Voter Responses to Fiscal Austerity*

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Abstract

Governments have great difficulties to design politically sustainable responses to rising public debt. These difficulties are grounded in a limited understanding of the popular constraints during times of fiscal pressure. For instance, an influential view claims that fiscal austerity does not entail significant political risk. But this research potentially underestimates the impact of austerity on voters because of strategic selection bias. To address this challenge, we conduct survey experiments in Spain, Portugal, Italy, the UK and Germany. Contrary to the previous literature, the results show that the reelection chances of governments decrease massively when they propose austerity measures. Voters object particularly strongly to spending cuts and, to a lesser extent, to tax increases. While voters also disapprove of fiscal deficits, they weight the costs of austerity policies more than their potential benefits for the fiscal balance. These findings are inconsistent with the policy recommendations of international financial institutions.

Word count: 9'585 (excluding abstract, graphs and tables)

*Previous versions of this paper were presented at the Annual Meeting of the European Political Science Association, Vienna, June 21-23, 2018, and the Annual Meeting of the Midwest Political Science Association, Chicago, April 5-8, 2018. We thank Cristina Bodea, Mark Copelovitch, Aina Gallego and Vera Tröger for comments. Nicolai Berk, Jascha Grübel, Alicia Lopez, Pedro Perfeito da Silva and Colin Walder provided great research support.

"We overestimated the ability of Greece to actually endorse and take ownership of measures that were needed, because we moved from one government to another to another to another." – IMF Director Christine Lagarde in Bloomberg Markets (2016).

1 Introduction

The European debt crisis uncovered the difficulties of governments to develop politically sustainable responses to fiscal problems. For the most part, European crisis countries followed the advice from the European Central Bank (ECB) and the International Monetary Fund (IMF): in line with the views of influential economists, these institutions consistently advocated spending cuts – as opposed to tax increases – as the best strategy to reduce public debt with the smallest possible impact on the economy (e.g, ECB 2010, 2013, 2014; see also Blyth 2013; Dellepiane-Avellaneda 2014). Yet, this strategy contributed to political instability, which manifested itself in strong public opposition and government breakdowns. This political destabilization either came as a surprise to economic policy experts, as claimed by IMF Director Christine Lagarde, or, international financial institutions anticipated political instability, but have seen it as an acceptable cost of reducing public debt.

This failure to properly regard the political consequences of consolidations is grounded in a limited understanding of voters' attitudes towards fiscal policy. In fact, a series of studies suggests that governments can implement fiscal adjustments without worrying about their political implications. So far, there is no evidence that fiscal adjustments systematically reduce vote shares of governments or increase the risk of government turnover (e.g., Giger and Nelson 2011, Alesina et al. 2011, Arias and Stasavage Forthcoming). A common conclusion from these findings is that austerity is not electorally risky (Alesina et al. 2010) and that "leaders have substantial latitude to implement austerity without being sanctioned" (Arias and Stasavage Forthcoming, p.10), potentially because voters are fiscally conservative and worry about large deficits (Peltzmann, 1992; Brender and Drazen, 2008).

These observational studies, however, may underestimate the electoral risk of fiscal consolidations. They tell us what happened to those governments who could politically afford consolidations, but they do not capture electoral risk in situations when weak governments avoided them (Hallerberg, 2004; Immergut and Abou-Chadi, 2014; Hübscher and Sattler, 2017). To avoid the pitfalls that this strategic behavior poses for empirical analyses, we conduct survey experiments in Spain, Portugal, Italy, the UK and Germany. The experimental analysis of voter preferences allows us to contrast the political consequences of consolidations with the consequences of avoiding these policies in the same situation. This comparison provides a more accurate estimate of the true costs for a broad range of governments and not only those that were able to follow through with their consolidation plans.

Contrary to the 'new conventional wisdom', our results show that voters are not fiscal conservatives, and that the electoral risk of consolidations is much greater than often claimed. The large majority of voters in all five countries reacts negatively to fiscal adjustments. In all countries, the loss of electoral support is smallest if the government avoids fiscal stabilization. Voters object particularly strongly to fiscal stabilization through spending cuts – precisely the measure often recommended by international economic institutions – and to a lesser extent to tax increases. These results are in line with the claims of earlier political economy research (Pierson, 2001) and raise doubts about the adequacy of the most influential policy recommendations during the European debt crisis.

Even though voters, on average, respond negatively to fiscal adjustment, they still have diverging views about fiscal policy. This variation is useful to examine the mechanisms through which voters form their opinion over fiscal adjustment. Specifically, we examine how ideological beliefs and material interests influence voters attitudes towards austerity. We find that voter heterogeneity is best explained by ideology: left voters object more to spending cuts than right voters, while right voters object more to tax increases than left voters. However, even voters on the moderate right prefer tax increases over cutbacks. In contrast, socio-demographic characteristics that capture the personal costs of austerity help surprisingly little in explaining voter reactions. This suggests that voters resort to ideology and beliefs when the personal consequences of austerity are difficult to assess.

These findings are not the artefact of recent experiences of respondents in crisis countries with fiscal austerity. The effects are consistent for citizens living in very diverse political and economic contexts, even those that are sometimes said to be more susceptible to fiscal conservatism, i.e. Germany. Our findings are broadly the same in countries with and without a debt crisis and with and without fiscal adjustment in the past decade.

Our results suggest that governments often face a serious dilemma in fiscal policy. If they postpone consolidations, this may lead to more severe problems in the future (Jacobs and Matthews, 2012). But if they implement austerity, potentially under international pressure, this considerably enhances electoral risk. Prolonged periods of austerity may even destabilize entire party systems and not just governments. If the main political parties converge towards a position of fiscal restraint, this deprives voters of true political alternatives and contributes to dissatisfaction with democracy (Armingeon and Guthmann, 2014). Broad pro-austerity coalitions therefore can contribute to the rise of populist parties when these parties can position themselves as the only credible anti-austerity alternatives.

2 The Politics Behind Fiscal Austerity

2.1 Are Voters Fiscal Conservatives?

The idea that fiscal retrenchment has small costs and large benefits is deeply entrenched in the major economic policymaking institutions (Blyth, 2013; Dellepiane-Avellaneda, 2014). Since its establishment, the ECB, for instance, has regularly advocated fiscal consolidations in its main publications (e.g., ECB, 2004, 2010, 2014). In line with influential research

(Alesina, Favero and Giavazzi, 2019), it favors spending cuts over tax increases due to their assumed long-term benefits.[1] These ideas were crucial for the ECB's crisis strategy and had a strong influence on governments.[2] These recommendations coincide with a general aversion of independent central banks towards fiscal deficits (Bodea and Higashijima, 2017)

The view that fiscal retrenchment is economically desirable has been reinforced by an emerging consensus that it is also politically feasible. Alesina et al. (1998) unambiguously answer the question whether fiscal consolidation negatively affects elections with a "loud no" (p. 198). Alesina et al. (2011) report that governments are not voted out of office after large fiscal adjustments. Giger and Nelson (2011) even find that some parties gain votes after fiscal cuts. Arias and Stasavage (Forthcoming) show that austerity does not increase a government's risk of being replaced in office. They conclude that "finding political costs of fiscal austerity is harder than one might think" and that "for those who believe austerity is detrimental to welfare our results pose a problem" (p.10).[3] In other words, not only the welfare-maximizing policymakers in economic models, but also the office-maximizing poli-

[1]E.g., in February 2014, the ECB Monthly Bulletin states that *"[countries] should ensure a growth friendly composition of consolidation [...] with minimizing distortionary effects of taxation."* Similar statements appear in all Monthly Bulletins in 2014. Although there is a debate in economic research about the differential effect of consolidations during boom times and recession (Jordà and Taylor, 2016), the Bulletins do not elaborate on this issue. This is in line with recent claims that the state of the economy is much less important than whether consolidations are spending or tax-based (Alesina, Favero and Giavazzi, 2019)

[2]The Irish government, for instance, wrote in 2009: *"The budget focused on curbing spending to adjust expenditure needs to the revenue base [...] [T]he government took on board evidence from international organizations, such as the EU Commission, the OECD and the IMF; as well as the relevant economic literature which indicates that consolidation driven by cuts in expenditure is more successful in reducing deficits than consolidation based on tax increases"* (p.15).

[3]For a detailed review of these and similar studies, please see the Appendix.

cymakers in the real world should be ready to adjust fiscal policy. Alesina et al. (2010), therefore, explicitly blame politicians for their incapacity to solve the European debt crisis.[4]

The finding that austerity has no observable effect on elections seems to indicate that voters are fiscal conservatives (Peltzmann, 1992). Voters may disapprove of deficit spending and therefore support spending cuts in principle (Brender and Drazen, 2008), perhaps due to how the media report on budget deficits (Barnes and Hicks, 2018) or because they are aware that lower deficits reduce the cost of debt (Hallerberg and Wolff, 2008). In addition, some economists claim that the costs of spending cuts are small because they are offset by higher private investment (Giavazzi and Pagano, 1990). Fiscally prudent voters who value these benefits of consolidation then should not punish the government. Alternatively, voters may not blame governments because they understand that governments have little fiscal flexibility in open economies (Mosley, 2000; Kayser and Peress, 2012; Hellwig, 2014).

2.2 An Alternative Explanation: Strategic Selection Bias

This 'new conventional wisdom' stands in stark contrast to recent experiences in many European countries, such as Portugal, Ireland, and Spain.[5] It also contradicts the prevailing view in an earlier political economy literature that fiscal retrenchment bears substantial electoral

[4]They claim that: *"Fiscal problems in Europe can be solved. Large adjustments based on the spending side work, they are not recessionary and are not the kiss of death for the governments implementing them ... If the fiscal crisis in Europe worsens, threatening the world recovery, we will know whom to blame: the current leaders of Europe"* (Alesina et al. 2010).

[5]In all three countries, the incumbent parties massively lost electoral support after austerity measures. The Socialist Party in Portugal lost almost 9 percentage points and was replaced in government by the center-right Social Democratic Party. In Spain, the Socialist Party was replaced by the conservative People's Party (PP) after an early election in 2011. In Ireland, votes for Fianna Fáil dropped from 41% (in 2007) to just about 17% (in 2011).

risk (Pierson, 2001). In fact, governments themselves associate substantial risk with consolidation policies and use a variety of strategies to avoid blame for these policies (Vis, 2010; Wenzelburger, 2011; König and Wenzelburger, 2014; Lee et al., 2017). For instance, they minimize electoral punishment by strategically avoiding consolidations (Hallerberg, 2004; Immergut and Abou-Chadi, 2014; Hübscher, 2016; Hübscher and Sattler, 2017).

This strategic behavior of governments points to an alternative explanation of the missing link between fiscal adjustments and elections. If governments anticipate the electoral costs of austerity and strategically avoid these policies, then the electoral effects that observational studies can detect are bound to be small. This 'strategic selection bias' explains the absence of a macro-level correlation even if the electoral risk of fiscal austerity is substantial. Several studies suggest that this bias is indeed a problem. Fiscal retrenchment reduces votes for governments if these policies were debated during the electoral campaign (Armingeon and Giger, 2008). When other indicators of government support, such as continuous public opinion, are examined, we can see that political support for the government drops after spending cuts (Sattler, Brandt and Freeman, 2010; Ponticelli and Voth, 2011; Talving, 2017).

Voter preferences on policies as opposed to observed government turnover and election outcomes, therefore, matter to understand the politics of fiscal consolidation. The observed political outcomes primarily tell us what happened to those governments who could politically afford and hence implemented consolidations.[6] However, we cannot make inferences from these observed cases about the political consequences of consolidations in the (many) other situations when governments strategically avoided them. It is plausible that the political disruptions after consolidations would have been considerably greater in these cases. Preferences give us an indication how fiscal consolidation would have affected political out-

[6]There are multiple reasons why some governments are harmed less by consolidations than others. Governments may have a large electoral buffer (Hübscher and Sattler, 2017), or vote losses do not translate one-to-one into seat losses (Kayser and Lindstaedt, 2015).

comes in situations when consolidations did not occur. In other words, they uncover the true political incentives that governments have beyond the peculiar circumstances and the real risk that consolidations entail when consolidations in fact occurred.

2.3 Why Most Voters Disapprove of Austerity Programs

There are multiple reasons why voters, on average, disapprove of austerity programs. From a pocketbook perspective, fiscal consolidations affect a large share of voters directly. Encompassing fiscal adjustments, unlike the targeted reforms that some of the previous literature has examined, do not just affect selected societal groups, but broad segments of society (e.g., Alesina, Perotti and Tavares, 1998, p. 224). A look at the typical adjustment program in OECD countries confirms this (see Devries et al., 2011). An average program aims at reducing the fiscal deficit by about 1% of GDP, with an average deviation from this mean of about one percentage point. It is difficult, if not impossible, to design such major adjustments in a way that a majority of citizens is spared.

Both spending cuts and tax increases have a negative effect on the incomes of most voters. If we follow the common assumption in the literature that the median voter is a net receiver of public transfers (Meltzer and Richard, 1981), then spending cuts should alienate a majority of citizens. Large fiscal adjustments not only target social policy programs, such as public pensions or unemployment benefits (Armingeon, Guthmann and Weisstanner, 2016), but also affect the provision of public services, such as public infrastructure, public health care and education. A similar logic applies to tax increases. An increase in income taxation reduces the disposable income of the median voter and everybody who is better off than her. If tax measures also include a decrease of the minimum taxable income threshold, then those who are worse off than the median voter are also negatively affected.

From a sociotropic perspective, voters also have good reasons to object against fiscal adjustments because austerity can seriously harm economic growth (Chowdhury and Islam, 2012; Guajardo, Leigh and Pescatori, 2014). According to recent estimates, a consolidation of 1% of GDP reduces real GDP by 1.8% to 3.5% over a 5-year period (Jordà and Taylor, 2016). Voters who evaluate governments based on aggregate economic outcomes, thus, should punish governments who implement fiscal consolidation. Even if consolidations have positive long-term effects as the ECB claims, it is unlikely that an average voter is able to project the impact of fiscal policy on growth beyond a 5-year window. Macroeconomic forecasts over such a long time period are subject to large uncertainty, and voters strongly discount delayed, uncertain benefits of policy interventions (Jacobs and Matthews, 2012).

Overall, this means that voters, on average, should punish governments for fiscal austerity. More precisely, voters are more likely to vote against governments that implement austerity policies compared to governments that avoid such policies in similar situations. Note that the comparison is between austerity policies and an alternative policy, e.g. the status quo. Hence, the reference category matters. The causal effect of austerity on electoral support is therefore the difference between the political effects of austerity compared to this alternative policy under the same conditions. In other words, arguments about the political implications of austerity implicitly or explicitly compare governments that are identical and only differ in their decision to implement or not implement fiscal adjustment policies.

H1: Voters, on average, are less likely to vote for the government if the government announces fiscal adjustment measures than if it does not announce fiscal adjustment measures.

2.4 Voter Heterogeneity

Although we expect that voters, on average, respond negatively to fiscal adjustment, voters still diverge in their views about austerity for ideological and personal material reasons. From a sociotropic perspective, political ideology provides voters with guidance about the potential economic and social effects of fiscal adjustment. From a pocketbook perspective, voters' socio-economic status may determine how fiscal adjustment affects their disposable incomes.

In both perspectives, the distinction between spending-led and tax-led fiscal adjustment is crucial (Grittersová et al., 2016). This distinction is critical in ideological debates in the economics literature about whether and how fiscal deficits should be reduced (see Appendix Section A.1). It is also critical for the material effects that fiscal adjustment has on voters.

Given the overall complexity of economic processes, it is difficult for voters to properly evaluate the economic value of fiscal adjustment policies. Voters, therefore, rely on causal beliefs about the underlying economic relationships and the role of fiscal policy for economic performance (Bansak et al., Forthcoming). Left voters tend to see the economy more through a Keynesian framework that advocates an active role of the state through counter-cyclical fiscal policies. Left-wing voters, therefore, should be ideologically more opposed to fiscal austerity than right-wing voters (Margalit, 2013; Owens and Pedulla, 2014). If they do support fiscal adjustments, left voters should prefer strategies that preserve state power, e.g. by increasing taxes, over those strategies that shrink the government, e.g. by cutting spending. In contrast, right-wing voters are more likely to subscribe to a paradigm that promotes minimal state intervention. They, therefore, should be more supportive of austerity measures and prefer fiscal strategies that limit government size over those that preserve the role of government.

Besides their political views, voters differ in how much they are personally affected by fiscal adjustments (Larsen, 2017; Soss and Schram, 2007). Citizens' socio-economic status, e.g. their income, professional and educational background, influence how much they benefit from public and social spending and, hence, their fiscal policy preferences (Rehm, Hacker and Schlesinger, 2012). Spending cuts most strongly affect low-income citizens, people exposed to labor market risk, pensioners and public employees (Rueda, 2005; Aklin and Counselman, 2017). These citizens should be more likely to oppose spending cuts. In contrast, higher-income citizens and those facing less labor market risk are less likely to require social transfer payments in the future. In contrast, this latter group is more affected by tax increases than the former group. Attitudes towards tax increases, therefore, should be the reverse.

H2a: Left voters punish governments more for fiscal adjustments than right voters. The former punish governments more for spending cuts than the latter, while the latter punish governments more for tax increases than the former.

H2b: Voters with a more precarious socio-economic background punish governments more for fiscal adjustments than voters with a more privileged background. The former punish governments more after spending cuts than the latter, while the latter punish governments more for tax increases than the former.

3 Research Design: Strategy and Countries

As outlined in the previous section, a key challenge for the analysis of fiscal austerity is the strategic behavior of governments. We use survey experiments to address this challenge. Survey experiments allow us to examine the causal effect of different types of fiscal adjustment policies by specifying different policy scenarios to respondents. In particular, we present scenarios in which the government proposes various changes to taxes and spending, including no adjustment at all. Since respondents are randomly exposed to these scenarios, the difference in their responses represent the political effect of one policy solution compared to another.[7]

The survey experiments were conducted in five countries: Spain, Portugal, Italy, the UK and Germany. We selected this diverse set of countries to enhance the external validity of our analysis. The significant variation among these countries on crucial fiscal policy dimensions allows us to examine to what extent our results depend on the country-specific circumstances.

[7]The survey experiment was piloted in the UK during fall 2017 with 730 respondents. After assessing the results from the pilot the survey design was slightly revised by also taking into account feedback from numerous colleagues and students.

The surveys were implemented by *respondi*, making use of different country-specific online access panels. Respondents were selected from these access panels; quotas based on age and gender were implemented.[8] The sample has been restricted to voting-age nationals under 70. In each country, we surveyed around 2,200 individuals.

Two of the countries, Portugal and Spain, recently experienced a debt crisis and received significant bail-out packages from the international community. While Portugal has been enjoying an economic boom since 2016 and has managed to significantly reduce its public deficit, Spain continues to struggle with relatively high public deficits. Portugal has recovered much more from the crisis, and unemployment dropped to 7% in Portugal as opposed to 16 % in Spain until the time of our survey in Spring 2018. Unlike Spain and Portugal, Italy never had to ask for financial help to keep serving its public debt or to bail out its banking sector. However, Italy experienced a triple dip recession, and some Italian banks had to be rescued by the state (e.g. Monte dei Paschi di Siena). More importantly, the country's economy is struggling with competitiveness issues and very high levels of public debt (>130% of GDP), which limits the government's room to manoeuver.

In the UK, the government had to bail out a number of banks after the financial crisis, which resulted in a steep increase of the country's public debt (from 41% of the GDP in 2007 to almost 88% in 2015). Consequentially, in 2009 the UK finance minister announced the largest deficit in history (£175 billion). To address this situation, the UK government implemented a series of fiscal adjustment measures during the past decade. The German current experience, however, is different from that of most other countries. The country saw an increase in public debt from 63% in 2007 to 81% in 2010, but the German fiscal balance has now been in surplus for a number of years and the size of public debt declined to pre-crisis levels. Nevertheless, with Germany being a key actor in the way the EU addressed the

[8]The online appendix provides more details about the country-specific panels and other aspects of the data collection process.

Table 1: Summary of Key Country Characteristics

Country	Fiscal pressure	Eurozone	Bail-out
Spain	high	yes	yes
Portugal	high	yes	yes
Italy	high	yes	no
UK	high	no	no
Germany	low	yes	no

economic crisis, the German public was very susceptible to issues related to public finances and debt. Moreover, large public deficits, fiscal consolidations and economic reforms ranked high on the political agenda in Germany for many years between the 1990s and 2000s. The current German context, therefore, is different from crisis countries, but German voters have experienced consolidations and reforms in the past and should be aware of their effects.

We fielded two different experiments. The first, simpler experiment used a vignettes design and randomly presented respondents with one of three hypothetical fiscal policy scenarios (Mutz, 2011). The goal of this study is to examine how vote intentions of respondents differ across simple and stylized policy propositions, in which a government proposes to adjust spending or taxes or do nothing. The second, more complex experiment asked respondents to chose between two political parties whose policy programs varied randomly on a series of attributes. This type of experiment is commonly known as a choice-based conjoint experiment (Hainmueller, Hangartner and Yamamoto, 2015; Hainmueller, Hopkins and Yamamoto, 2013). The goal of this second study is to disaggregate the policy propositions from the vignette experiment into different combinations of spending and tax adjustments, which should better approximate the characteristics of real-world policy proposals.

The two experiments allow us to test our three hypotheses as follows. In both experiments, the fiscal policy announcements of the government or the political parties represent the treatments that constitute the independent variables in our analysis below. In the first experiment, the dependent variable is the respondent's answer to the question whether or not they would vote for the government after the respective policy announcement. In the second experiment, the dependent variable is the respondent's answer to the question which of the two parties they would chose. To test Hypothesis 1, we estimate the average marginal treatment effect by regressing these dependent variables on the fiscal policy treatments. This shows whether vote intentions or party choice differ across fiscal policy announcements as suggested by H1. To test Hypotheses 2a and 2b, we interact the fiscal policy treatment variables with the respondent's ideological self-placement (for H2a) and their income and education (for H2b), which we also collect in our survey. This shows to what extent these voter-specific characteristics moderate the impact of fiscal policy on vote intentions and party choice as suggested by H2a and H2b.

4 Study 1: Randomized Vignettes

4.1 Experiment Design

In Experiment 1, we use randomized vignettes, which are experiments where respondents are assigned to read a scenario that describes different possible situations and events (see, e.g., Schleiter and Tavits, 2018; Malhotra and Margalit, 2010).[9] Typically, there is a small set of vignettes, and the presented scenarios vary in one or two dimensions only. The advantage of such vignette designs is their clarity and simplicity. After having assessed the proposed scenario, respondents are asked to evaluate the government actors, generally the head of government, who proposed a particular fiscal policy in a given context.

[9]Malhotra and Margalit (2010) study voter attitudes towards government policies during the 2008 crisis. Schleiter and Tavits (2018) examine how the government's decision to hold an early election affects vote intentions. As in the former study, we examine the effect of government economic policies (treatment); and as in the latter study, we examine vote intentions of citizens (outcome).

Imagine, the following scenario taking place two years in the future, in 2020. The [**UK / Italy / Spain / Germany / Portugal**] has experienced a sizeable deficit in the public budget for several years. This has led to a significant increase in the level of [the country's] debt, making it economically more costly to provide government programmes such as public pensions, schools and healthcare. [The country's] prime minister then announces in a televised speech how to deal with this situation.

Vignette 1: The prime minister says that the government will take measures to reduce the fiscal deficit. The main features of this package are:

- **no change in spending on public and social services**, such as state pensions, unemployment benefits, public infrastructure, and public health care;
- a **strong increase in income taxation**.

Vignette 2: The prime minister says that the government will take measures to reduce the fiscal deficit. The main features of this package are:

- a **strong decrease in spending on public and social services**, such as state pensions unemployment benefits, public infrastructure, and public health care;
- **no change in income taxation**.

Vignette 3: The prime minister says that the government will not alter its current policy despite the high fiscal deficit. Specifically, the government will undertake

- **no change in spending on public and social services**, such as state pensions, unemployment benefits, public infrastructure, and public health care;
- **no change in income taxation**.

The box above shows the different scenarios that the respondents see. The vignettes include simplified descriptions of actual public policy choices and how they are presented by governments. All scenarios put the countries in a clear context of fiscal pressure with a sizeable budget deficit for a number of consecutive years.[10] The high fiscal deficit implies that there is economic pressure on the incumbent to take action. Then, a respondent is

[10]The context of a high fiscal deficit for a number of consecutive years was present in all countries but Germany. While this scenario doesn't apply to the current German context, Germany experienced spells of high public deficits (2009/2010, 2001-2005), which implies that the majority of our respondents can relate to such a scenario. In addition, the status of public finances and the deficit is frequently discussed in the media (i.e. the importance to keep the 'Black Zero' (die schwarze Null'), which shows that the German public is sensitive towards this issue.

confronted with one out of three possible policy solutions proposed by the government.

After learning what the government intends to do, respondents are asked two questions related to the extent to which they approve of the government's announcement and whether they would vote for the government or not. These questions serve as dependent variables in our analyses.[11] It is important to note that in this experiment, we do not name the party of the head of government in order to avoid partisan responses to different fiscal austerity programs. However, in our analyses below we control for whether a respondent supports the government in case respondents nevertheless believe the current government is being referred to.

4.2 Results

Figure 1 shows the raw distribution of vote intentions in response to the different fiscal policy solutions that governments in our scenarios propose in order to combat rising public debt. The light bars (left) represent voter responses to announcements that the government will not change policy; the intermediate bars (middle) represent voter responses to tax increases; and the dark bars (right) represent voter responses to social and public spending cuts. The graphs show clearly that voters are less likely to support governments that announce austerity policies. Voters punish governments most if they announce spending cuts. Tax increases are electorally less costly than spending cuts, but, with the exception of the UK, more costly than keeping policy unchanged. In all countries, governments minimize electoral punishment if they decide to do nothing. These results strongly confirm the view that fiscal adjustments bear substantial electoral risk for government that implement them and hence confirm our first hypothesis.

[11]The exact questions asked are: *To what extent would you approve of this announcement?* and *Would you vote for the prime minister in an election held after this announcement?*

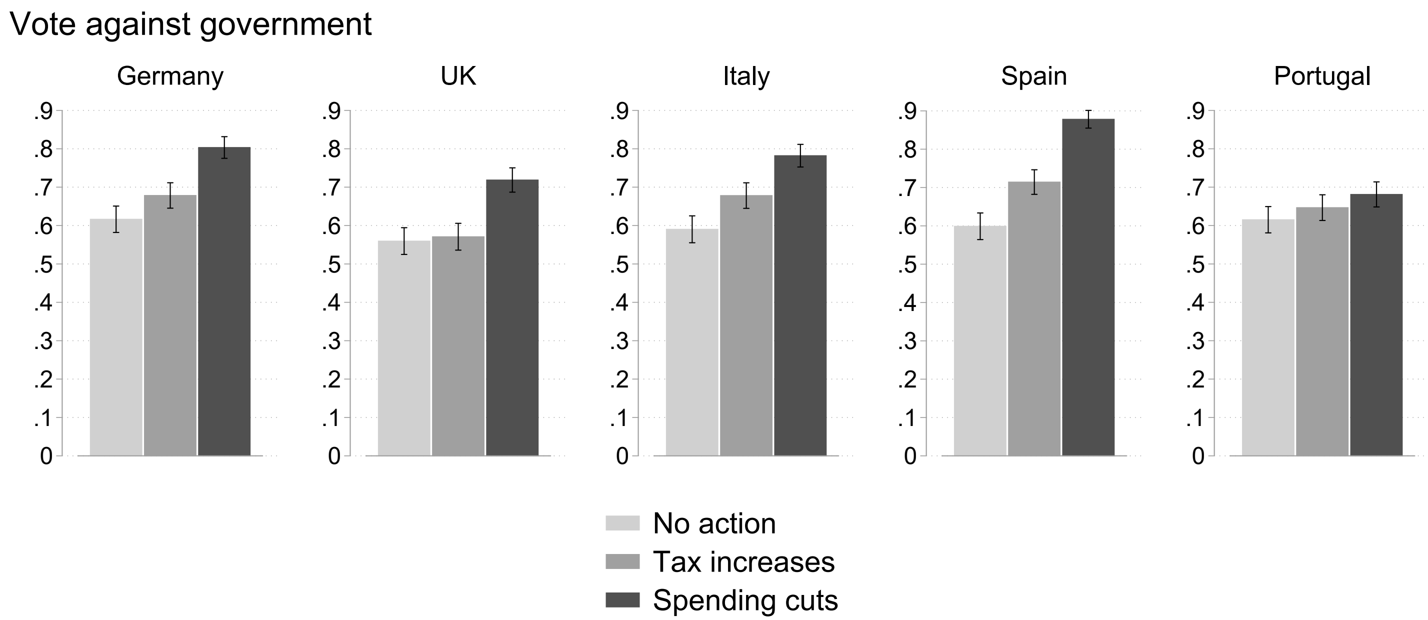

Figure 1: Vote intentions after fiscal policy decisions, by fiscal adjustment type; y-axis shows the proportion of voters who vote against the government, with 95% confidence interval.

We see a very similar pattern when we look at policy approval instead of vote intentions in Figure A2 in the Appendix. Average approval with the proposed policy is greatest if the government announces that it will do nothing. It is smallest if the government announces to cut spending. In its tendency, this result is largely consistent with Fernández-Albertos and Kuo (2016), who find that a majority of citizens objects against austerity policies.[12] When we compare disapproval of fiscal adjustment with the respective votes against governments who propose such policies, we find that the effect of austerity on votes is smaller than the effect on disapproval. This is intuitive because not all voters change their vote if they disapprove with one decision in one policy area.

These results do not necessarily mean that voters do not care about public finances. Instead, we find that a clear majority of respondents votes against the government for all policy propositions in Figure 1. Since our experiment describes a situation of a high fiscal deficit and high public debt, this suggests that voters, on average, punish the government for this poor state of public finances. This is consistent with the finding of previous, observational studies that political support for governments declines if the fiscal deficit increases (Brender and Drazen, 2008). We do not find the same tendency for policy approval (Figure A2 in the Appendix). This indicates that our respondents distinguish carefully between the evaluation of a policy proposition, given the state of public finances, and the evaluation of the government, given the policy proposition and the state of public finances.

To further assess Hypothesis 1, we also estimate the effects of different fiscal adjustments as marginal effects. Figure 2 presents the marginal effects given the occurrence of tax increases or spending cuts. In this and all subsequent analyses, we control for whether the respondent supports the current government to account for the possibility that respondents associate the government in our experiment with the current government in their country;

[12]Their analysis differs because their dependent variable measures the preference for increases in social spending, while we examine the preference for reductions in overall spending.

results do not depend on the inclusion of this control.[13] The graph shows the predicted probability to vote against the government for different announcements, relative to the reference category, which is the announcement to do nothing. In most countries, the probability of voting against the government increases up to 10 percentage points after tax increases and up to 20 percentage points after spending cuts. The probability after spending cuts increases by more than 25 percentage points in Spain, but less than 10 percentage points in Portugal.[14] As expected, the intention to vote against the government is higher after the announcement of spending cuts or tax increases, respectively.

The estimated effects from our analysis are fairly large compared to the influence of economic policies on actual votes. This is because our survey isolates the effect of fiscal policy on votes from other factors that influence voter behavior. In contrast, actual voting decisions are the result of a combination of various factors, and fiscal policy is only one of them. The impact of consolidations for actual voting, therefore, is smaller. Nonetheless, the strong responses of respondents to our treatments indicate that they do care about fiscal consolidations and take these policies into account (among other factors) when they vote for or against the government.

In order to test Hypothesis 2a, we interact voter ideology with the fiscal policy treatments.[15] Consistent with this hypothesis and the previous literature (Bechtel, Hainmueller

[13]Specifically, we measure this by controlling whether or not the respondent voted for the current government in the previous election.

[14]All results reported in this and the following section are based on weighted coefficients. In the appendix (see Figure A1) we replicate Figure 2 showing the weighted and the non weighted coefficients. The differences between the two sets of coefficients are negligible. The appendix also discusses our weighting strategy and presents balance tables for each country (see Appendix 2).

[15]Ideology is measured by self-placement on a one-dimensional left-right policy scale ranging from 0 to 10, where 0 indicates the most leftist position and 10 the most rightist.

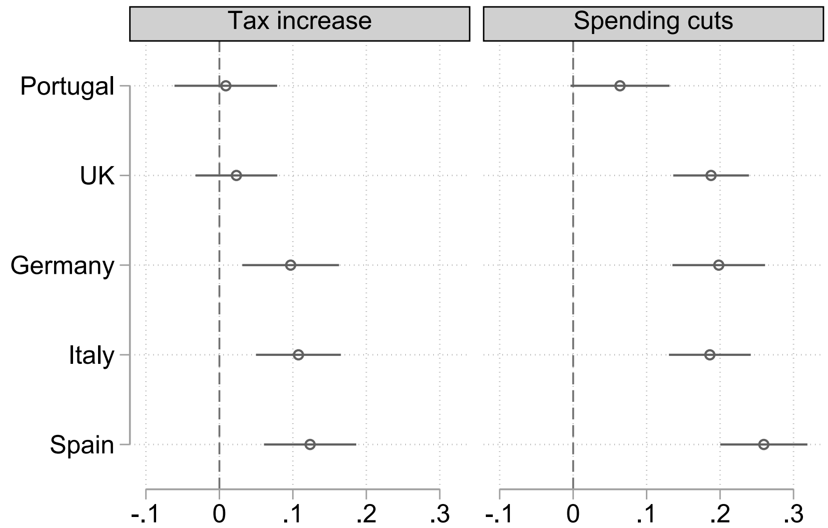

Figure 2: Predicted effect of fiscal adjustment type on vote against government; point predictions with 95% confidence interval.

and Margalit, 2014), Figure 3 shows that voter ideology strongly moderates the effect of fiscal policy announcements on vote intentions.[16] Votes against governments decrease in all countries after spending cuts for more right-wing voters. However, on average, more right-wing voters still punish governments, but to a lesser degree than left-wing voters do. We see the opposite effect for tax increases, but this effect generally is weaker and often not statistically significant. In addition, voters from the right end of the political spectrum in many countries do not distinguish much between tax increases and spending cuts. This result is most obvious for Germany, the UK and Spain. It is worth noting that voters have to be relatively right-wing to react similarly to tax increases and spending cuts: around 6 on the

[16]The grey lines in figure 3 are for tax increases, and the black lines are for spending cuts. The lines show how the predicted probability of voting against the government changes when voters become more right-wing. The black (grey) lines, thus, represent how likely respondents are to vote against the government given (a) the policy package proposed by the government and (b) their left-right ideology.

0-10 scale in Portugal to almost 10 in Germany and Spain. This helps to explain our finding that voters, on average, prefer tax increases over cuts, since only voters on the very right rank spending cuts more highly than tax increases. The average voter prefers to increase taxes or do nothing rather than cut spending. The additional results in the appendix (Figure A2) also show that the interaction effect with ideology is even stronger for policy approval.

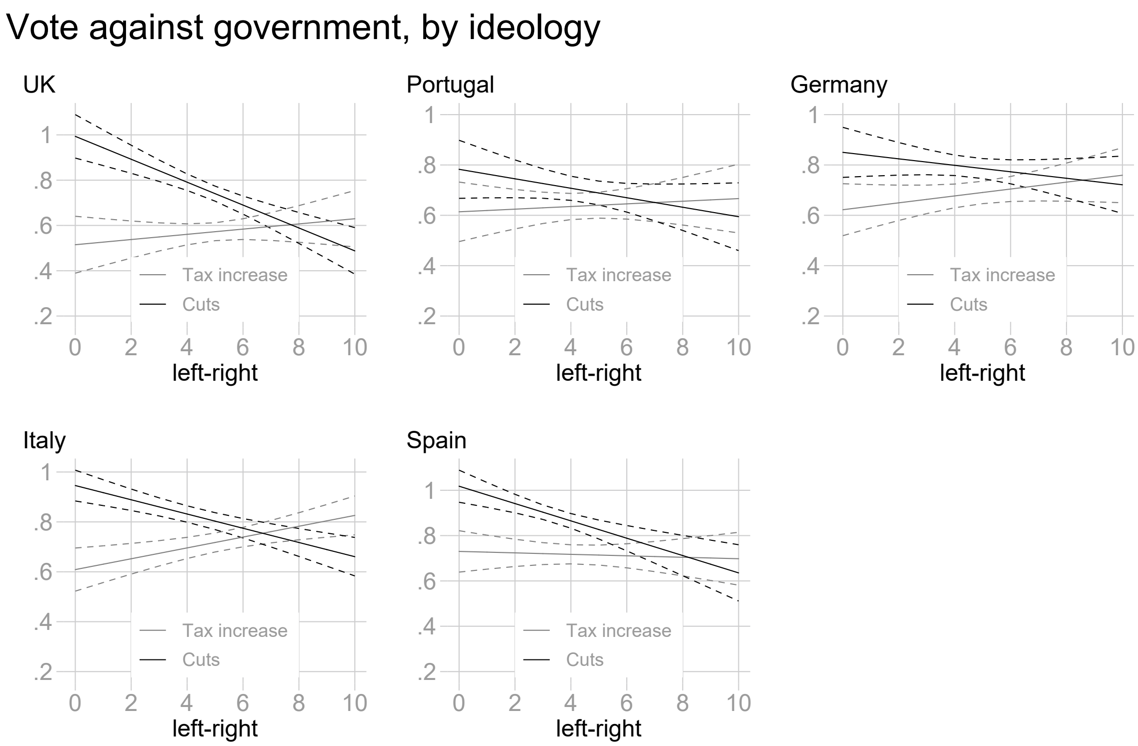

Figure 3: Effect of tax increases (gray) and spending cuts (black) on government vote intentions as left-right position of voters changes; y-axis shows predicted share of voters who vote against the government as voters become more right-wing; point predictions with 95% confidence interval.

To test Hypothesis 2b, we interact socio-economic characteristics with the fiscal policy treatments. This allows us to assess whether voters with a precarious socio-economic background (i.e. low levels of income and education) are more likely to punish the government for measures taken to adjust the fiscal balance.[17] The variables capturing precarious socio-economic background do not yield statistically significant results, which is in line with prior findings (Bechtel, Hainmueller and Margalit, 2014). To save space, we present these results in the Appendix.

The key insight is that voters in all five countries, regardless the country specific context, respond in the same way, even if the magnitude of their responses differs. That is, in all countries voters punish governments less if they propose to increase taxes instead of implementing spending cuts. One notable difference across countries is the relatively 'flat' effect that we find for Portuguese respondents. We attribute this to the fact that Portugal did better than other countries after the crisis and voters tend to benchmark the performance of their country with countries that are similar (Kayser and Peress, 2012). Furthermore, the Portuguese government enjoyed a consistent and high lead in opinion polls at the time our survey has been fielded, which may have led Portuguese respondents to also voice less dissatisfaction with an 'imaginary' government.

5 Study 2: Conjoint Analysis

5.1 Experiment Design

Our second experiment is a choice-based conjoint analysis (Hainmueller, Hopkins and Yamamoto, 2013). The aim of conjoint analyses is to present respondents with more rounded vignettes that can vary in many different attributes. This approach is useful for multiple

[17] In order to operationalize educational achievement we rely on country-specific questions as used in the European Social Survey. The country-specific information is then harmonized using the coding scheme proposed by the European Social Survey. Income is measured as a 'households total net income per month' informed by the increments used by the European Social Survey. Finally, we differentiate between four different employment sectors (public, private, non-profit, and self-employed).

reasons. First, it allows us to disaggregate the highly stylized policy propositions of the previous experiment. In practice, governments have a fair amount of discretion with respect to the types of expenditures that they cut or the types of taxes that they increase. Even more importantly, fiscal adjustment packages are multi-dimensional and often (although not always) consist of a combination between spending cuts and tax increases.[18] The conjoint analysis allows us to examine the effect of policy packages that represent real-world policy proposals in a more nuanced way.

Second, a conjoint analysis allows us to present two policy propositions from two different parties. Respondents are thus aware of the alternative, competing proposal when evaluating a party's proposition. Moreover, in our conjoint we use real party names, thereby increasing the external validity of our findings. In contrast, the previous, randomized vignettes experiment examines how respondents evaluate governments, leaving the type of government as well as the policy alternative unspecified. The two experiments thus both highlight important, but different aspects of the democratic accountability mechanism. Finally, the two experiments differ in their time perspective, while the conjoint experiment is taking a prospective viewpoint by asking respondents whom they would vote for based on the two different policy proposals, the first experiment takes a retrospective angle because voters are asked to evaluate governments based on their past policies.

[18]In the dataset of fiscal adjustments by Devries et al. (2011), 21 out of 161 adjustment episodes (13%) were purely spending based and did not include any tax measures; 23 out of 161 adjustment episodes (14%) were purely tax based. On average, spending cuts account for 76% of the total amount of fiscal adjustment in the full dataset. However, this is partially due to the unusual adjustment episodes that combine spending cuts with tax decreases (18 cases) or vice versa (3 cases). If we exclude those cases, the contribution of spending and tax measures to total adjustment is quite balanced with 51% of the overall adjustments being due to spending cuts.

Table 2: Example of conjoint analysis task (UK)

	Package A	**Package B**
Party	Labour Party	Conservative Party
Overall situation		
Economic Growth	[High / Low]	[High / Low]
Budget Deficit	[Low / High]	[Low / High]
Spending Cuts		
of which to ...		
Education	[Small / Large]	[Small / Large]
Public Transport / Infrastructure	[Small / Large]	[Small / Large]
Unemployment Benefits	[Small / Large]	[Small / Large]
Health Care	[Small / Large]	[Small / Large]
Pensions	[Small / Large]	[Small / Large]
Tax Increases	[None / Across the board / For the wealthy]	[None / Across the board / For the wealthy]
Future improvement of public finances	[Small / Modest / Large]	[Small / Modest / Large]

The experiment was set up as following: After a brief introductory screen, respondents were presented with two policy programs, one proposed by a centre-left, the other by a centre-right party.[19] The order of the two parties was randomized between respondents. The presentation of the two parties was followed by a brief description of the overall eco-

[19] The text of the introductory screen was: 'Finally, we will now show you a series of different economic policy propositions – one proposed by the Labour Party and the other proposed by the Conservative Party. These policy propositions are more complex than the ones in the previous examples because they vary in different aspects. For instance, the parties can propose to cut spending in different policy areas or to increase taxes for different citizens. The scenarios also vary in terms of how well the economic is doing and how large the deficit in the public budget is. Please indicate your approval or disapproval of these packages and which party you would vote for. Attention: You can only proceed to the next screen after 5 seconds.'

nomic context in which policymaking takes place. The economic situation was characterized either by low growth/high public deficit context or by a high growth/low public deficit context (highlighted in light gray). However, the characteristics of these two attributes were the same for both policy proposals presented to the respondent on the same screen. We include the economic context because voters are potentially more inclined to support fiscal adjustments when fiscal pressure is large. Therefore, this setup allows us to explore the extent to which fiscal preferences are context-dependent.

Next, we present six policy items which can vary in several key attributes. Out of the six items, five are related to different spending dimensions: health care, pensions, education, infrastructure and unemployment, these items can vary between *small* or *large* cuts.[20] The last policy item in the conjoint is related to taxation and can take three attributes. The policy proposal can either include *no tax increases*, *tax increases across the board*, or *tax increases for the wealthy only*. Lastly, we gave respondents an indication about the expected impact the policy package will have on public finances. Based on the number and size of spending and tax adjustments, this impact would be either *small*, *modest* or *significant*. This last item was not randomly assigned but represents a summary of the policy mix previously presented.[21] Table 2 illustrates a possible screen that the respondents would see. For the

[20]'No cuts' was not an attribute the five spending items in the conjoint could take. Other than in the first experiment, we can therefore not say whether respondents generally dislike cuts.

[21]The attribute describing the 'future improvement of public finances' was generated as follows: Each spending attribute which takes the characteristic 'Large' contributes 1 point to the overall measure of the 'future improvement of public finances', 'tax cuts for the wealthy only' equally contributes 1 point and 'tax cuts across the board' contribute 2 points. A 'small impact' is then attributed to packages that score 0-2 points, a 'modest' impact is attributed to packages scoring 3-5 points, and a 'significant' impact is attributed to all packages scoring 6 or 7 points. Given the fact that this attribute is a linear combination of the characteristics

conjoint analysis, each respondent was presented with five screens and thus evaluated a total of ten programs.[22]

5.2 Results

Overall, the results from our conjoint analysis presented in 4 confirm our previous results while providing a more nuanced picture. First, voters in all five countries react negatively to cuts, which supports Hypothesis 1. A large rather than a small cut in one area of spending reduces the probability of voting for a party by between about 1 and 4 per cent. Given that spending cuts can be high in up to five areas, this means that total punishment can reach up to a twenty per cent decline in the probability of supporting a party. With the exception of Portugal, cuts to health care and pensions are the least popular. These two programs represent universal schemes of which most citizens benefit at some stage of their life. Compared to the above, cuts in unemployment benefits, infrastructure, and education (with the exception of Portugal) are less unpopular.

Second, as in the previous study, we can conclude that the effect of tax increases across the board is generally negative. The negative effect is marginally statistically significant for Italy and Portugal, but not for Germany, Spain and the UK. If the party, however, proposes to increase taxes for the wealthy only, this tends to increase the probability of supporting the party. This effect is statistically significant for all countries except Spain and increases the probability to vote for the party by 2 to 5 per cent. This finding is consistent with those presented in Ballard-Rosa, Martin and Scheve (2017).

of previous policy items, it was excluded from the analysis due to collinearity.

[22]Figure A18 in the Appendix shows a sample of conjoint screens.

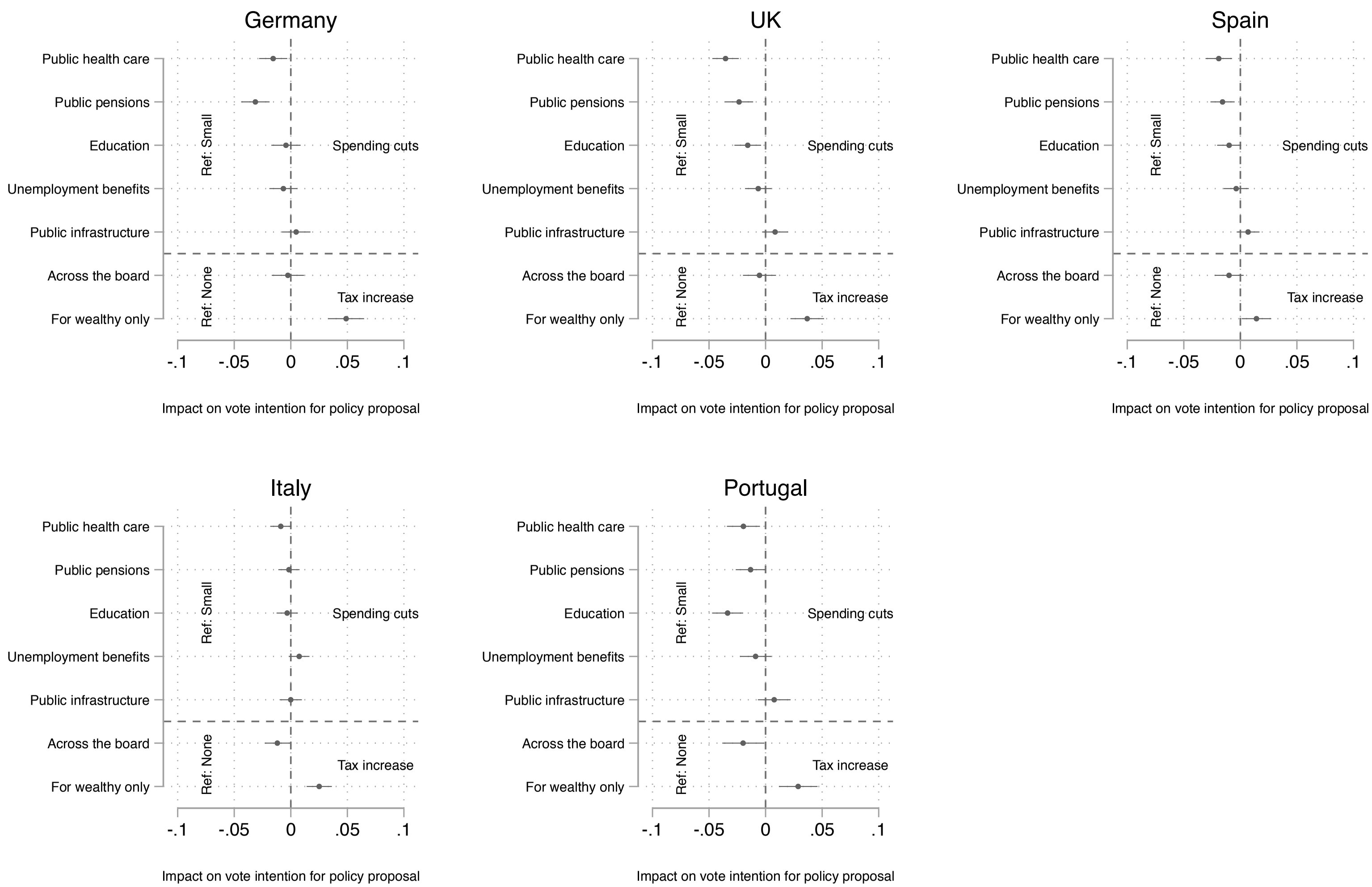

Figure 4: Vote intentions based on fiscal policy proposals, by fiscal adjustment type; x-axis shows effect on vote intention for party in %. Effect of party proposing measure and its interaction with voter party support included but not shown.

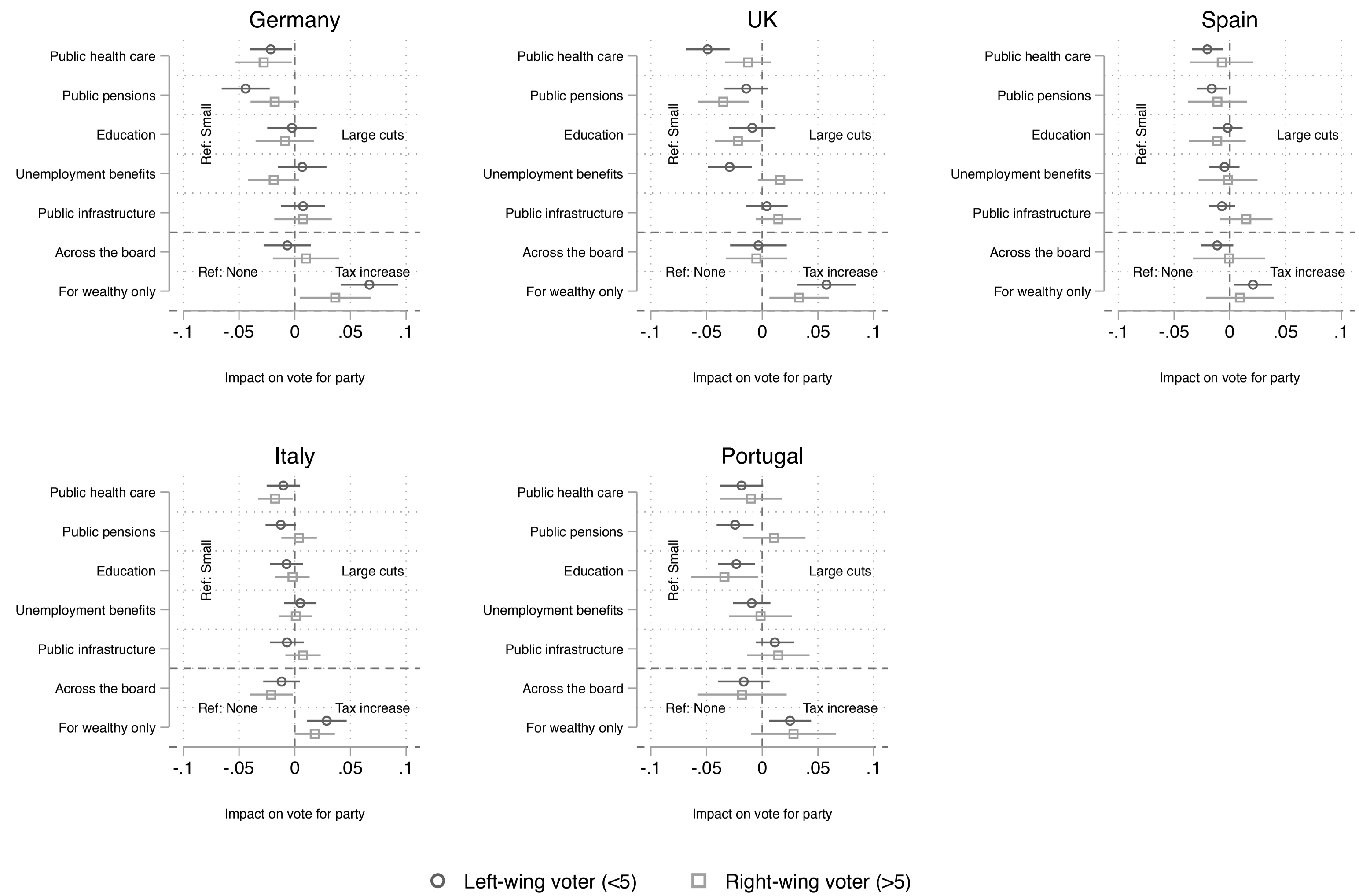

Figure 5: Vote intentions based on fiscal policy proposals, by fiscal adjustment type; x-axis shows effect on vote intention for party in %. Effect of party proposing measure and its interaction with voter party support included but not shown.

In line with the first experiment, and as suggested by Hypothesis 2b, voters react somewhat differently depending on voter ideology, but these differences are smaller and less consistent than in our previous experiment. Figure 5 presents the results for left- and right-wing voters separately. In the majority of the countries included in our analysis, left voters punish parties more strongly than right voters for cuts in health care and public pensions. The estimated negative effects for left voters in Spain after cuts in health care and pension are precise and statistically significant, but they are relatively imprecise and not statistically significant for right voters. We see a similar picture in Portugal. In all countries, the effect of tax increases for the wealthy is statistically significant and positive for left voters. In Germany, the UK, and Italy, conservative voters also reward parties for tax increases for the wealthy, though to a lesser degree. The difference between left- and right-wing voters, however, is not statistically significant. With a couple of exceptions (i.e. right-wing voters in the UK reacting more negatively to pension cuts than left-wing voters) the results go in the expected direction. However, the differences between left- and right-wing voters never reach a level of conventional statistical significance.

As in the first experiment, the effects are more pronounced for policy approval than for vote intentions. We report these results in the Appendix. Figure A10 shows that voters to the right disapprove less of spending cuts. However, it is important that even these voters do not ever approve of cuts. Turning to voter reactions to taxes, Figure A11 shows that voters on the left particularly approve of increased taxation of wealthy people. Taxes across the board are generally unpopular. The more nuanced analysis only allows for a partial support of our hypothesis that respondents with a more left-wing ideology punish governments significantly more for implementing cuts in various spending areas than right-wing voters.

Finally, we also examined the impact of the political-economic context. The results are in Figures A12 and A13 in the Appendix. They show that reactions to proposals depend rather little on economic circumstances (high growth and low deficit versus low growth and high deficit) or political circumstances (left vs right party). It is worth noting that the negative, average effect of fiscal adjustment on vote intentions prevails even if we associate these policies with concrete political parties in the respective countries. This means that a sufficient number of voters considers fiscal adjustment salient enough to induce a change in vote intention even if the otherwise preferred party proposes to implement fiscal adjustment. Party affiliation does not fully shield political parties and does not prevent disapproval with fiscal adjustments from translating into a loss of votes that can harm the electoral prospects of these parties.

Presenting separate analyses for each country covered in our study (rather than pooling our data) clearly shows that opposition to austerity is a general phenomena.[23] The general picture is the same across all countries. Whether public debt is dealt with in good or bad times does not matter significantly (see Figure A12). This finding further underlines the robustness of the mechanisms we propose.

Generally, the size of the effects is smaller for the conjoint than for the first experiment. We attribute this to three main reasons: First, the conjoint experiment, which asks respondents to compare and evaluate different policy packages, is intellectually more challenging than the vignette experiment, perhaps leading to less clarity in response patterns. Second, the characteristics on the spending attributes in the conjoint vary between 'small' and 'large' cuts and do not include 'no cuts', which would likely be the most preferred option. Again, this may minimizes the differences in the size of the effects we find. Finally, the conjoint experiment also includes party labels, likely reducing the effects of other attributes.

While the overall patterns are similar across countries, there are some notable differences when it comes to the size of the effects. This is particularly true for Italy. While in the first

[23] In the Appendix, we present the key results based on a pooled dataset. The results of the pooled model are in line with what we show in the paper.

experiment, which does not assign a party to the government proposing a policy, Italy nicely aligns with Spain and the UK, most effects for the conjoint analysis are not statistically significant from zero. A potential explanation for these unclear findings is that at the time our survey has been fielded Italy did not have a government and political parties were involved in negotiating a new coalition. Respondents thus had difficulties associating the policy packages with the parties we suggested.[24]

6 Conclusion

Contrary to an influential literature, we find that fiscal austerity bears substantial electoral risk. In particular, voters strongly oppose fiscal adjustment measures, which translates into substantially lower vote intentions for governments who implement these policies. We also find that voters object much more to spending cuts than to tax increases. Finally, governments incur the smallest political losses if they announce that they will not change public spending and taxes. These results are very similar across respondents from all five countries that we study and thus not contingent on the state of the economy in a particular country. This shows that earlier research significantly underestimated the negative effects of fiscal adjustments on voter evaluations of governments.

Our results indicate that the opposition to fiscal consolidation is very widespread and not limited to peculiar economic circumstances, such as the European debt crisis. In line with our argument, recent studies find that voters in European crisis countries do care about austerity (Magalhaes, 2014), but there is little evidence so far that this is also the case in less extreme economic situations (Talving, 2017). To our knowledge, our study is the first that shows that a large share of voters object to fiscal consolidation across a wide range

[24]In our conjoint respondents compared policy packages proposed by the following two parties: Partito Democratico and Forza Italia, none of these two parties is now part of the governing coalition.

of political and economic settings and not only in extreme situations when economic meltdowns and fiscal cuts coincide. The behavior of voters, in turn, is important to understand the political incentives of governments in fiscal policy. For instance, the particularly strong opposition of left-leaning voters to spending cuts in our analysis is consistent with findings that left governments tend to favor more modest cutbacks than right governments (Jensen and Mortensen, 2014; Hübscher, 2016).

Our findings stand in stark contrast to the recommendations of the major international financial institutions during the European debt crisis. The one-sided focus on spending cuts as the major fiscal strategy is clearly at odds with the expectations and preferences of the majority of voters. Longer spells of austerity, therefore, can contribute to the alienation between voters and policymakers and hence severely damages the accountability and responsiveness link between citizens and their elected representatives (Mair, 2008). In this way, the continuing pressure for austerity and budgetary cuts can disrupt domestic partisan landscapes and the linkages between the electorate and politicians. Future work, therefore, should more closely examine how voter responses differ across ideologically different party governments, and where disenchanted citizens take their vote.

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