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THE ELECTORAL CONSEQUENCES OF FISCAL ADJUSTMENTS IN THE EUROPEAN UNION

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Abstract

This paper analyses the electoral consequences that fiscal adjustments have for the governments that implement them. Contrary to what previous studies on the same area had concluded, this paper confirms that the electorate tends to punish governments that launch expenditure-based adjustments, but reward them if these consolidations perform well in terms of economic growth and reduced income inequality.

The traditional aversion of the electorate to expenditure-based adjustments was weakened during the nineties, mostly as a consequence of the multiplicity of official campaigns in favour of the single currency.

Results confirm that politicians are rational when they plan the timing, the duration and the composition of their adjustment strategies, assuming that the electorate will punish them if the adjustment has been made through spending cuts, unless these cuts have generated visible economic growth before elections arrive, in order to compensate for the initial disappointment of voters.

1. Introduction[*]

As important as the economic consequences that fiscal adjustments bring about is the question of whether these adjustments have any political consequence for the cabinets that implement these policies or not.

Previous works in the literature (e.g. Von Hagen, Hallett and Straucht, 2001; Mulas-Granados, 2002) showed that the probability of ending a fiscal adjustment increased when elections were imminent. It also showed that taxes decreased, and public transfers and consumption increased, when governments felt the pressure of facing again their electorates. This evidence suggested that politicians believe that voters dislike fiscal adjustments and will not reelect them in the aftermath of fiscal consolidations. Are politicians right in acting according to these assumptions?

Evidence from the only study that has indirectly[1] tested if this belief is correct or not in Western democracies, concludes that the probability of government termination after fiscal adjustments is not higher than the average[2]. In their words: «governments do not seem to be systematically punished at the ballot box for engaging in fiscal adjustments» (Alesina, Perotti, and Tavares, 1998: 241).[3]

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[1] As will become clear during this study, I claim that assessing the political consequences of fiscal adjustments looking at the probability of government termination implies an indirect approach to this question. A much more direct approach is to look at the probability of reelection, which excludes from the sample the reshuffling of cabinets that are the result of coalition rearrangements, but are totally independent of the public opinion's reaction to fiscal adjustments.

[2] Peltzman (1992) and Kraemer (1997) have reached similar conclusions for Latin America and the USA respectively.

[3] In the same vein than Alesina, Perotti, and Tavares (1998), Lowry, Alt, and Ferree (1998) analyzed the electoral response of American voters to the fiscal policy implemented by American State-level governments and found that: "the incumbent governor´s party is punished in legislative elections for failing to maintain fiscal balance." (p.759). Nevertheless, Obstfeld and Eichengreen (1998) reject the idea of fiscally conservatist voters at the national level pointed out by Alesina, Perotti, and Tavares (1998), and affirm that they

If voters do not care about fiscal adjustments but politicians are making their fiscal decisions dependent on the proximity of elections (assuming that the public prefers less taxes and more transfers) then evidence from previous studies (Mulas-Granados, 2002) showing certain degree of responsiveness on the part of the rulers with respect to the fiscal preferences of the ruled, should be re-assessed.

Is it really the case that the probability of reelection is not affected by the budget balance? Are politicians truly misinformed about voters' preferences when they think about the electoral calendar before deciding on the timing, the duration, and the composition of fiscal adjustments? If European voters really do not punish national politicians for undertaking fiscal adjustments, are they blaming anyone else, maybe Brussels?

It is the purpose of this study to answer these three crucial questions. Accordingly, this article reports also three main findings: (1) by looking at the probability of reelection, instead of looking at the probability of government termination, some conclusions of previous work on the topic can be rejected; (2) the composition of the budget is an important factor driving the political consequences of fiscal adjustments; (3) the traditional voters' aversion to expenditure-based fiscal adjustments has decreased during the nineties, most likely as a result of the broad information campaigns supporting fiscal adjustments, associated to the process of economic and monetary union in Europe.

Therefore, I provide here systematic direct empirical evidence of the negative impact that expenditure-based fiscal adjustments have on the probability of reelection. Not only the probability of reelection decreases during years of fiscal adjustment, but also if these adjustments have taken place on the expenditure side of the public budget, the probability of losing the next election is even higher. These results contradict those of Alesina, Perotti and Tavares (1998), but are perfectly consistent with the general assumptions in the literature on economic voting and with the recent empirical evidence for adjustments episodes in Europe, according to which the proximity of elections is an important factor explaining the timing, the duration, and composition of fiscal adjustments (Mulas-Granados, 2002).

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find fiscal conservatism "much more plausible at the local level (because) at the national level, there are too many "other" onto whom the burden of public spending can be shifted." (p. 253).

Nevertheless, when time is taken into account, it is striking to observe that this adverse effect of expenditure-based adjustments on the probability of reelection which was very strong between 1960 and 1989, stops being so during the nineties.

This calls for an explanation which I offer at the end of the article based on two related aspects: first, the unbreakable commitment of European and national authorities to stick to the conditions of the Maastricht convergence criteria made European voters assume fiscal adjustments as something "imposed from Brussels" that was going to happen anyway; and second, the strong national coalitions between government and opposition that crystallized after 1994 offered European electorates no visible political alternative on fiscal policy issues. These two factors, together with an unprecedented Europe-wide campaign underscoring the economic prosperity that these adjustments would generate in the future, succeeded in changing the traditional negative electoral response that public opinion has previously had toward fiscal adjustments.

Despite the high probability of "demonizing" Brussels for imposing such adjustments, this possibility only temporarily materialized, and this change in the public attitudes toward fiscal consolidations was achieved without any major impact on the medium-term public support for the European integration project.

2. Fiscal Policy, Elections, and Government's Accountability

Fiscal adjustments may or may not have direct political consequences. If they have, these consequences will be positive or negative depending on whether politicians have followed the mandate and the preferences of the electorate regarding fiscal policy.

As I have already explained, it has been common in the literature to assume that voters dislike taxes and like government outlays, in the form of public health, education, unemployment benefits and pensions. Also, the common wisdom supports the idea that voters prefer higher rates of economic growth because they boost employment creation. These assumptions are the basis for the literature on political business cycles, according to which politicians undertake fiscal expansions just before elections take place, in order to artificially accelerate the economy and the rate of job creation, because they expect to be rewarded at the polls if the economy is doing well when the election arrives. Consequently, the basis for believing that voters dislike fiscal adjustments relies on two explanations: fiscal adjustments imply raising revenues and/or reducing government outlays; and if classical Keynesian effects apply, they are likely to cause a temporary economic recession and loss of jobs. Because neither of these options is liked by voters, governments expect to be punished at the ballot box if they undertake a fiscal adjustment just before elections.

As I have already shown in previous works (Mulas-Granados, 2002) these assumptions are the ones that have driven European policy-makers in the last forty years when choosing the timing and the characteristics of fiscal consolidations. Closeness of elections decreased both the probability of starting consolidations and their duration (Maroto and Mulas-Granados, 2002), and clearly affected their composition (Mulas-Granados, 2002).

Therefore, if one is to investigate what are the political consequences of fiscal adjustments, the obvious first step would be to look at whether the electorate has used its vote to actually make the government accountable for having pursued a policy that did not correspond to the electorate's preferences.

A definition of accountability is needed at this point. According to Cheibub and Przeworski (1998: 225), "governments are accountable if citizens can discern whether governments are acting in their best interest and sanction them appropriately, so that those incumbents who satisfy citizens remain in office and those who don't lose it. Accountability is a retrospective mechanism in the sense that the actions of rulers are judged ex-post by the effect they have."

In democratic politics, the only way to punish the government and make it accountable for having undertaken a fiscal adjustment that is contrary to the electorate's preferences, will imply abandoning the government at the polls and throwing it out of office by voting the opposition.

As I have already noted, other studies have addressed this issue in an indirect way by focusing on the analysis of fiscal policy and government terminations. In my opinion this is not a satisfactory approach. Instead of looking at the effect that fiscal policy has on the probability of government termination, a much more direct approach is to look at the probability of reelection, because it excludes from the sample the reshuffling of cabinets that are the result of coalition rearrangements, and that are somewhat independent of the public opinion's reaction to fiscal adjustments. Therefore, contrary to previous studies, I take electoral consequences as the main indicator of broader political consequences, because I assume that politicians are office-seekers and thus want to be elected and reelected again and again, to stay as long as they can in power.

Another innovation that I introduce in this article is the inclusion of a measure of income inequality as a possible determinant of electoral outcomes, after fiscal adjustments. This variable proves that while European voters may reward their governments for achieving higher rates of economic growth, they will also punish them if this is done at the expense of an unfair distribution of income. This explains why it has been so difficult for some governments to undertake strong fiscal adjustments when they required significant cuts in public expenditures. These expenditure-based adjustments will not only be opposed *per se* by the recipients of those social benefits, but they will likely bring further political costs if in the future these cuts are responsible for growing income inequalities that are disliked by the electorate.

To start the analysis, I take first the set of all government terminations; that is, any instance in which a government ends, regardless of the reason[4], and I create a dummy variable called government termination, which takes value one, when there is a termination, and zero otherwise. Then I calculate the duration of each government by counting the number of years between two consecutive terminations. Note that in order to keep the correspondence between fiscal policies and government changes occurred as a response to those policies, I

[4] Other reasons for government termination, besides elections, are: voluntary resignation of the prime minister, resignation of the prime minister due to health reasons, dissension within government, lack of parliamentary support, intervention of the Head of State, or broadening of the coalition. The source of data to build this variable is Woldendorp, Keman and Budge (2000).

have considered that government terminations that occur between July 1 of year *t* and June 30 of year *t*+1 fall into calendar year *t.* Or as Alesina, Perotti, and Tavares (1998: 221) put it: "In other words, the fiscal policy of year *t* is regarded as a determinant of government collapses from July 1 of year *t* to June 30 of year *t*+1."

Government terminations may lead to changes in the prime minister and/or changes in the ideological orientation of the cabinet. These are dummy variables, equal to one when each type of change occurs. But the two sets are not the same. For example, the replacement of J. Santer by Jean Claude Juncker, when the first one abandoned the Luxembourgois government to become President of the European Commission in 1994, is classified as prime minister change but not as ideology change. Changes in prime minister are more frequent than changes in ideology, because often the leadership of a major coalition party changes, and hence also the prime minister, although the ideological status of the cabinet remains unchanged.[5]

When an ideological change occurs, this change may replace a leftist government by a centrist or rightist government, or replace a rightist government by a centrist or leftist one. The first set of cases is labeled as change to the left, and the second set of cases, as change to the right. Note that if the initial government was a centrist government and it was replaced by a leftist government, the case would be labeled as a change to the left, while if it was replaced by a rightist government, the case would be labeled as a change to the right.

Finally, from the sample of government changes, I create a dummy variable called reelection that takes value one when the change was mediated by elections and the same prime minister was reappointed, and takes value zero in all other cases. Here I depart from Alesina, Perotti, and Tavares (1998), which "use the sample of changes irrespective of whether a transition to a new cabinet occurs by means of elections, cabinet reshuffling or

[5] Until here I follow Alesina, Perotti, and Tavares (1998) in order to make my results comparable to theirs, before adding my original contributions to the analysis of the political consequences of fiscal adjustments.

other procedures" (p. 220). As I will show, taking this difference into account is crucial to reject their conclusion that fiscal adjustments do not have major political consequences[6].

Table 1 shows the relative frequency of positive values for the dummy variables defined above in the full sample and for each country. Out of a total of 574 observations[7], 266 are government terminations. Of them, 101 are ideology changes (55 to the left, and 46 to the right) and 118 are changes in Prime Minister. Of all government changes, 129 were mediated by elections.

The picture by country is very illustrative of some major tendencies. Finland, Italy and Belgium are the countries with the lowest government durations, lowest probability of reelection, and highest number of government terminations. With a probability of government termination of 80%, a probability of reelection of only 28%, and an average government duration of only 1.22 years, the extreme case is Italy. As Pasquino (1994: 25) observed, in Italy, "governing parties seemed to expropriate the voters of the political influence by making and unmaking governments at all levels with very little respect for electoral results."[8]

The most stable governments in Europe are those in Luxembourg (2.7 years), the United Kingdom (2.5 years), Austria (2.09 years) and Spain (2.08 years), while the countries with the highest probabilities of reelection are Germany (80%), Spain (71%), Portugal (66%) and Austria (60%). The probabilities of reelection are strikingly high in these countries, which makes one wonder about the possible influence that past authoritarian regimes may have had on the political culture of those countries.

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[6] Alesina, Perotti, and Tavares (1998: 220) say: "we have examined whether our results vary substantially when we use only changes following elections but we find that they do not". Unfortunately, they do not show the results of this sensitivity analysis in their paper.

[7] The total number of data points is 615 (the 15 EU Member States for the period 1960-2000), but for this analysis, years under non-democratic governments in Spain, Portugal and Greece have been excluded from the sample.

[8] Cited in Cheibub and Przeworski (1998: 234).

With respect to ideological volatility, Portugal, the Netherlands, and Belgium show the highest scores around 60%, while Germany and Austria remain in the very low 20% probability that there is a change in the ideological complexion of the cabinet, whenever there is a change in the cabinet.

Finally, Portugal, the Netherlands, and Greece experienced the highest number of changes toward more leftist governments, and Luxembourg and Ireland toward more rightist ones.

Table 1*: Frequency of Government Termination and Cabinet Changes. By Country, 1960-2000*

	Gov´t Duration	Gov´t Termination	Ideology Changes	Ideology Ch. Left	Ideology Ch. Right	Pr.Minist. Changes	Reelection
Austria	2.09	0.36	0.20	6.67	13.33	0.53	0.60
Belgium	1.92	0.46	0.47	26.32	21.05	0.42	0.28
Denmark	1.75	0.51	0.30	15.00	15.00	0.60	0.66
Finland	1.56	0.58	0.42	20.83	20.83	0.25	0.10
France	1.41	0.63	0.34	19.23	15.38	0.42	0.30
Germany	1.90	0.43	0.16	11.11	5.56	0.72	0.80
Greece	2.01	0.48	0.50	33.33	16.67	0.29	0.50
Ireland	1.95	0.36	0.46	20.00	26.70	0.33	0.57
Italy	1.22	0.80	0.37	15.63	21.88	0.36	0.28
Luxembourg	2.70	0.24	0.50	20.00	30.00	0.60	0.57
Netherlands	2.17	0.36	0.66	33.33	33.33	0.40	0.33
Portugal	1.84	0.48	0.60	40.00	20.00	0.41	0.66
Spain	2.08	0.37	0.33	22.22	11.11	0.55	0.71
Sweden	1.78	0.46	0.36	21.05	15.79	0.52	0.61
United Kingdom	2.50	0.34	0.35	21.43	14.29	0.42	0.50
All Countries	1.90	0.46	0.39	21.32	17.83	0.44	0.49
Observations	574	266	101	55	46	178	129

As in most studies in the literature, I use the annual variation in the primary budget balance, adjusted and not adjusted by the economic cycle, as indicators of fiscal policy. The reason for including also the figures of the budget balance not adjusted by the cycle is that voters may not be very accurate in distinguishing between discretionary policy and cyclical effects of the budget. But as will be shown, results are very robust to the use of any of these measures. The correlations in the panel among these different definitions of changes in the budget balance, and the cabinet change and reelection variables are reported in table 2.

Table 2: *Correlations Among Budget Balance and Cabinet Changes Variables*

	Var. Primary Budget Balance	Var. CycAdj. Prim. Bud. Balance
Var.CycAdj. Prim. Bud. Balance	0.77***	
Government Termination	-0.13**	-0.11**
Ideology Change	0.12*	0.09
Ideology Change to the Left	0.14	0.13
Ideology Change to the Right	-0.12	-0.09
Prime minister Change	0.01	0.02
Reelection	-0.15**	-0.08*

* significant at 10%; ** significant at 5%; *** significant at 1%

Note the high correlations between the different definitions of the budget balance. More importantly, increases in the contemporaneous budget balance (fiscal adjustments), are weakly but negatively correlated with government terminations. Nevertheless, this finding is at odds with the parallel finding that fiscal adjustments are positively correlated with ideological changes, and negatively correlated with prime minister reelection.

This apparent contradiction may just be implying that it is government termination which influences fiscal adjustments and not the other way around, as defended by Alesina, Perotti, and Tavares (1998). As will be discussed later more extensively, this reverse causality problem is likely to be less important in the relationship between prime minister reelection and fiscal adjustments than between government termination and fiscal adjustments.

Because my purpose is to determine the effect of changes in the fiscal stance on the probability of cabinet survival and reelection of prime minister, I run probit regressions on the panel of 15 EU Member States between 1960-2000 using government termination, ideology change, prime minister change and reelection as dependent variables. For each of these dependent variables, I estimate the effect of a 1 percentage point change in the budget balance-to-GDP ratio, according to one of the two definitions: using change in the uncorrected primary budget balance, and using change in the cyclically adjusted primary balance.

In addition, I introduce four other macroeconomic indicators as right-hand-side variables: real GDP growth, change in the price level (inflation), change in the unemployment rate, and change in income inequality (measured by the annual change in the Gini coefficient). The motivation for these controls deserves an explanation, intimately related to the literature on economic voting.

In its simplest form, the fundamental contention of the literature on economic voting is that voters tend to reward incumbents when the economy is sound and punish them when it is not. So rather than looking at economic promises, citizens assess past performance (Key, 1966; Fiorina, 1981; Norpoth, Lewis-Beck and Lafay, 1991). The effect of economic performance on government tenure has been widely studied, with unclear and even contradictory results. While there is a wealth of evidence confirming that short-term economic conditions do influence electoral outcomes in the United States (Tufte, 1978; Erikson, 1989; Kramer, 1983; Markus, 1988), the strength of the relationship appears to be weaker in other democracies (Lancaster, and Lewis-Beck, 1986; Rattinger, 1991; Sanders, Ward, and Marsh, 1991). Thus, while most agree that economics matter for the election outcome (Paldam, 1991), the relative effect is by no means constant in all countries, and there is, further, no agreement as to what explains such differences (Lewis-Beck, 1988) .

Some advocate institutional approaches to explain these differences. For example, Pacek and Radcliff (1995) argue that the degree of development of the welfare state makes a difference, given that economic voting patterns are clearer in countries with low to moderate levels of welfare spending where public welfare programs do not insulate completely citizens from economic adversity.

Others emphasize the role of the relative presence of monitoring difficulties that may prevent the electorate from attributing correctly the responsibility for bad economic outcomes. For example, in most European countries, primary political responsibility rests with parties forming the government, rather than with a single elected executive. Because power and responsibility may be divided among multiple parties in a governing coalition, and because the composition of coalitions may change between elections, assessing political responsibility for economic outcomes becomes more difficult (Powell and Whitten, 1993; Chappell and Veiga, 2000). Therefore when the degree of institutional clarity of responsibility increases, and the availability of political and economic alternatives becomes clearer to voters, the accountability for economic outcomes in the form of electoral gains or losses is likely to increase (Anderson, 2000). But monitoring problems could be also the result of intended disinformation strategies implemented by political party elites and government authorities not interested in making easier the process of attributing responsibility for economic outcomes (Maravall, 1998).

Note that empirical studies on the effect of fiscal adjustments on income inequality are almost inexistent, not to mention studies that address the possible electoral effect that fiscal adjustments that increase inequality may have. But as was also shown in Mulas-Granados (2003), the impact of expenditure-based fiscal adjustments on income distribution is so important, that it is imperative to test the electoral consequences that such economic outcome may have.

Therefore, the inclusion of economic growth, inflation, unemployment and inequality as independent variables responds to the need of taking into account all this literature. Given that fiscal policy is just an economic policy tool aiming at achieving certain desirable economic outcomes (such as high growth, high employment, low prices, and a fair distribution of income), these outcomes themselves must be included in the equation as possible determinants of the probability of government termination or prime minister reelection.

In addition, I include in the equation three other political characteristics of cabinets that may affect their political survival. The first one is the number of years in power (government duration); the second one is the parliamentary status of the government (whether it is supported by a majority in parliament); and the third one is the number of parties that form the government (coalition size). The reason for including government duration among the explanatory variables attempts to take control for the likely presence of anti-incumbent forces. These forces are likely to be important (Rose and Mackie 1983; Paldam 1986). Several possibilities have been offered to explain anti-incumbent voting. Mueller (1970) suggests, for example, that governmental policy choices inevitably alienate coalitions of minorities that chip away at government support. In addition, with office and power come scandals and corruption that tarnish any administration. Brittan (1975), among others, pointed out that election campaigns create inflated expectations among voters, some of whom are disenchanted with subsequent results. Finally, as Downs (1957) noted, the positive achievements of incumbents may be effectively discounted by a strategic opposition promising to continue such policies. In sum, incumbent status is generally associated with an erosion of electoral support, and therefore longer duration of governments can be expected to increase the probability of government termination. Finally, the strikes and demonstrations against welfare cuts across Europe between 1995 and 1997, convinced me of the necessity to include another variable to control for social mobilizations against fiscal adjustments. This proxy variable is the total number of working days lost per year due to strikes.

One expects the probability of government termination to increase with tenure and with big government coalitions, and to decrease with strong parliamentary support. The opposite signs are expected in the case of probability of reelection. Results are presented in table 3.

Table 3: *Budget Balance and Cabinet Changes, 1960-2000. All Years*

	Gov´t Termination		Ideology Change		Prime Min Change		Reelection	
	Model 1	*Model 2*	*Model 1*	*Model 2*	*Model 1*	*Model 2*	*Model 1*	*Model 2*
Var. Prim. Budg. .Bal	-0.085**		0.088		0.002		-0.183*	
	(2.25)		(1.26)		(0.03)		(1.85)	
Var.CAdj Pr.Bug Bal		-0.089*		0.084		0.046		-0.068
		(1.83)		(1.25)		(0.70)		(0.76)
Real GDP Growth	-0.062	-0.059	-0.132**	-0.097*	0.065	0.071	0.204***	0.163**
	(1.59)	(1.44)	(2.41)	(1.72)	(1.24)	(1.28)	(2.66)	(2.17)
Var. Prices	-0.012	-0.014	-0.005	-0.006	0.008	0.004	0.058	0.061*
	(0.94)	(1.05)	(0.27)	(0.33)	(0.45)	(0.21)	(1.70)	(1.78)
Var. Unemployment	0.034	0.064*	0.040	0.050	0.006	0.002	-0.082*	-0.028**
	(1.42)	(1.78)	(0.34)	(0.43)	(0.35)	(0.42)	(1.74)	(1.99)
Var. Inequality	0.115*	0.120*	0.085	0.099	0.330***	0.379***	-0.575***	-0.543***
	(1.83)	(1.84)	(0.96)	(1.06)	(3.56)	(3.76)	(3.62)	(3.55)
Gov´t. Duration	0.390***	0.405***	-0.042	-0.054	0.141*	0.134	0.118	0.137
	(5.52)	(5.51)	(0.50)	(0.64)	(1.72)	(1.61)	(1.00)	(1.17)
Majority Parliament	-0.635***	-0.592***	0.246	0.250	-0.117	-0.164	0.282	0.186
	(3.71)	(3.40)	(1.05)	(1.04)	(0.52)	(0.70)	(0.80)	(0.54)
Coalition Size	0.194***	0.188***	-0.033	-0.040	-0.055	-0.041	-0.208*	-0.191*
	(3.59)	(3.41)	(0.44)	(0.52)	(0.75)	(0.54)	(1.73)	(1.70)
Social Mobilization	0.001	0.001	0.002	0.001	-0.000	-0.000	-0.011**	-0.010**
	(1.05)	(0.91)	(0.50)	(0.56)	(1.48)	(1.39)	(2.19)	(2.13)
Constant	-0.797***	-0.808***	0.123	0.095	-0.320	-0.269	-0.832	-0.731
	(2.94)	(2.90)	(0.32)	(0.24)	(0.86)	(0.71)	(1.54)	(1.37)
Observations	557	546	194	185	198	189	113	111
Log likelihood	60.78	58.76	11.41	10.21	24.10	25.88	43.57	39.58
Pseudo R-squared	0.12	0.12	0.04	0.04	0.09	0.10	0.27	0.26
LR Chi 2(9)	-230.34	-216.57	-121.71	-117.60	-124.69	-117.84	-56.53	-57.14
Prob>Chi 2	0.000	0.000	0.249	0.334	0.041	0.021	0.000	0.000

Absolute value of z-statistics in parentheses
* significant at 10%; ** significant at 5%; *** significant at 1%

Results for the regressions on government termination and ideology changes are very similar to those presented by Alesina, Perotti, and Tavares (1998) using a different sample that included all OCDE countries for the period 1965-95, while the other two sets of regressions on the probability of prime minister change and the probability of reelection offer very interesting new results.

In general, none of these specifications capture very well the observed variation in the respective dependent variables, except for the reelection models. In most cases, fiscal policy variables are important determinants of every measure of government survival, ideological change, and prime minister reelection. Political variables show the expected signs: longer government durations increase the probability of government termination, parliamentary majorities decrease it but increase the probability of reelection, and larger coalitions make government survival increasingly difficult. Social mobilization does not have any effect on the probability of government termination, but it does play a role on the probability of prime minister reelection.

With respect to the impact of economic variables, the above results are also similar to those found by Paldam (1991) who found a moderate effect for economic growth, unemployment, and inflation. Inflation is not an important determinant of government termination, ideology change, and prime minister change, and only becomes statistically significant as a determinant of prime minister reelection. In any case, its sign runs counter to those who affirm that voters punish governments that create inflation, and support the classical theses of the literature on political business cycles, that predict that those politicians who expand the aggregate demand and accelerate the rate of economic growth before the election arrives, will be reelected at the polls, even if prices have risen slightly as a consequence of that temporary expansion. It looks like voters are willing to tolerate moderate levels of inflation if this brings higher economic growth. On the other hand, unemployment seems to become a much more important factor in explaining the probability of prime minister change and the probability of prime minister reelection. This result is consistent with the findings by Cheibub and Przeworski (1998) who found in a sample of 135 countries between 1950 to 1990 that “when employment grows faster, prime ministers are more likely to survive” (p. 227). Some recent European events are very illustrative in this respect. In the midst of high unemployment, the Socialists under Lionel Jospin were swept into power amid promises of greater social protections and job creation, a theme that was echoed by other parties of the left, and that gave them power in thirteen out of fifteen EU Member States in the aftermath of the “Maastricht exam” (Bohrer and Tan, 2000).

Finally, the change in inequality proves to be a very important factor in determining electoral outcomes. This has to do with the relative importance of social mobilization. The more able are societies to articulate their social demands, through strikes and demonstrations, the more likely is that their protests will determine election outcomes. Because these groups are usually made of trade unionists and leftist militants it is likely that the reduction of income inequality is among their main claims, and that this issue will become also important in determining the probability of government reelection when a fiscal adjustment has taken place. The strong explanatory power that this variable has to explain the type of political consequences that politicians bear after fiscal consolidations has been systematically ignored in the literature. Nevertheless, it is a very important variable to understand why some politicians are reluctant to implement these policies. What previous results show is that although it is not clear if politicians are going to be judged by the aggregate numbers that the budget balance shows, it is very likely that they will be judged by the economic consequences that these adjustments create. Expenditure-based fiscal adjustments can have expansionary effects under certain circumstances. But the reverse of the coin, also absent from the most popular studies on the topic, is that these adjustments normally increase income inequality, that are at last politically costly for the governments that implement them. While results from Mulas-Granados (2003) confirmed the ongoing validity of the classical trade off between growth and equality in the framework of fiscal adjustments and their economic consequences, results from table 3 suggest that this trade off is also present in the framework of their political consequences. At the end, politicians aiming at consolidating the budget will have to choose between facing a loss of support due to increases in inequality, or gaining future electoral support due to future increases in the rate of growth.

In table 4 it can be observed that all these results are reinforced when the analysis is extended to take into account the composition of the budget as a possible determinant of government termination or prime minister reelection.

Table 4: *Budget Composition and Cabinet Changes, 1960-2000. All Years*

	Government Termination				Reelection			
	Model 1	*Model 2*	*Model 3*	*Model 4*	*Model 1*	*Model 2*	*Model 3*	*Model 4*
Var. Prim. Budg. .Bal	-0.067*	-0.086**	-0.083**	-0.087**	-0.112**	-0.191***	-0.169***	-0.145**
	(1.72)	(2.26)	(2.18)	(2.27)	(2.19)	(3.15)	(2.22)	(2.14)
Real GDP Growth	0.050	0.028	0.014	0.022	0.117	0.251***	0.199**	0.166*
	(1.21)	(0.66)	(0.33)	(0.51)	(1.36)	(2.84)	(2.20)	(1.84)
Var. Prices	-0.012	-0.012	-0.012	-0.011	0.068*	0.061	0.068*	0.066*
	(0.93)	(0.93)	(0.93)	(0.86)	(1.74)	(1.62)	(1.71)	(1.72)
Var. Unemployment	0.027	0.011	0.013	0.003	-0.155**	-0.036*	-0.089**	-0.094**
	(1.32)	(1.08)	(1.04)	(1.14)	(1.96)	(1.73)	(1.97)	(1.99)
Var. Inequality	0.103	0.104	0.097	0.104	-0.590***	-0.525***	-0.557***	-0.562***
	(1.60)	(1.63)	(1.51)	(1.63)	(3.45)	(3.26)	(3.32)	(3.33)
Gov´t. Duration	0.389***	0.400***	0.407***	0.395***	0.154	0.067	0.077	0.105
	(5.29)	(5.55)	(5.59)	(5.46)	(1.20)	(0.54)	(0.62)	(0.85)
Majority Parliament	-0.577***	-0.698***	-0.632***	-0.752***	0.459	0.361	0.377	0.420
	(3.25)	(3.92)	(3.61)	(3.68)	(1.19)	(1.00)	(1.01)	(1.04)
Coalition Size	0.203***	0.225***	0.230***	0.219***	-0.151	-0.256**	-0.243*	-0.196
	(3.65)	(3.97)	(4.01)	(3.81)	(1.19)	(1.99)	(1.82)	(1.49)
Social Mobilization	0.001	0.001	0.001	0.001	-0.001*	-0.002**	-0.001*	-0.002**
	(1.09)	(0.79)	(0.58)	(1.01)	(1.87)	(2.06)	(1.69)	(2.01)
Quality of Budget.	0.001				-0.059			
	(0.10)				(1.36)			
Total Expen. %GDP		-0.018*				0.027*		
		(1.93)				(1.91)		
Social Transf..%GDP			-0.034**				0.052	
			(2.04)				(1.46)	
Public Wages %GDP				-0.041				0.022
				(1.23)				(0.33)
Constant	-0.821***	0.094	-0.232	-0.195	-1.054*	-2.027*	-1.628**	-1.147
	(2.91)	(0.18)	(0.61)	(0.36)	(1.82)	(1.89)	(2.10)	(1.11)
Observations	551	577	566	566	101	110	102	102
Log likelihood	-217.65	-228.20	-223.84	-225.20	-51.45	-55.29	-52.65	-53.69
Pseudo R-squared	0.11	0.12	0.12	0.11	0.25	0.27	0.25	0.24
LR Chi 2(9)	50.46	61.19	59.43	56.70	34.25	41.87	35.93	33.85
Prob>Chi 2	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Absolute value of z-statistics in parentheses
* significant at 10%; ** significant at 5%; *** significant at 1%

If the political impact of balanced budgets was not totally clear from previous results, what becomes clear in table 4 is that the composition of any fiscal adjustment is more important than the adjustment itself. When total expenditures as a percentage of GDP grow, the probability of a change in government decreases, and the probability of reelection increases. The same is true for the share of social transfers and public wages, although their statistical significance is weaker.

It is worth noting that the inability of voters to reward or punish the quality of the budget is a clear sign of how difficult it is for voters to understand the details of fiscal policies[9], despite the official discourses that underline the benefits of good quality budget balances (EC, 2001). Nevertheless, their ability to discriminate among the major aggregates that affect them more directly, such as total expenditures and social transfers, can still guarantee some degree of political accountability regarding fiscal policy.

Finally, and before continuing to the next section, there are some of the previous results in both table 3 and table 4 that, seemingly contradictory, need a more elaborate explanation.

For example, an important contradiction that needs to be explained is the different effect that government duration has on the probability of government termination and on the probability of reelection. While accumulated tenure increases the probability of government termination, it also increases the probability of reelection. This apparent contradiction can only be explained by looking at its sources. Since the only difference between both samples is that regressions on government termination include all terminations independent of whether they are the result of elections, of coalition rearrangements, or of resignations, while reelections only look at cases where the prime minister has been reappointed after an election, the interpretation must be that longer government durations increase the probability of termination due to coalition fights, but not due to electoral fatigue. In fact, these results suggest that longer government tenures increase the probability of prime minister

[9] The quality of the budget measures the contribution of cyclically adjusted primary expenditures to the total amelioration of the budget balance.

reappointment (maybe through accommodation or media manipulation mechanisms), and confirm that it is governments who lose elections, not the opposition who wins them.

But the most important apparent contradiction is the negative and significant impact that fiscal adjustments have on government termination, combined with the negative and significant impact that they have on the probability of prime minister reelection. These results are clearly sending us two different messages. On the one hand, one could argue that fiscal adjustments do not have political consequences because they don't increase (or even reduce) the probability of government termination. This is in fact what Alesina, Perotti, and Tavares (1998) claim in their famous paper. But on the other hand, there is strong evidence saying that fiscal adjustments decrease the probability of prime minister reelection.

Besides the obvious differences between both datasets, regressions on the probability of government termination suffer from a reverse causality problem. As was already shown in Mulas-Granados (2002), only strong governments attempt to undertake fiscal adjustments. In itself a strong government is a government with a very low probability of termination. Therefore, it may very well be the case that not only fiscal adjustments increase the survival of governments, but that politically strong governments, which tend to survive longer, are the only ones with enough courage to undertake fiscal consolidations. This reverse causality problem is the first problem in that type of specification. The second problem is a problem of multicollinearity, resulting from the simultaneous inclusion as regressors of the two main indicators of political fragmentation (majority status in the parliament, and coalition size), and a measure of fiscal adjustment. The former indicators of fragmentation are the most robust predictors of government tenure, but are also predictors of fiscal policy. This causes multicollinearity between independent variables and makes "the effect of the latter (fiscal variables) difficult to pin down" (Obstfeld and Eichengreen, 1998: 260).

Maybe due to these two important problems, Alesina, Perotti, and Tavares (1998) find such surprising conclusions. Nevertheless the rationality of these conclusions is never revisited, and they leave us wondering: if fiscal adjustments are politically rewarding, why would then politicians be so reluctant to implement them? This obvious question is never raised in their article, nor are the statistical problems answered. This is why, considering all those previous problems, I choose the regressions on the probability of reelection as the most reliable indicators of the political consequences that fiscal adjustments bring about, and therefore I will only focus on them in the second part of the article.

3. The Electoral Consequences of Fiscal Adjustments

The study turns now to answer the second of the three questions that were posed at the beginning: Are politicians truly misinformed about voters' preferences when they think about the electoral calendar before deciding on the duration and the composition of strong fiscal adjustments?

Results from the previous section on the sample of both years of fiscal expansion and fiscal adjustment have already demonstrated that voters are not immune to fiscal policies when they vote. If positive changes of the budget balance are associated with lower probabilities of reelection, one can hypothesize that after episodes of strong fiscal consolidation, the probability of prime minister reelection in the following election will be lower than if the adjustment would have never taken place. In addition, if higher levels of public expenditures are associated with higher chances of reelection, it is also reasonable to expect that expenditure-based adjustments will be more punished at the polls than revenue-based ones. If this were true, the answer to the question above would be negative.

In order to test these hypotheses, this section will base its results on the detailed analysis of the characteristics and political consequences of the 53 episodes of strong fiscal consolidation.[10]

Table 5 presents a very illustrative comparison of reelection probabilities between three different samples: (1) the whole sample of adjustment and non-adjustment years used in

[10] Episodes of fiscal adjustment can last more than one year, and include every year in which the amelioration of the cyclically adjusted primary balance was higher that 1.5% of GDP, or when it was at least 1.25%, and the next or the previous year the variation in the budget balance was also positive.

the previous section, (2) the same sample but only for adjustment years; and finally, (3) the sample of adjustment episodes[11] (which last more than one year) that will be used in the present section.

Table 5: *Probability of Reelection During Fiscal Adjustments*

Probability of Reelection	1960-2000		1960-1989		1990-2000	
	Prob.	Obs.	Prob.	Obs.	Prob.	Obs.
(1) Whole Sample	0.49	129	0.48	92	0.54	34
(2) Adjustment Years	0.47	73	0.47	55	0.50	18
(3) Adjustment Episodes	0.47	51	0.44	35	0.51	16
Adjustments by Leftist Cabinets	0.41	22	0.31	17	0.55	11
Adjustments by Rightist Cabinets	0.59	29	0.69	18	0.35	5
Revenue-based Adj. Episodes	0.65	27	0.70	17	0.60	10
Expenditure-based Adj. Episodes	0.35	24	0.30	18	0.40	6

As can be observed, systematically during adjustment years and after adjustment episodes, the probability of reelection is lower than during non-adjustment years. This is the case for the four decades between 1960 and 2000. Nevertheless, it is surprising to observe that during the nineties the probability of reelection after fiscal adjustment episodes is 51%, still below the average probability for the whole sample, but seven points higher than the probability of reelection after an adjustment episode during 1960-1989. This indicates an increasing tolerance of fiscal adjustments on the part of the electorate during the last decade, precisely when the most important fiscal consolidations took place across Europe[12].

[11] Note that because strong adjustment episodes were classified taking into account if different cabinets performed different adjustments, any adjustment that experienced a change in the middle of the episode was split into two cases. Therefore, every episode of adjustment in this restricted sample has been implemented by only one government. Thus, the reelection variable here is constructed as follows: it takes value 1 whenever the Prime minister that pursued the consolidation is reelected in the first election following the end of the adjustment episodes, and takes value zero when it is not reelected.

[12] Out of a total of 53 episodes of strong fiscal consolidation between 1960-2000, 18 of them occurred during the nineties. This is equal to 34% of the cases concentrated in the last decade, instead of 25% that would have made the distribution of adjustments symmetrical along time.

The second interesting finding is that adjustments launched by leftist cabinets showed a lower probability of reelection during 1960-1989[13] that was radically reversed during the nineties. In fact, during the nineties, the probability of reelection when a leftist cabinet had launched the adjustment is higher than the probability when a rightist government did it.

This is showing that electorates across Europe appointed leftist governments during the nineties being conscious that fiscal consolidations were a “must” that any government was going to undertake anyway. This certainty reversed the traditional electoral punishment that voters imposed on leftist adjustors. In this line of reasoning, one can understand the increase that the probability of reelection after expenditure-based adjustments has experienced in the nineties.

As Figure 1 illustrates, the probability of reelection after an expenditure-based adjustment was as low as 30% during the three decades of the period 1960-1989. This probability increased 10 percentage points in only one decade, to reach a 40% reelection probability during the nineties.

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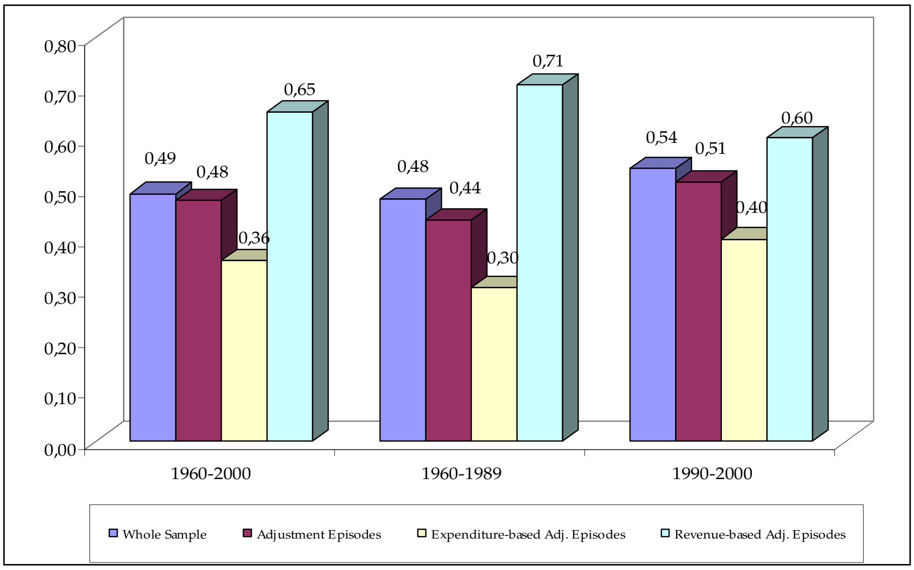
[13] The traditional voter support for deficit-led expansionary policies by governments on the left has even been found in political systems as weakly polarized as the American one. For example, Lowry, Alt, and Ferree (1998) find that “Republican gubernatorial candidates lose votes if their party is responsible for unanticipated increases in the size of the state budget (while) Democrats do not and, indeed, may be rewarded for small increases.”(p.759)

Figure 1: *Probability of Reelection During Fiscal Adjustments*



These changes in the nineties are corroborated when one looks at the bilateral correlation between probability of reelection and expenditure-based adjustment. As table 6 shows, between 1960-1989 it looks like after expenditure-based adjustments took place, it was more likely that there was a change toward more rightist governments. This suggests that left voters punished leftist governments when they pursued expenditure-based adjustments by switching the sign of their vote, while rightist voters rewarded rightist governments that consolidated the budget by means of cuts in expenditures.

Table 6: *Correlations Among Type of Adjustments and Cabinet Reelection Variables*

Type of Adjustment (1=expenditure-based; 0=revenue-based)	1960-2000	1960-1989	1990-2000
Reelection	-0.29 ***	-0.37 ***	-0.09
Ideology Change	0.36 ***	0.39 ***	0.25
Ideology Change to the Left	0.11	0.20	-0.09
Ideology Change to the Right	0.32 ***	0.29 **	0.33

* significant at 10%; ** significant at 5%; *** significant at 1%

This effect of punishing leftist governments for undertaking fiscal consolidations, and rewarding rightist ones, does not hold anymore during the nineties, due to the fact that some leftist government implemented expenditure-based adjustments during the nineties (see table 7).

This conclusion does not contradict the findings presented in Mulas-Granados (2002). Remember that it was shown in that article that despite this apparent convergence between leftist and rightist governments toward expenditure-based adjustments during the nineties, a majority of leftist governments still preferred to follow revenue-based adjustment strategies. And if those leftist governments were forced to reduce expenditures they preferred to safeguard public consumption, public wages, and public investment, in order to maintain the role of the State in the economy, and their capacity to implement supply-side policies of human and physical capital formation.

Probit regressions on the probability of reelection after fiscal adjustment episodes confirm all these previous findings. The evolution of economic variables during episodes of fiscal adjustment is not anymore a statistically significant determinant of the probability of reelection. Neither are the other political variables. However, coefficients show the expected signs. As before, to have a majority in parliament increases the probability of reelection, while having a fragmented government diminishes it, indicating that more parties are likely to run in the election and therefore probabilities of reelection are lower. Also, longer consolidations seem to exasperate the public and reduce the probability of reelection, while higher levels of social mobilization reinforce this effect.

Table 7: *Fiscal Adjustments and Prime Minister Reelections, 1990-2000*

Country	Adj. Years	Adj. Type	Reelection	Reelection Year	Ideology Change	Previous Prime Minister	New Prime Minister
Austria	1995-97	Exp.-based	No	1999	Right	Vranitzky, F. (SPÖ)	Schüssel, W. (ÖVP)
Belgium	1992-94	Rev.-based	Yes	1995	None	Dehaene, J.-L. (CVP)	Dehaene, J.-L. (CVP)
Denmark	1993	Rev.-based	Yes	1994	None	Rasmussen, N (SD)	Rasmussen, N (SD)
Denmark	1998-99	Exp.-based	No	2001	Right	Rasmussen, N (SD)	Rasmussen, A.F.(CON)
Finland	1993-94	Exp.-based	No	1995	None	Aho, E (KESK)	Lipponen, P. (SDP)
France	1996-97	Rev.-based	No	1997	Left	Juppe, A. (RPR)	Jospin, L. (PSF)
Greece	1991-92	Exp.-based	No	1993	Left	Mitsotakis, C. (ND)	Papandreu, A. (PASOK)
Greece	1995-98	Rev.-based	Yes	2000	None	Simitis, K. (PASOK)	Simitis, K. (PASOK)
Ireland	1999	Exp.-based	..			…	…
Italy	1991-93	Rev.-based	No	1994	Right	Ciampi, C.A. (NONA)	Berlusconi, S. (Forza)
Italy	1999	Rev.-based	No	2001	Right	Amato, G. (Olivo)	Berlusconi, S. (Forza)
Luxembourg	1992-93	Rev.-based	Yes	1994	None	Santer, J. (CSP)	Santer, J. (CSP)
Netherlands	1991-93	Rev.-based	No	1994	Right	Lubbers, R.F.M.(CDA)	Kok, W. (PvdA)
Netherlands	1995-96	Exp.-based	Yes	1998	None	Kok, W. (PvdA)	Kok, W. (PvdA)
Spain	1996-97	Exp.-based	Yes	2000	None	Aznar, J.M. (PP)	Aznar, J.M. (PP)
Sweden	1995-98	Exp.-based	..			…	…
UK	1994-96	Exp.-based	No	1997	Left	Major, J. (CON)	Blair, T. (LAB)
UK	1997-99	Exp.-based	Yes	2001	None	Blair, T. (LAB)	Blair, T. (LAB)

Finally, and most importantly, regression analysis confirms that voters are likely to stop voting for the incumbent government when it pursues an expenditure-based strategy of adjustment. However, this tendency was temporarily put on hold during the nineties, up to a point that made this predictor statistically insignificant to explain the chances that a prime minister had of being reelected after having pursued a fiscal consolidation based on strong cuts in public expenditures.

Table 8: *Type of Fiscal Adjustment and Probability of Reelection*

	Reelection		
	1960-2000	1960-1989	1990-2000 (a)
Real GDP Growth	0.186	0.026	0.047
	(1.18)	(0.11)	(1.08)
Var. Prices	0.027	0.028	
	(0.94)	(0.36)	
Var. Unemployment	-0.080	-0.056	
	(0.35)	(0.19)	
Var. Inequality	-0.176	-0.180	0.577
	(0.52)	(0.41)	(0.51)
Adj. Duration	-0.231	-0.336	-2.227
	(1.03)	(1.14)	(1.38)
Majority Parliament	0.813	0.720	1.166
	(1.35)	(1.07)	(0.73)
Coalition Size	0.275	0.367	
	(1.48)	(1.55)	
Social Mobilization	-0.001	0.001	
	(0.12)	(0.49)	
Expenditure-based Adj.	-0.838*	-1.491*	-2.712
	(1.69)	(1.80)	(1.33)
Constant	-1.743*	-1.306	-7.501
	(1.70)	(0.82)	(1.64)
Observations	45	32	16
Log likelihood	-25.23	-15.80	-15.35
Pseudo R-squared	0.19	0.28	0.38
LR Chi 2(9)	11.89	14.52	6.62
Prob>Chi 2	0.024	0.018	0.025

significant at 10%; ** significant at 5%; *** significant at 1%.
(a)Note that in order to avoid problems derived from lack of degrees of freedom,
some independent variables have been excluded.

In conclusion, results from this section show that voters have had during the nineties a higher tolerance toward expenditure-based adjustments than in previous decades. Behind this increase in the public opinion's tolerance coexist two related factors: the strong commitment on the part of European officials and national governments to maintain the compromises signed in 1992 in Masstricht, and the unprecedented degree of campaigning of government officials in favor of doing whatever sacrifice was necessary to qualify for the third stage of monetary union. In this respect European politicians pursued a strategy of *crafted talk* to change public opinion in order to offset the potential political costs of not following the preferences of average voters[14]. They did it by reshaping their messages, insisting on the need to reduce budget deficits but in a way that was more appealing to national public opinions. Arguments such as "unique historical opportunity", "national pride", and "the best for our country's future", were among those preferred by politicians to convince their electorates that today's effort would become tomorrow's prosperity.

Also, the mere existence of opposition has traditionally been the basis of the voters' capacity to make politicians responsive to their demands (Ferejohn, 1986). "Elections are not just about sanctioning an agent that has performed poorly, but about whether to appoint an alternative one" (Maravall, 1998: 161). However, this alternative with respect to fiscal policy was not perceived by the public in the nineties. The fiscal effort to qualify for the third stage of EMU was accepted, and promoted by all national governments and oppositions across Europe. Occasionally, discrepancies about the rhythm of the fiscal consolidation efforts and their composition arose, mostly regarding pension reforms or cuts in unemployment benefits, but these discrepancies were not interpreted by the electorate as clear signs of fiscal policy alternatives, since main parties of the left and the right were committed to the fulfillment of the Maastricht criteria at any cost[15].

[14] This strategy is similar (in form not in content or context) to the one followed by Republican politicians during the impeachment process of President Clinton between 1998 and 1999. For a detailed account of *crafted talk* strategies designed to change public opinion, see Jacobs and Shapiro (2000).

[15] Except of course, the cases of the Conservatory Party in the United Kingdom, the coalition of former Stalinists of the Socialist People's Party (SPP) and the extreme right-wing Danish People's Party (DPP) in Denmark, and the Christian Democratic, center, left, and environmentalist parties in Sweden, whose open opposition to the common currency offered a political alternative to the electorate. For a detailed account of the attitudes toward EMU among social democratic parties in Europe, see Notermans (2001).

4. Changing Public Opinion Toward Fiscal Adjustments

If there are two unexpected findings in the previous two sections they are:

-Voters make national governments more responsible for increases in inequality and unemployment rates, than for increases in prices and slow economic growth.

-Voters stopped punishing governments that undertake expenditure-based fiscal adjustments during the nineties.

As will be shown in this last section, both results have a direct relationship with the supranationalization of responsibility. When European voters assumed that national governments were not able anymore to generate growth and control prices on their own, they deposited their confidence in the European Union as a more capable creator of economic well-being, and subsequently started to make it responsible for economic outcomes. Similarly, when voters assumed that fiscal policies were imposed from supranational institutions, they stopped blaming national governments for expenditure-based fiscal adjustments.

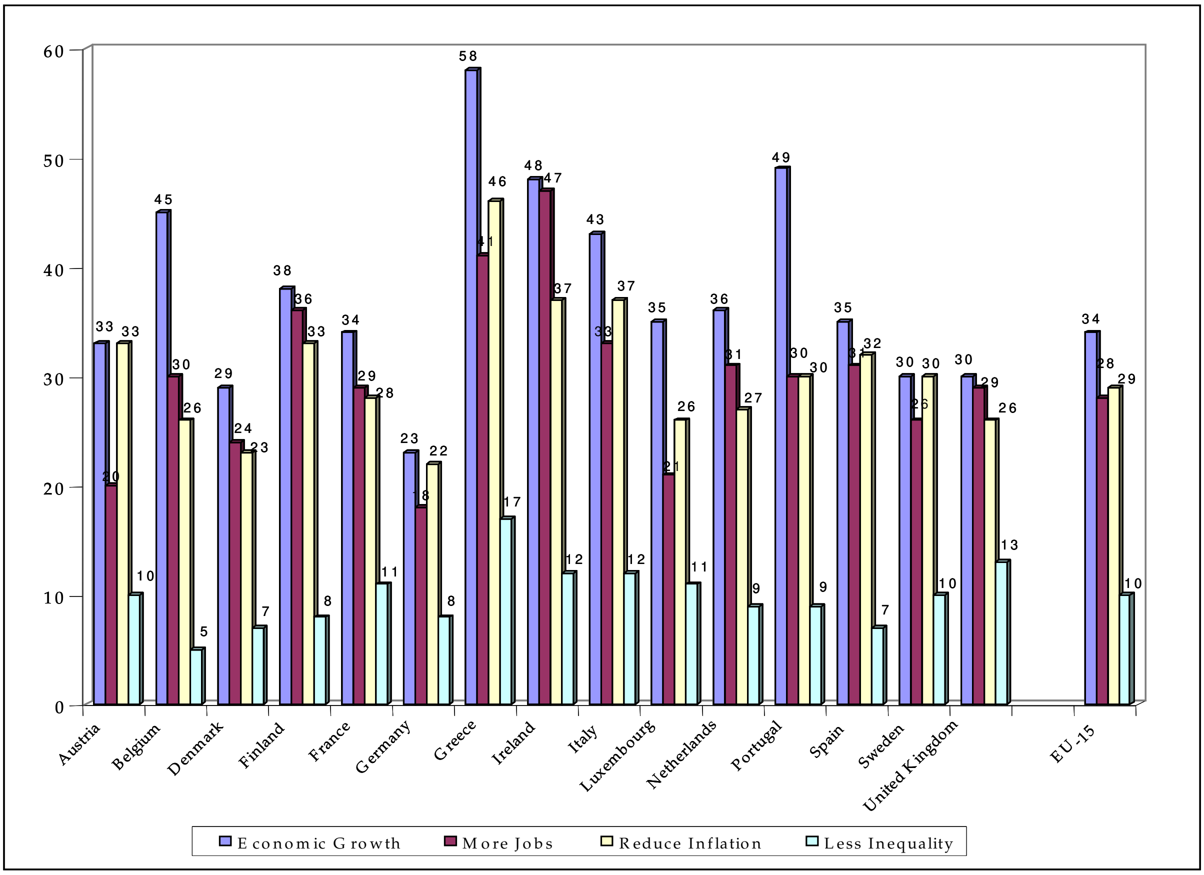
That voters started to assume in the nineties that there was a transfer of responsibility from national authorities to European ones on fiscal issues became clear in sections 1 and 2. The progressive attribution of responsibility in the generation of economic growth to the European level has been also a process easy to identify. As Eichenberg and Dalton (1993) affirm in their analysis of European public opinion between 1973 and 1992, the mere conception of the European Economic Community was explained to the European citizens as an agreement that would immediately increase economic prosperity through the liberalization of intra-communitarian trade. From the beginning, Europeans saw the EC as a helpful instrument to fight inflation and generate growth, while employment creation was perceived as being kept in the national sphere. Every reform, and every new treaty since then was explained on the same grounds to the public. The Single European Act in 1986 was publicly and academically interpreted as an European initiative to make the European economy more competitive and prosperous in a moment when it was lagging behind Japan and the US. And finally, the Maastricht Treaty was depicted as the last step in the completion of a truly internal cohesive market that would multiply economic growth in the future.

The process was very similar with respect to the control of prices. After the price shocks of the late seventies, European countries pushed forward the coordination of their monetary policies. The increasing role that the European Monetary System progressively played in European monetary politics since the seventies was the basis for a continuous process of further transferences of national monetary sovereignty to the European level that culminated with the creation of the European Central Bank. This body is now the sole European monetary authority in charge of interest rates and the monitoring of inflation rates across Europe.

There exists clear evidence that European public opinion internalized these messages. As can be observed in figure 2, in 1995, just in the midst of the strongest episodes of fiscal adjustment, people in the EU perceived that the euro would mainly bring more economic growth. Everyone expected the efforts of today to be compensated by higher economic prosperity tomorrow. Despite the permanent mention by national politicians in public discourses that the aim of higher economic growth was to generate more jobs, in all countries job creation lagged behind economic growth, and remained close to inflation reduction in the classification of the perceived effects that the euro would have.

Probably after the second oil crisis of 1979, European citizens were ready to assume that economic growth was a matter of Europe-wide economic policy. This is why voters started not to punish poor economic performers, although they did not do the same with unemployment reduction. These attitudes have remained unaltered until today. In 1995 (as can be observed in figure 2), labor policy was still clearly perceived as a matter of national politics, for which national governments could be made responsible. Also in 1995, the European public was already perfectly conscious of what fiscal adjustments implied in terms of freezing or cutting social spending, and therefore did not expect from the euro any significant improvement in income inequality, a policy that remained entirely in the hands of national authorities.

Figure 2: *Consequences of the Euro, 1995*



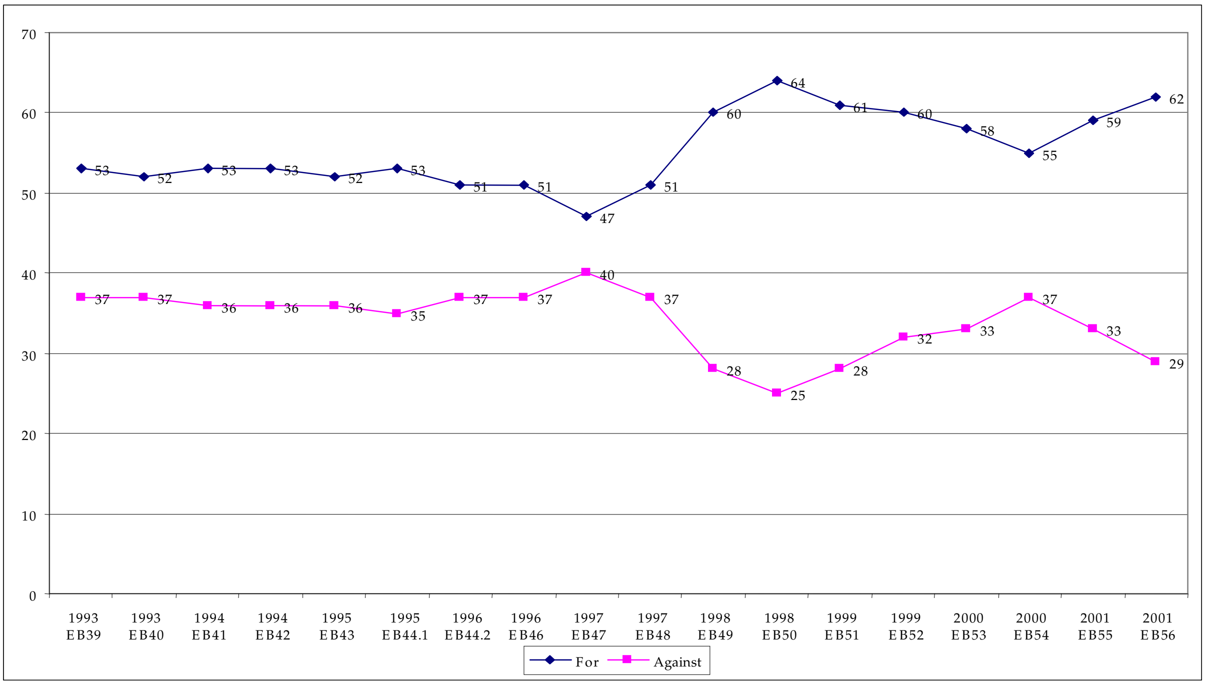
Source: Own elaboration. Sources of data: Eurobarometer 44 (1995)

Did this supranationalization of responsibility harm the traditional support of European citizens for the European project in general and the single currency in particular? One could immediately think that if national electorates stopped punishing national politicians for implementing fiscal adjustments during the nineties, they may have started to blame someone else, mainly the European authorities. Since they are the guardians of the Treaties and the ones in charge of assessing whether each country qualified or not to join the third stage of EMU, it is easy to think that support for European integration may have dropped after strong fiscal adjustments were implemented during the nineties.

Evidence from public opinion polls on the support for the European currency confirm that there was a cost in public support when fiscal adjustments were stronger, but that this was only temporary.

As figure 3 shows, once the effort passed, support for the main European project (the single currency) resumed and overcame initial levels.

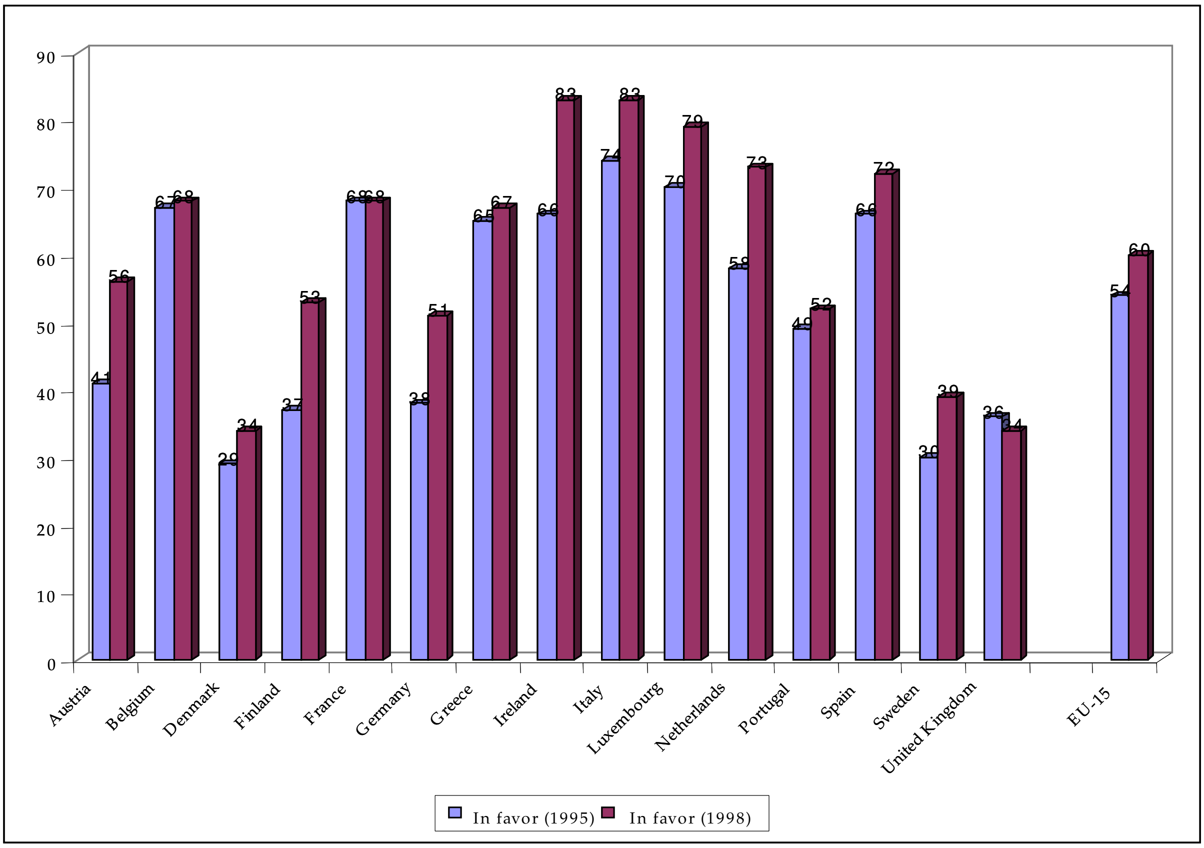
Figure 3*: Support for the Single Currency, 1993-2001*



Source: Own elaboration. Sources of data: Eurobarometer 39-56

The loss of popularity of the single currency project after the strongest episodes of adjustment between 1995 and 1997 was remarkable. In fact, most of the countries that made the strongest fiscal efforts during those two years, such as Belgium, Denmark, France, Greece, Portugal, Spain and the United Kingdom, rank among the group of countries in which support for the single currency remained stable or decreased between 1995 and 1998 (see figure 4). Some of these countries (Spain, Portugal, Greece, and the UK) were classified in 1995 (Eurobarometer, 44) as being the countries with the lowest degree of information about the single currency, but paradoxically, they were classified among the most supportive countries of the euro project. The fact that in 1998 these levels of support stopped growing and remained stable precisely in those countries, is a clear example of how those strong fiscal consolidations awoke the consciences of even the least informed and most supportive group of countries.

Figure 4: *Percentage of Population in Favor of the Euro, Per country, 1995-1998*



Source: Own elaboration. Sources of data: Eurobarometer 44 (1995) and Ahrendt (1999)

Nevertheless the popularity losses shown in figure 3 were only temporary. In Spring 1998, just after the European Commission released their famous Convergence Report (1998) where it recommended eleven countries to be accepted in the third stage of EMU, European support for the euro resumed. From that moment on, it remained at very high levels but on a decreasing path, probably reflecting the first problems that European citizens started to face in the use of the new currency as a "non-physical currency" between 1999 and 2002 (EC, 2001c). However, strong enough, the media campaign of the months immediately previous to the circulation of the physical currency, explain the impressive take-off in the support levels for the euro across Europe.

This evidence supports the argument that supranationalization of responsibility for economic growth and expenditure-based adjustments in the EU, entailed two parallel processes led by two different types of public campaigns. The first one was led by national governments and consisted in explaining to their citizens that the occasion was historically unique. Each country was faced with the dilemma of struggling to fulfill the Maastricht criteria and join the "first class members" group, or let this crucial opportunity pass (with the associated dangers and uncertainties). Local elites formulated their message reinforcing that there was nothing that national governments could do at that point. The Treaty was there, the convergence criteria were clear, and every other country seemed ready to fight for a place in the "euro-club". The decision was a "take it or leave it" one, based on a public message that insisted that future economic gains (basically higher growth and lower inflation) deserved the effort. National politicians across Europe explained fiscal adjustments to their electorates as policies "imposed from abroad" that had to be implemented because there was a national compromise to do it, and because of the long-term benefits associated to these policies. As I have already shown, this campaign was terribly effective in undermining the public support for the single currency project, between 1995 and 1997.

The second public campaign was led by the European institutions. In an effort to compensate the previous one and compensate possible popularity losses, the supranational campaign ran parallel to the national one until 1998. The aim of the campaign was not to counteract the discourses of national politicians but to reinforce them by showing the inevitability of the convergence process and by stressing their economic and political advantages. Economic growth, increased mobility and facilities for European travelers, lower interest rates, and lower inflation were again the leading advantages on which those campaigns focused. Once the decision was taken as to how many countries would join the third stage of EMU in 1999, the only campaign that remained was the supranational one, perfectly articulated through national and local authorities[16], that turned its focus toward the preparations for the single currency, and the future advantages that the new currency would bring.

The effect of this second campaign, day by day, overwhelmingly present in the media, regenerated all the lost support in the European project, which reached its highest level when the euro was about to become a reality by the end of 2001, precisely when national governments joined the European Commission in the media campaigns. Data from Eurobarometer 56 from November 2001, show a remarkable increase of 12% points in two years on the average confidence on the European Union and the Commission. It also shows a "vast majority support of the Union's policy initiatives" (p.5), while the support for the single currency records its maximum, over 62%.

These impressive records, despite the low numbers achieved during the worst years of fiscal consolidation in Europe, must be attributed to the targeted nature of the mentioned campaigns. There were two major targets of these campaigns: on the one hand, by insisting on the economic benefits of joining the EMU, European authorities tried to reinforce all the

[16] National and local authorities have been responsible for information campaigns on the euro, under the coordination and supervision of the European Commission. An example of this "supervised variety" is the different types of slogans chosen by different countries, aiming at capturing different information needs and different psychosocial characteristics of each population. These slogans ranged from the Italian "in Europa si conta in euro", or the French "L´euro, c´est plus facile ensemble", to the Spanish: "Euro: el valor de la Unión". A second example of this "supervised delegation" of campaigning initiatives, is Spain, one of the most decentralized countries in Europe, where most of the one-to-one campaigns were organized by the local authorities. This was done through an array of very different initiatives such as the "Euromanual para la preparación de las empresas" by the Madrid local government, the web page-based campaign of Castilian government, the innovative campaigns "Benvinguts a l´euro" and "Ara és la nostra" by the Catalonian government, the guides about "Los interrogantes de los valencianos ante el euro" and "El euro y la economía valenciana" by Valencia local government, the "Euro Boletín" by the Andalusian government, or the comprehensive "Euroaz Informatzeko Euskal Plana" by the Basque government, among others.

economic and social efforts made by EU-11 countries, and hoped to widen the low level of support in the opt-outs, mainly in the UK and Denmark. On the other hand by repeating the same messages again and again, and making them closer and familiar to the most reluctant parts of the social strata in all European countries, the aim was to reverse the low level of support among the elderly, the less educated, among women, and among manufacturers.

Both strategies proved also very effective, since the public opinion was hungry of information (91% of Europeans demanded in 1995 more information about the single currency project (Eurobarometer 44)). The insistence on economic benefits increased even more the perception that the euro would be a vehicle for higher economic growth and lower inflation (and not unemployment anymore-see figure 5 and compare it with figure 2).

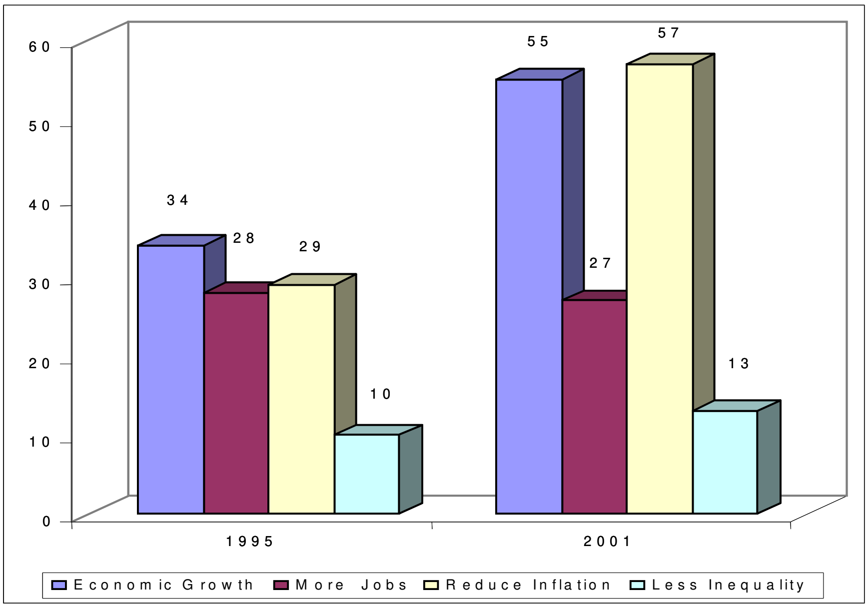
Also the strategy of targeting the social groups more hostile to the single currency (those who normally feel more insecure about their economic stability, about changes in general, and who were more afraid of losing social benefits due to the convergence criteria) succeeded in removing some long-lived oppositions. For example, between 1995 and 1998, support for the single currency increased among women from 43% to 56%, among people who left school before 16 year old from 44% to 52%, among the retired people from 48% to 56%, among the unemployed from 47% to 55%, and among manual workers from 46% to 54%.[17]

In other words, some of the reasons why voters have not been punishing their governments so strongly for bad economic performance, or lately, by expenditure-based fiscal adjustments, have to do with the fact that voters assumed that in those fields there existed some exogenous determinants that made it impossible for governments to totally control those variables. Because some factors were out of national politicians control, they were not the ones to be blamed for undesired outcomes. This is why the danger of shifting the blame from the national level to the European one, partially materialized during the worst two years of the fiscal adjustment effort to pass the "Maastricht exam", between 1995 and the

[17] All these increases are higher than average increases in public support for the whole population. Data from Eurobarometer 44 (1995) and Ahrendt (1999).

end of 1997. Nevertheless, the subsequent loss of popularity of the single currency project was only temporary, and levels of support quickly returned to the positive track, thanks to the simultaneity of information and propaganda campaigns launched by European institutions.

Figure 5: *Consequences of the Euro, 1995-2001*



Source: Own elaboration. Sources of data: Eurobarometer 44 (1995) and Ahrendt (1999).

5. Conclusion

Once some previous studies of the economic consequences of fiscal adjustments showed that different strategies of fiscal adjustments achieved opposite results in terms of economic growth and economic inequality (Alesina, Perotti and Tavares, 1998; Von Hage, Hallett and Straucht, 2001; Mulas-Granados, 2003), the question about the possible reactions of public opinion to these different strategies and results became even more salient.

This study has come then to tackle this issue, attempting to answer three related questions, all of them regarding the likely political consequences that fiscal adjustments have for those governments who undertake them.

By looking at the probability of prime minister reelection, instead of the probability of government termination, this article questions previous findings in the literature and provides strong empirical evidence supporting the thesis that voters punish governments that implement expenditure-based fiscal adjustments. The composition of fiscal adjustments is an important determinant of their political consequences, since fiscal adjustments that reduce social spending and increase income inequalities are normally punished by European voters.

Nevertheless, the costly electoral consequences traditionally associated with expenditure-based adjustments have been reversed during the nineties, precisely when the most important consolidations have taken place. This suggests that voters became more tolerant of expenditure-based adjustments during that decade, probably because they saw no alternative in the political scenario regarding fiscal policy and the fulfillment of the Maastricht criteria.

Finally, this work shows that part of this process of not blaming national governments for what in other times were unpopular policies, had to do with the political campaigns that supranationalized political responsibilities and made Brussels responsible for constraining national fiscal maneuverability. As a consequence, the single currency project suffered an important decline in popularity during the years of strongest fiscal effort, but this only had temporary effects, thanks to the impressive effectiveness of the compensating media campaigns launched by the European institutions.

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