THE SOCIAL SOURCES OF AUSTERITY

The Politics of Fiscal Consolidations in the UK and France, 1978-2014

by

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Submitted to

Central European University

Doctoral School of Political Science,
Public Policy and International Relations

In partial fulfillment of the requirements for the degree of
Doctor of Philosophy

Supervisor: Assoc. Prof. Dr. Achim Kemmerling

Budapest, Hungary
2016
Abstract

Why do countries implement austerity differently? Why do they follow different fiscal pathways? Why do some fiscal consolidations lead to social conflicts while others do not? This dissertation explains this variation by focusing on three key mechanisms - tax linkages, attrition and the evolution of social coalitions - in two most similar countries, the United Kingdom and France from 1978 to 2014.

I argue that where tax systems promote strong linkages between payments and benefits, social groups prefer tax hikes to spending cuts because they do not want to forgo benefits for which they have already paid. If those tax linkages are weak, social groups are more likely to resist tax hikes because of uncertainty. Second, attrition refers to the degree of infighting between social groups during austerity. It is measured as income inequality. Where social groups are equal, they are more likely to agree on higher taxes because of a fair additional tax burden: if incomes are equal, taxes are equal. Where inequality prevails, wars of attrition undermine consensus for tax hikes. These two mechanisms yield ideal-types embodied by the UK and France. Countries like the UK, where tax linkages are weak and inequality is high, are more likely to cut spending than to increase taxes. Conversely, countries like France, where tax linkages are strong and inequality is low, are more likely to increase taxes than to cut spending. These different configurations help explain the divergence of fiscal pathways during the age of austerity (1978-2014). Third, austerity can reshape social coalitions and influence future policy through these mechanisms. If inequality increases in a country with strong tax linkages, austerity provokes fiscal conflicts because social groups oppose spending cuts and tax hikes. Countries like Greece and Portugal as cases in point. I argue that France is coming closer to this configuration because inequality has been increasing in the last decade. In the UK, weak tax linkages and increased inequality levels since 1978 paved the way for deep expenditure cuts after 2010.

To be sure, many scholars have underlined the importance of social coalitions for the politics of policy-making. But these accounts ignore contextual preferences and the endogenous evolution of social coalitions. Therefore, the main contribution of this dissertation is to show how the interaction between in tax linkages and attrition levels yields a useful dynamic typology of the politics of austerity. Further, the dissertation has important theoretical implications. I show that traditional partisan or ideational explanations do not fully explain counter-intuitive fiscal pathways and the contested politics of austerity. I suggest that certain configurations of linkages and attrition favor certain parties and certain forms of fiscal governance. This dissertation also sheds light on the politics of austerity in the United States, the Eurozone and bailout countries. Finally, my argument also has important implications for the study of the Economic and Monetary Union, showing why some countries may find it more difficult to respect the Stability and Growth Pact than others.
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