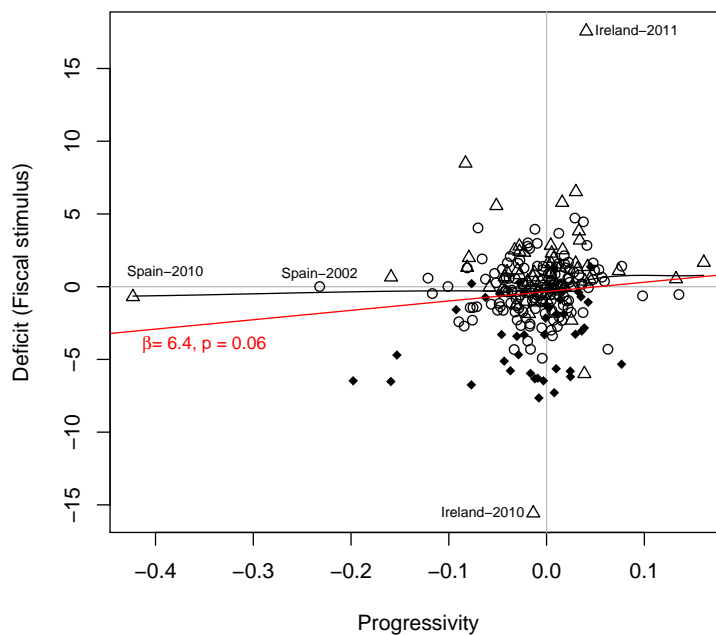


Figure 5: The relationship between changes to stimulus and progressivity in European countries, 2000-2012. Stimulus is measured as the deficit as a share of GDP. Progressivity is given by (minus) the implicit tax rate on consumption divided by total tax revenues in GDP. Source: Eurostat.

the UK-France data. For the OECD measure, the association between progressivity and stimulus may be marginally negative, and close to zero. In the EC data, there is a nearly-significant positive association, but as the figure makes quite clear, this is substantively small. The  $\beta$  coefficient of 6.4 reflects this. The one point change in progressivity reflected in the  $\beta$  coefficient is greater than the range observed in the data: over the full range of about 0.6, the corresponding change in stimulus would be 3.8 points, which is one fourteenth of the observed range of outcomes on that measure.<sup>6</sup> Thus while perhaps statistically significant, the substantive relationship between progressivity and stimulus in the raw data is negligible.

It is worth highlighting the importance of these bivariate results here. In particular, they are important in the context of the argument that there is little necessary relationship between the two in a way which they would not be were we interested in a specific causal relationship running from stimulus to progressivity (or vice versa). Rather, the

<sup>6</sup>Excluding the Ireland 2010 outlying observation.

major arguments that link the two typically do so either inadvertently, or see both fiscal expansion and progressive distribution as the consequence of the same set of underlying variable (such as left government and high capacity). To the extent that all the factors leading to expansion ought also to lead to progressivity, these bivariate associations would be entirely appropriate as an end point to the analysis, and not just the beginning. It is unlikely that this be the case— certain factors will confound this relationship by pushing distribution in one direction and fiscal balance in the other— but given the lack of differentiation between the two, so far, more rigorous attention to what kinds of factors these might be is necessary (and pursued in section 4). In its absence, the simplicity of the bivariate results does not speak against their importance.

It is also interesting to note that in the European data, the preponderance of observations in the south-west regressive-consolidation quadrant are observations from the crisis period (2008 and 2009), denoted by the diamonds.

## **4 Determinants of distributive and budgetary stance**

Having illustrated the absence of a straightforward relationship between fiscal and distributive outcomes, despite the ‘conventional wisdom’ association of both deficits and progressivity with parties of the left, this section investigates the claims made in section 2 in detail. That is, do different factors drive these two types of outcomes? I examine the relationships between the theoretically important variables and each of the two types of outcome.

For mundane reasons of easy data availability, but also more principled concerns about concept-stretching, particularly of the notion of the political and economic left and right, the main analyses below use only data from European parliamentary democracies.

First, I consider the two primary determinants outlined in section 2, the partisan orientation of government and the economic constraints embodied in existing debt levels. I

have argued that the former should affect the progressivity of the tax system, but have little effect on fiscal stance, while the latter should show the reverse. The data for the cabinet center of gravity come from the ParlGov database (**ParlGov**). Higher values on this measure indicate a more right wing stance, thus we would anticipate a negative coefficient on this variable, as regards progressivity. I measure debt using general government debt as a share of GDP. Since a larger deficit enters into the dataset with a (larger) negative sign, a constraining impact of debt on fiscal stimulus would be indicated by a positive coefficient. The debt data (and other economic data unless otherwise specified) come from the **OECDStat**

Table 1: Determinants of progressivity and fiscal stance: cabinet ideology and debt

DV:	Model 1 $\Delta$ Prog.	Model 2 $\Delta$ Deficit	Model 3 $\Delta$ Prog.	Model 4 $\Delta$ Deficit
Cabinet centre of gravity	-0.09* (0.04)	2.12 (2.05)		
General government debt			-0.00 (0.00)	0.04* (0.02)
Country effects	<i>Fixed</i>	<i>Fixed</i>	<i>Fixed</i>	<i>Fixed</i>
Year effects	<i>Fixed</i>	<i>Fixed</i>	<i>Fixed</i>	<i>Fixed</i>
$N$	155	142	141	141
$R^2$	0.23	0.44	0.24	0.46
adj. $R^2$	0.09	0.33	0.09	0.35
Resid. sd	0.06	2.55	0.06	2.52

Standard errors in parentheses

\* indicates significance at  $p < 0.05$

Table 1 thus regresses the change in the two outcomes of interest on each of these determinants in turn. The models also include fixed effects for both country and year, to capture unobserved heterogeneity along those dimensions.<sup>7</sup> These simple models are clearly consistent with the theoretical predictions. More rightist cabinets adopt less progressive changes to taxation (Model 1), but the centre of gravity of the government has no significant impact on the movement of the deficit. That is, there is no evidence that left governments are more likely to run deficits, in accordance with my theoretical prediction

<sup>7</sup>I expand the analyses to include time-varying, country-specific confounders, below. As noted above, the theoretical outcomes of interest mean that all the outcome variables are measured in changes; once these first-differences have been taken conventional tests do not indicate the presence of serial autocorrelation.

but in contrast to claims made by many (right wing?) politicians. On the other hand, changes to the deficit do seem to be constrained by high levels of existing government debt (Model 4). Where debt is already high, there does seem to be less capacity (or desire) for fiscal stimulus. Again, though, note the absence of any effect of debt levels on progressivity. This is consistent with the basic economic reality that taxes can be raised from anywhere in the income distribution, regardless of the debt position of the country.

The results shown in table 1 are essentially unchanged if cabinet position and government debt are entered simultaneously in the regressions, though a tiny increase in the standard error relative to effect estimate means that the effect of debt on the change in the deficit is significant only at  $p = 0.054$ , instead of 0.03 as shown.

The second question to ask of this simple data is whether these relationships have been constant over time, or whether the onset of the financial crisis, and/or subsequent push towards austerity changed them. This is the subject of table 2, which includes interactions of the two variables with period dummies for the crisis period (2008-2009), and austerity period (2010 onward), as compared to the pre-2008 baseline. Thus the coefficients on the two substantive variables in the first two rows of the table indicate the effects in the pre-crisis period, and the period interactions indicate the deviation of the subsequent relationship from that level. The first-order effects of the periods are subsumed within the year fixed effects and thus not reported.

The table indicates that the effect of partisanship on progressivity is evident in the pre-crisis period, and indeed is estimated to be larger here than in the full sample (compare to Model 1). This is likely because of the smaller impact of partisanship in the crisis period (the coefficient on the interaction, 0.17, almost offsets the main effect), but this difference itself is not statistically significant. Nor does there appear to be any difference in the relationship in the post 2010 period of austerity. That is, even in times of austerity, the partisan composition of government still matters to distributional outcomes, with left governments overseeing more progressive changes.

The positive impact of debt on the deficit comes from the crisis period itself, rather

Table 2: Cabinet ideology and debt: relationships with fiscal outcomes over time

DV:	Model 5 $\Delta$ Progressivity	Model 6 $\Delta$ Deficit
Cabinet centre of gravity (CCOG)	-0.18** (0.07)	-1.37 (2.97)
General gov't debt	-0.00 (0.00)	0.03 (0.03)
Crisis $\times$ CCOG	0.17 (0.12)	7.46 (5.42)
Crisis $\times$ debt	0.00* (0.00)	0.05 <sup>†</sup> (0.03)
Austerity $\times$ CCOG	-0.04 (0.10)	-0.17 (4.49)
Austerity $\times$ debt	0.00 <sup>†</sup> (0.00)	0.02 (0.02)
Country effects	<i>Fixed</i>	<i>Fixed</i>
Year effects	<i>Fixed</i>	<i>Fixed</i>
$N$	141	141
$R^2$	0.33	0.48
adj. $R^2$	0.17	0.35
Resid. sd	0.06	2.53

Standard errors in parentheses

<sup>†</sup> significant at  $p < .10$ ; \* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$

than the pre-2008 or austerity phases, as indicated by the (borderline significant) positive coefficient on the crisis-debt interaction. This is consistent with previous arguments about the necessary fiscal space and capacity for countercyclical crisis responses (**Beramendi**; Armingeon, 2012). There is also some evidence (from the period-debt interactions in Model 5) that countries with higher debt levels pursued marginally more progressive policies in response to the crisis— in both the crisis and austerity periods. This undermines arguments of economic necessity linking high debt levels with high burdens of adjustment on the poor.

#### 4.1 Control variables/confounders

While accounting for shared pressures each year, and constant differences between countries, the analyses above take no account of factors that may change over time within



countries and confound the analysis. Considering the two outcomes suggests a number of such factors which should be included in the analysis of at least one of the outcomes:

- *Economic growth.* The level of economic activity will tend to boost revenues and reduce expenditures regardless of a government's preferred fiscal stance (as highlighted by the experience of Osborne in the UK alluded to above). As growth increases, deficits should automatically decrease.

As far as distributive stance goes, there may also be some counter-cyclicality in the progressivity of government activity, particularly given the role of automatic transfer payments to the poor. However, it is less clear that this effect of growth will be reflected on the tax side of the government's budget. That is, while overall tax revenues may decrease with slower growth, it is less obvious that the implicit tax rate on consumption should fall relative to the tax burden.

- *Policy coordination/diffusion.* for our purposes here it does not matter so much what the mechanism is, but whether by coordination or diffusion, both progressive policies and fiscal expansions are likely to be more successful to the extent that they are also reflected in other countries' policy stances. I calculate the lagged average of the dependent variables for all other countries.
- *Elderly share of the population.* A large elderly share in the population is likely to make regressive taxes more politically difficult, particularly those that rely on taxing consumption to the exclusion of income. This is because such taxes, as well as falling disproportionately on the poor, are borne by the elderly without relief, while many income tax structures at least partially exempt pension incomes. Since the elderly also tend to vote at high rates, the larger their share in the population, the greater the share of revenues expected to be raised from taxing labour income. In terms of stimulus, too, a large elderly population increases fiscal pressures as more resources are needed to devote to pensions and healthcare. Thus the elderly share in the population should decrease the fiscal response to the crisis: though overall debt levels may be higher, they should be less responsive.

I include the elderly dependency ratio– the share of the population over 65 to that between 15 and 64– to capture these dynamics.

- *Financial openness.* The level of financial development and international financial openness has double-edged implications for deficit stimulus. The conventional logic of open economy macroeconomics would lead to the expectation that more open economies should be less prone to fiscal stimulus in response to the crisis, as greater international openness should lead to automatic nominal (interest rate) adjustments and the outflow of capital, and thus less effective expansion – smaller fiscal multipliers. Recent empirical work has demonstrated that the output multiplier on fiscal stimulus is lower, the more open is the economy (Ilzetzki, Mendoza, & Vfffdfffdgh, 2013). Thus in general terms, greater international openness should reduce the incentives to engage in expansionary fiscal policy. Part of this effect may run through openness to trade (if increased consumption leads to greater imports), but the mechanism of changing interest rates and the resulting movement of capital seems to have been more salient in the wake of the financial crisis.

Financial openness has also been argued to undermine capacity for progressive taxation, at least without major structural innovations (e.g. dual income taxes such as in Denmark). Greater financial openness leads to more difficulty in levying progressive taxes, both because of direct limitations on the taxation of capital income and corporate profits, but also because tax rates on (highly paid) labour cannot diverge too far from capital income taxes without severe distortions of behaviour– for example in the (non-)incorporation choices of small businesses, or the reporting of entrepreneurial income as capital rather than labour income (Ganghof, 2006).

Openness is measured as total foreign financial assets plus total foreign liabilities (in absolute values). The data are taken from the widely used ‘external wealth of nations’ database (Lane & Milesi-Ferretti, 2007).

- *Time to next election.* Based on the large literature on electoral business cycles, the timing of elections should particularly matter for fiscal stance (**refs**). Specifically,

fiscal expansions would be expected in the run-up to elections, as incumbent politicians use deficits to boost demand; while consolidation efforts will have the smallest political costs (in re-election terms) if embarked upon immediately after elections. This leads to the expectation of a negative impact of the time to the election on the absolute size of the deficit, or a positive sign on the coefficients below (since deficits are negative balances).

- *Monetary stance.* Finally, the monetary stance of the government may be important to fiscal policy choices. This will be particularly true for fiscal stimulus, where monetary expansion may act as a substitute for fiscal action. Thus, the more accommodating the monetary stance, the less need for deficit stimulus. In terms of progressivity, the implications are less clear, largely because the distributional impact of monetary policy is only poorly understood.
- *Eurozone membership.* Given the countries and time-frame in question, any first-order impact of Eurozone membership on either fiscal stance or progressivity will be subsumed in the country fixed effects, as this does not vary over time within countries. However, I also allow for differential effects of both debt and monetary policy stance on fiscal stance depending on whether a country is a member of the eurozone or not, by including their interaction. There is no logical reason why these interactions should be included in the progressivity regressions, however.

Table 3 presents the results of linear models including these control variables. Models 7 and 8 add only the economic growth measure and that for policy diffusion in each case. Model 9 includes the dependency ratio and financial openness as determinants of progressivity, as these are the only two logically related. Model 10 includes the larger set of economic variables likely to influence choices over deficits, as well as the cabinet centre of gravity.

The first thing to notice in table 3 is the importance of international diffusion processes. Comparing models 7 and 8 with models 1 and 4, we see that other countries' fiscal policy

Table 3: Fiscal and distributive stance: time-varying national controls

DV:	Model 7 $\Delta$ Prog.	Model 8 $\Delta$ Deficit	Model 9 $\Delta$ Prog.	Model 10 $\Delta$ Deficit
Cabinet centre of gravity	-0.14** (0.05)		-0.08† (0.04)	0.21 (2.08)
General gov't debt		0.01 (0.01)		0.12* (0.05)
Economic growth	0.00 (0.00)	0.12 (0.12)		0.30† (0.16)
Dependency ratio			0.01 (0.01)	0.17 (0.33)
Openness			0.00 (0.00)	-0.03 (0.61)
Time to election				-0.14 (0.14)
Monetary stance				-0.40** (0.14)
Debt $\times$ eurozone (EZ)				-0.10 (0.06)
Monetary stance $\times$ EZ				-0.13*** (0.03)
Others' progressivity	4.04* (1.62)		8.68*** (1.48)	
Others' deficits		6.20** (2.02)		12.63*** (2.99)
Country effects	<i>Fixed</i>	<i>Fixed</i>	<i>Fixed</i>	<i>Fixed</i>
Year effects	<i>Fixed</i>	<i>Fixed</i>	<i>Fixed</i>	<i>Fixed</i>
$N$	131	130	130	89
$R^2$	0.32	0.71	0.42	0.80
adj. $R^2$	0.17	0.65	0.28	0.70
Resid. sd	0.06	1.37	0.05	1.26

Standard errors in parentheses

† significant at  $p < .10$ ; \* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$ 

choices appear to matter a great deal (with positive associations for both variables— that is, when and where others are more progressive, policy is more likely to shift in that direction; for deficits, the implications are reversed: large deficits in other countries constrain fiscal expansions). Not only that, but once we take other countries' deficits into account, the impact of general government debt on economic stimulus disappears. This is somewhat counterintuitive, since larger deficits elsewhere would seem to normalise expansions, and also to make them more effective in terms of the absence of spill-overs out of the national context. However, it may be that high deficits in some countries allow for (particularly

export oriented countries) to 'free ride' on the fiscal efforts of others (Iversen & Soskice, 2012). As such the positive coefficient reflects a substitution effect: other countries' deficits may act as domestic stimulus.

Second, the impact of the government's partisan orientation remains relatively consistent across the specifications for progressivity, albeit falling in size somewhat in model 9. In particular, accounting for diffusion processes makes the impact marginally larger. Importantly, too, none of the economic variables investigated – debt, openness, or the dependency ratio– appear to have any significant impact on the progressivity of taxation. That is, there is no evidence here that politicians are effectively constrained by these structural factors. It may be that the economic logic by which these are thought to function are in operation, but that politicians are willing to pay the consequences (such as capital flight); or it may be that these dynamics are less important than suspected, particularly for many decision-makers whose choices are infra-marginal.

The size of the effect of government ideology is also not trivial. Even using the smaller  $-0.08$  estimate from model 9, a one-point shift in ideology corresponds to more than a one standard deviation shift in the change in progressivity. This one point shift is smaller than the difference between Angela Merkel's 2005 (with the SPD) and 2009 (with the FDP) governments; an ideological shift such as from Fillon III (2010) to Ayrault I (2012) in France, or Brown to Cameron in the UK corresponds to an change in the cabinet center of gravity of 4.4 in the former case, or 2.5 in the latter. The Brown-Cameron ideological difference, then, would mean a difference of 0.2 in the annual change in progressivity. Considering the construction of the progressivity variable, this is the difference between an implicit tax rate on consumption of 18% and one of 23%, assuming the overall rate of taxation in the economy remained constant (at 26.3%) throughout.<sup>8</sup>

Finally, the constraining role of government debt reappears once we account for the other economic factors linked to deficits. For every percentage point increase in debt as a share of GDP, the change in the deficit is expected to be 0.12 points higher. Given the

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<sup>8</sup>These values– 18% and 26.3%– are the observed values for the UK in 2010.

relative scales that the two variables are measured on, this means that a one standard deviation change in debt leads to almost two standard deviations (1.90) relative consolidation of the budget. Although this baseline effect is estimated for non-eurozone countries, the interaction effect itself is not significant, indicating that there is no significant difference in the effect within the eurozone. However, the point estimate on the interaction is large (almost the same size as the baseline coefficient) and negative; thus it may be that debt loses its constraining influence on deficits within the eurozone and we lack the statistical power to discern the different relationships.

In contrast, political variables seem to bear little relationship to fiscal stance. Neither government ideology nor the time to the next election appear to affect deficits significantly— although it should be borne in mind that the point of these specifications is to reveal the effect of debts, not to test the impact of all the control variables. Similarly, financial openness, the dependency ratio, have little effect.

The other economic variables do appear significantly related to fiscal stance. Once we include the other time-varying controls, economic growth appears to have its expected effect, increasing consolidation. Looser monetary policy goes hand in hand with larger (more negative) deficits, both outside the Eurozone (the  $-0.40$  coefficient) and even more so within it. This suggests, in the context of the crisis, that monetary policy was not so much a substitute for fiscal expansion but rather a complement: in those places and times where the need was greatest, governments tended to use all the tools at their disposal, rather than rely on just one. In the eurozone this is particularly interesting since the monetary stance was more an exogenous feature than policy choice, but the fiscal policy reaction to more accommodating monetary policy was one of expansion (and vice versa).

In terms of the general lessons, though, the distinction between the influence of party political positions on issues of distribution and economic necessities on the overall fiscal stance of governments remains clear even when incorporating further time-varying, theoretically relevant country characteristics.

## 5 Conclusions

In conclusion, then, there is good evidence not only that the budgetary and distributive stance of governments are two quite distinct aspects of economic policy, but also that they are quite different in terms of their susceptibility to political action. This is important for theoretical, but also practical political reasons.

First, despite the convulsions of the political economy wrought by the 2008 financial crisis, there are important elements of economic policy which remain ‘business as usual’ in terms of partisan theory. Even in the hard case of tax progressivity, even in times of severe concern about capital and capital flight, parties further to the left adopt more progressive policies. This, and the somewhat more surprising lack of major effects of economic conditions on distributive stance, suggest that ‘parties matter’.

However, the distinction between distributive and budgetary stances indicates that we must specify precisely *what* parties matter for, and why. That is, given the core constituencies of parties, as well as the policy attitudes of core (and other) voters, different types of economic policy should be more logically linked to particular parties than others. In the same way that early critiques of macro-welfare state analysis pointed out that nobody is interested in spending in itself, so we must consider why different political parties might be more interested in budget deficits, as compared to distributive outcomes. The second part of this question is whether different types of economic policy have become more constrained by the developments of international markets in general, and in this specific case, by the impact of constraints left by the financial crisis.

In that vein, economic constraints clearly do matter for budgetary stance. Even in times of severe economic difficulty, when economic stimulus might be most advised, high pre-existing levels of debt preclude budgetary expansion.

The distinction between types of economic policy traditionally associated with the left is important in practical terms, also. In many countries across Europe (and beyond), the historical assumption of larger government and larger deficits under left governments has

been deployed with some success by traditional and ‘new’ right parties in the aftermath of the crisis. That there is no evidence of any difference in the deficits incurred under different ideological stripes is a message that left politicians should take care to disseminate. More broadly, political competition on economic policy should centre on substantive differences between parties— as indeed do exist on distributive issues. It is in the interest of all parties, and all voters, that the distributive implications of party vote choice are clear. If economic policy competition is discussed with reference to policy areas— fiscal stance— over which partisan politicians have little control, rather than distribution, where they do, there is little hope for the ability of voters to hold politicians to account.

All of which raises the large, important question of what left-right economic policy competition looks like now, and what it will look like going forward. Certainly the disaggregation of ‘left economic politics’ into questions of the size of government, the counter-cyclicality of fiscal stance, and distribution – as well as (more historically) the question of public ownership – allows for important avenues of research to be considered: to what extent does each of these types of economic policy help the traditional constituents of social democratic, conservative, and Christian democratic parties? To what extent has the nexus of electoral competition varied across these elements over time and across countries; and why? Which characteristics of economic policy are most strongly associated with individual political parties, by voters? Considering the logical connections— or lack thereof— between the ‘laundry list’ of policies associated with greater (lesser) economic intervention, and thus the left (right) allows us to more clearly understand the choices that politicians and voters make over policy. These are important questions for the understanding of the politics of economic choices in the 21st century.



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