Politics of Fiscal Consolidation in Europe: A Comparative Analysis

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Abstract
The aim of the paper is to comparatively describe and explain consolidation measures and relevant decision-making processes in fourteen European countries in 2008-2012. The analysis showed that the consolidation measures followed largely a similar pattern. Hiring and pay freeze occurred almost everywhere, whereas more radical cutback measures were introduced only in a limited number of countries. Cutback decision-making was not a one-off event, but consisted of a series of stages, beginning with temporary and small measures and gradually evolving into more serious cutbacks, sometimes arriving at targeted cuts and political priority-setting. The political decision-making was rather moderate and gradual than drastic and swift. Exceptions to this general pattern were the Baltic states as well as these European countries which were supported by international organizations in the condition of swift and severe cutbacks. Financial-economic factors and external influence primarily explained the consolidation measures, whereas the domestic political-administrative factors turned out to have a rather limited explanatory power.

Points for practitioners
The comparative analysis of fiscal consolidation in fourteen European countries showed that the consolidation measures followed largely a similar pattern. Hiring and pay freeze occurred almost everywhere, whereas more radical cutback measures were introduced only in the later stages of fiscal consolidation. In the beginning of the crisis, the severity and duration of the crisis were denied and the necessity for serious cutbacks was recognised only later. Exceptions to this general pattern were the Baltic states as well as these European countries which were supported by international organizations in the condition of swift and severe cutbacks. The article argues that the political will and capacity of governments to take drastic measures and targeted cuts based on political priority-setting is still seriously in need.

Keywords
Fiscal crisis, fiscal consolidation, cutbacks, political decision-making, Europe

Politics of Fiscal Consolidation in Europe: A Comparative Analysis

1. Introduction

The country studies reported in this symposium provide an insightful account of the distinctiveness of fiscal consolidation in Belgium, Estonia, France, Germany, Lithuania and the Netherlands. In this concluding paper we abstain from summarising these country studies. Instead, we focus on the general patterns of fiscal consolidation across an enlarged set of European countries that allow for a comparative analysis and explanation. The main purpose of this paper is to provide an international comparative analysis of how a variety of European countries responded to the fiscal crisis in 2008-2012. The focus will be on the fiscal consolidation measures and the governmental decision-making processes leading up to these measures.

The existing scholarly research has provided multiple insights about the implications of the financial-economic and fiscal crisis on public administration. The crisis has been treated both as dependent and independent variable in theoretical and empirical works addressing different policy areas and aspects of public administration. Several authors point out that the crisis has substantially redrawn the boundaries between public and private sectors (Thynne, 2011) by empowering the former (Moulton and Wise, 2010; see also opposing theorizing by Pandey, 2010). Also, the coordination mechanisms of the key regulatory institutions have been addressed with some studies concluding that the financial crisis resulted from coordination failures (Dabrowski, 2009; Gieve and Provost, 2012). Lodge and Hood (2012), in turn, have theorized about the shifting competencies required from public servants and governments due to crisis. Other scholars (Peters et al., 2011; Peters, 2011) have offered hypotheses about the effects of the crisis on centralization, politicization and coordination. Also the issue of citizens' (declined) trust, (heightened) expectations and general attitudes towards government and the role of public leadership have been addressed (Posner and Blöndal, 2012; Raudla and Kattel, 2013; Massey, 2011; Van de Walle and Jilke, 2014).

The existing academic studies show that up to now the government responses to the crisis have been diverse. There have been "as many responses as countries" (Peters, 2011: 76) and in many cases the responses have been diverging (see Bideleux, 2011; Kickert, 2012b, 2012c, 2012d, 2013a, 2013b; Lodge and Hood, 2012; Peters, 2011; Peters et al., 2011; Pollitt, 2010; Verik and Islam, 2010). Although the number of publications in the fields of public administration and political science addressing the recent crisis has been fastly growing during the past couple of years, there is still a lack of comparative studies based on common methodology.

This paper attempts to fill up some gaps in relevant research. As part of the EU Seventh Framework project 'Coordinating for Cohesion in the Public Sector' (COCOPS), in the Work Package no. 7 on 'The global financial crisis in the public sector as an emerging coordination challenge', an international comparative study of the responses of European governments on the fiscal crisis was carried out. Being one output of this research project, this paper aims at describing and explaining similarities and differences between responses to the recent crisis with special focus on governmental decision-making processes. The comparative study is based on the analysis of fourteen European countries including Belgium, Estonia, France, Germany, Hungary, Iceland, Ireland, Italy, Lithuania, Norway, the Netherlands, Slovenia, Spain, and the UK (Kickert et al.,2013).

This paper looks at the fiscal consolidation measures and decision-making processes in the above-mentioned countries ─ therefore, it is firstly informative. The second objective is to compare the countries and try to explain the similarities and differences in the fiscal consolidation decision-making processes in different countries. In addition to economic explanatory factors, we also look at political-administrative factors and external influences that have affected the consolidation process. The main questions addressed in this paper are the following:

- How did the European governments respond to the fiscal crisis, what consolidation measures were taken, and how did the political decision-making take place?
- How can the similarities and differences between the various goverments' fiscal consolidation measures and political decision-making processes be explained, both from a financial-economic and a political-administrative perspective?

2. Analytical framework

Fiscal crisis

Notions such as global financial crisis, fiscal crisis, economic crisis, banking crisis, and Eurocrisis, have been used hand in hand, at times even interchangeably. To solve the definitional issues in the current paper, the global crisis is seen as a set of separate phases (Kickert, 2012a). First, the *banking crisis* was the initial phase of the crisis in 2008 when banks and other financial institutions collapsed and several governments undertook different support and rescue measures to save the financial institutions. Second, the *economic crisis* emerged after the financial crisis started to affect the real economy and led to drastic falls in GDP and employment, forcing many European governments to undertake economic recovery measures in 2009. Third, the *fiscal crisis* arose when the budget deficits the governments were facing (and gross state debts they had accumulated) became excessive, so that governments had to start consolidating the budgets and undertaking cutback management (Kickert, 2012a; Posner and Blöndal, 2012). Since 2010, the fourth phase of the crisis erupted ─ the *European sovereign debt crisis*, also called the *Eurozone crisis*. In countries with excessive national debt levels and budget deficits coupled with (foreign) lenders' increasing interest rates on state bonds, it became impossible to further finance their debts and deficits. Greece, Ireland and Portugal had to be bailed-out in 2010, Spanish banks received a bail-out in 2012 and Cyprus was bailed-out by the European Commission, the International Monetary Fund and the European Central Bank in 2013.

The focus of this study is on the phase of fiscal crisis, the other phases are used for contextual information. We investigate how the national governments handled their domestic fiscal crisis, and do not focus on decision-making at the European level . Though the Eurozone crisis, support measures taken co-operatively by the EU member countries and the Maastricht treaty requirements undoubtedly had a major impact on the economic and fiscal crisis in the Eurozone countries and on their consequent domestic fiscal consolidation measures. This study will consider that only in the framework of external factors influencing the domestic fiscal consolidation.

Fiscal consolidation: contents of measures

The usual economic classification of consolidation measures (see e.g. OECD, 2011, 2012) into expenditure and revenue measures has been followed in this paper (Table 1). Expenditure measures include, for example, cuts in personnel and non-personnel costs, programme cuts and postponement or cancellation of investments, whereas revenue measures most often entail tax increases.

Table 1. Classification of consolidation measures (based on OECD, 2011, 2012)

<table>
<tr><th>Expenditure measures</th><th>Revenue measures</th><th>Other measures</th></tr>
<tr><td>1.1 Operational expenditures
Hiring or pay freeze; Wage reduction; Staff reductions; Reorganisations; Efficiency cuts.</td><td rowspan="3">Consumption tax: e.g. VAT, excise taxes on alcohol, tobacco, energy.
Income tax
Corporation tax: e.g. bank bonuses.
Non-fiscal revenues</td><td rowspan="3">Addressing tax evasion and social security fraud
Financial sector
Energy sector</td></tr>
<tr><td>1.2 Programme expenditures in policy sectors
Social security; Health; Education; Housing; Welfare; other sectors.</td></tr>
<tr><td>1.3 Capital expenditures
Cuts in capital spending.</td></tr>
</table>

In this study, particular attention will be paid to the expenditure cutbacks targeted at public administration, that is, operational spending cuts. Reductions in operational expenditures are commonly categorised by the object of expenditure, distinguishing between personnel expenditure and non-personnel expenditure. In the literature, the most often cited instruments to cut personnel expenditure are the following: reduced (over)time; furloughs; wage freeze or reduction in the rate of salary increase; slowdown of promotion; salary cuts; filling positions with less credentialed, lower-paid staff; reducing pay grades of vacated job lots; early retirement; reshuffling of staff; hiring freeze and layoffs (Downs and Rocke, 1984; Levine, 1978, 1985; Wolman and Davis, 1980).

Fiscal consolidation: decision-making characteristics

The basic distinction in the cutback management literature (Raudla et al., 2013) is between across-the-board cuts (also dubbed cheese-slicing or decremental cuts), on the one hand, and targeted cuts (also called selective cuts or priority-setting), on the other hand. Across-the-board measures refer to cuts in equal amounts or percentages for all institutions, while targeted cuts imply that some institutions and sectors face a larger cut than the others. This distinction resembles the classical dichotomy between rational-comprehensive and incremental decision-making (Lindblom, 1959) (see Table 2).

Table 2. Rational-incremental dichotomy in decision-making

Rational-comprehensive	**Incremental-compromise**
Political priority-setting	No political priorities, no rational analysis
Fundamental rational core-task analysis	Across-the-board, cheese-slicing, equal cuts
Strategic long-term decision-making	Pragmatic short-term compromise decisions

Peters and his co-authors (2011) have further elaborated this classical dichotomy and sub-divided decision-making into a number of characteristics such as fundamental priorities *versus* incrementalism, swift and drastic *versus* slow and small decisions, centralized *versus* decentralized decisions, coherent systematic *versus* incoherent patchwork, and long-term sustainable solutions *versus* short-term quick fixes (see Table 3).

Table 3. Characteristics of decision-making

Fundamental political priority-setting	**Incremental pragmatic compromises**
Swift, large and drastic decision-making	Slow, small and gradual steps
Centralized decision-making	Decentralized decision-making
Coherent and systematic decision-making	Incoherent patchwork
Long-term sustainable solutions	Short-term quick fixes

Fiscal consolidation: decision-making stages

Types and characteristics of decision-making may differ in various stages of crisis. When faced with fiscal stress necessitating spending cuts, public organizations can choose between two sets of actions: first, denying or delaying the cuts and, second, deciding and implementing actual cuts. This reaction pattern resembles the social-psychological ‘coping cycle’ (Carnall, 2003) about ‘resistance to change’: people first tend to deny the need for change, then defend the advantages of the current situation, and only afterwards recognize and comply with the need for change, adapt to it, and in the end internalise the need and agree to take action to change. Moreover, the theory of change management teaches us that for a change to be successfully implemented, a series of necessary steps ought to be taken besides the mere ‘decision’ (Kotter, 1996).

The experience with cutback management in the 1970s and 1980s has taught us that cutbacks took place in a series of stages (Raudla et al., 2013). After the initial stage of denial and defence was overcome, a first round of small cutbacks usually came about. Because politicians were initially not yet convinced of the gravity and duration of the crisis, the measures were moderate and temporary, and cutbacks were postponed or planned for later years. Only in the later stages of cutbacks did governments realise that the crisis was more severe and persistent than expected, the cutbacks became more severe and finally political priorities had to be set for targeted downsizing and cutting of public services. The existing cutback literature shows that, as a rule, the longer-lasting and the more severe fiscal stress , the more likely it is that the authorities start imposing targeted cuts (rather than implementing the across-the-board measures) (Levine, 1979, 1985; Levine et al., 1981; Hood and Wright, 1981) (see Table 4).

Table 4. Stages of cutback decision-making

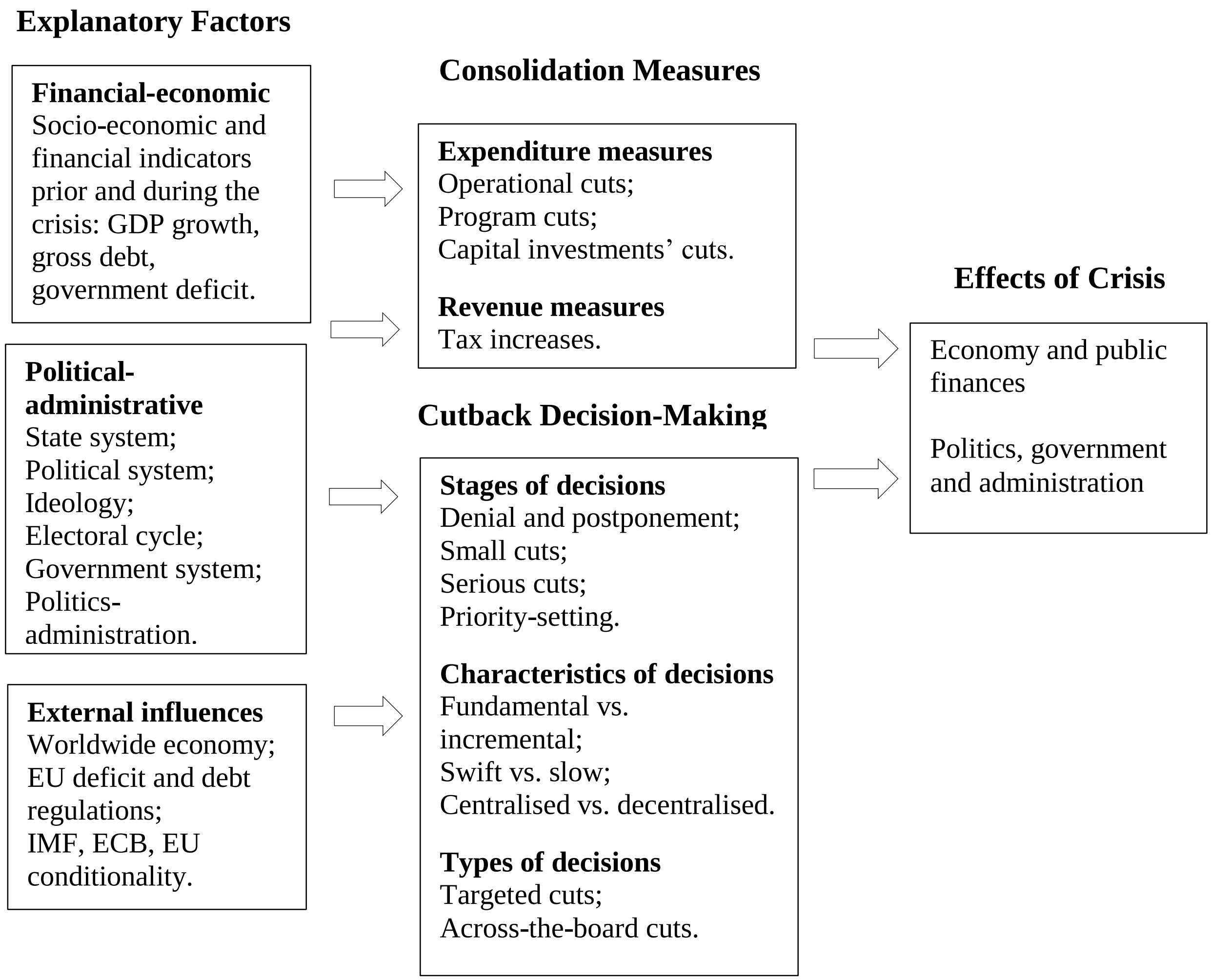
Stages of cutback decision-making	Types of cutback measures
Denial. Defend advantages of present situation. Unconvinced of gravity and duration of crisis.	Temporary small measures. Moderate adjustment to status quo. Cuts postponed or planned for later years.
Compliance with the need for cutbacks.	First attempt at serious cutbacks.
Internalized need for cutbacks. Action. Resolute cutback decisions.	First across-the-board and efficiency cuts. Later targeted down-sizing and cuts of public tasks. Ultimately fundamental political priority-setting.

Explanatory factors

This report distinguishes between three types of explanatory factors in analysing consolidation measures and decision-making during the fiscal crisis: financial-economic factors, political-administrative factors and external influences. Firstly, economic factors, such as GDP-growth, budget deficit, gross debt, are scrutinised to understand and explain fiscal consolidation. Secondly, this study also uses political-administrative characteristics as explanatory factors. The well-recognised characteristics of politico-administrative systems will be considered, such as state structure (e.g. unitary state, federal state, parliamentary or presidential system, degree of centralisation); type of political system (majoritarian or consensus); type of government (single-party or multi-party coalition; minority, majority or grand coalition); and ideology of the governing parties. Lastly, external influences of the worldwide financial-economic circumstances such as the Eurozone crisis, the EU-ceiling of three per cent for budget deficit (and sixty per cent for state debt) and the financial assistance provided by IMF, EU and the ECB will be considered in relation to their impact on consolidation measures and cutback decision-making processes.

The aforementioned factors altogether constitute the following analytical framework presented in Figure 1.

Figure 1. Analytical Framework



3. Empirical methodology

The comparative study is based on the analysis of fourteen European countries: Belgium (BE), Estonia (EE), France (FR), Germany (DE), Hungary (HU), Iceland (IS), Ireland (IE), Italy (IT), Lithuania (LT), Norway (NO), the Netherlands (NL), Slovenia (SI), Spain (ES), and the United Kingdom (UK). These countries differ in terms of their financial-economic and the political-administrative characteristics.

The paper draws on the main outcomes from the research compiled within the COCOPS Work Package 7 by integrating information and findings from three different sources. First, ten short country reports provided information about governments' main responses to the crisis. Second, eleven academic country case-studies provided more in-depth analysis of consolidation measures, decision-making processes, and the impact on public administration. Third, the relevant findings of a large-scale Europe-wide survey of 4,814 senior public sector executives 'Executive survey on public sector reforms in Europe', carried out in COCOPS Work Package 3 in 2012, have been utilized.

4. Fiscal consolidation measures

Table 5 below depicts the expenditure and revenue measures during the fiscal consolidation based on the information presented in the COCOPS country studies and the OECD reports (OECD, 2011, 2012) . The period covered starts with 2008, when the first consolidation measures were undertaken, although most of the countries introduced real cuts only in 2010 or 2011.

Table 5. Overview of consolidation measures 2008-2012

	BE	**DE**	**EE**	**ES**	**FR**	**HU**	**IE**	**IS**	**IT**	**LT**	**NL**	**SI**	**UK**
Expenditure measures													
Operational measures													
Hiring freeze	+	+	+	+	+	+	+	+	+	-	+	+	n/a
Wage reduction	-	-	+	+	-	+	+	n/a	n/a	+	-	+	n/a
Pay freeze	-	-	+	+	+	+	+	+	+	+	+	+	+
Staff reductions	+	+	+	+	+	+	+	n/a	+	+	+	+	+
Reorganisation	-	+	+	+	+	+	+	+	n/a	+	+	+	+
Efficiency cuts	+	+	n/a	n/a	+	n/a	+	n/a	n/a	+	+	+	+
Programme measures													
Health	+	-	+	+	+	+	+	+	+	+	+	+	+
Education	n/a	-	-	+	+	+	+	n/a	n/a	+	+	+	+
Pensions	+	+	+	+	-	+	+	n/a	+	+	+	+	+
Unemployment	-	+	+	+	-	n/a	+	+	n/a	+	+	+	+
Other social security/welfare	+	+	+	+	+	+	+	+	+	+	+	+	+
Infrastructure	+	-	n/a	+	+	n/a	+	+	n/a	n/a	n/a	+	n/a
Investment reductions	+	-	n/a	n/a	-	n/a	+	n/a	n/a	n/a	+	+	n/a
Revenue measures													
VAT	-	-	+	+	+	n/a	+	+	+	+	n/a	+	+
Consumption tax: e.g. alcohol, tobacco, energy	+	+	+	+	+	n/a	+	+	n/a	+	+	+	+
Income tax	+	-	+	+	+	n/a	+	+	n/a	Re.	+	+	+
Corporation tax (bank bonuses)	-	-	n/a	n/a	+	n/a	-	+	n/a	+	+	Re.	n/a
Non-fiscal revenues	+	+	n/a	n/a	n/a	n/a	+	n/a	n/a	+	n/a	n/a	n/a

+ indicates that either in country case studies or in the OECD 2012 report the specific cutback items have been reported
n/a indicates that information on a measure is not available
Re. indicates that tax rates were lowered

Public expenditure cutbacks have to a large degree been targeted at governments' operational costs, that is, at public administration itself. When looking at the various measures to reduce operational expenditures, it can be seen that *hiring and pay freeze* have been predominant measures applied in numerous countries. In some countries the period of pay or hiring freeze has been explicitly fixed (e.g. in the UK a two-year pay freeze was foreseen in 2011), in others their duration has been treated more flexibly.

Wage reduction was a cutback measure that followed the more modest and less contested pay freeze in those countries where the budgetary pressure was considerably higher. However, some governments, such as those of Estonia and Lithuania, volunteered unpopular decisions of wage cuts immediately after the outset of the crisis. Meanwhile, other countries which had received financial assistance from the IMF and the EU, such as Hungary, Iceland, Ireland, Italy and Spain, were requested to carry out these politically more sensitive forms of cutbacks. Germany, on the other hand, has a special legal civil service system which prohibits wage reductions and even pay freeze.

Reduction of staff was applied as a cutback measure in several European countries. Interestingly, however, different tactics have been applied to achieve this goal. For example, in Estonia and in Lithuania layoffs were applied at the beginning of the retrenchment (in Lithuania the executive and its institutions experienced a decrease of 11% in the filled positions). In France, a non-replacement of one out of two retiring civil servants has been put in place (OECD, 2012), while in Spain a 10% replacement rate for all staff in the public sector was implemented in 2011-13.

Several governments have also opted for *reorganisations* to reduce the expenditure side of the budget. In Lithuania all ministries and many agencies were restructured when the government initiated broad organisational reforms affecting all types of public sector institutions. In the UK, a Public Bodies Reform plan was initiated in 2010 with the aim to reorganise about 500 Arm's Length Bodies either by abolishing, merging or substantially reforming the agencies. In Spain, the restructuring of government included the abolition of duplicated bodies at the regional and central levels.

Efficiency savings seem to have been a less popular measure, although several governments have announced straightforward cuts based on increasing the efficiency. The UK introduced the Operational Efficiency Program for all departments targeted at saving in back-office operation, equipment, IT reforms and collaborative procurement as well as increased cost saving in the public sector estates. Seeking efficiency gains has been on the agenda in Lithuania as well, where the efficiency assessment of staff functions was carried out at the central governmental level and also centralisation of procurement functions and standardised state property management were applied.

5. Cutback decision-making

5.1. Characteristics of decision-making

This section offers an overview of the decision-making processes leading up to the fiscal consolidation measures in the selected European countries. First brief contextual information will be given about the decicion-making in the preceding phases of the crisis (based on Kickert, 2012a).

During the 2008 banking crisis, the severity, magnitude and urgency of the crisis forced governments into very rapid and highly centralised crisis management. Only a few actors ─ usually the Prime Minister, Finance Minister and President of the National Bank assisted by a handful of top-officials ─ had to take decisions under enormous time pressure. In virtually all countries affected by the banking crisis, the decision-making was very quick and highly centralised.

During the 2009 economic crisis, many European governments devised economic recovery plans. However, this time the crisis was not as urgent, and decision-making followed the usual political and parliamentary path, often including extensive consultations with employers' and employees' organizations. Moreover, the crisis in some countries was not considered severe enough to justify extra large expenditures. Decision-making during the economic crisis was neither fundamental, nor swift, nor centralized, nor systematic, nor long-term in most European countries.

The Eurozone crisis that erupted in 2010 provided a totally different type of decision-making pattern, this time not restricted to domestic government decisions but a highly complex and multi-layered co-operative decision-making by all Eurozone states together.

By 2010 most European governments arrived at the stage where budget deficits – often far exceeding the EU ceiling of three per cent of GDP ─ required fiscal consolidation measures. In the beginning, many political and social actors were far from being convinced of the need for expenditure cutbacks and, for example, debated the strictness of the European deficit-ceiling. As the need for more resolute cutbacks grew, governments tended to centralise their decision-making processes.

Table 6 summarises characteristics of decision-making process country by country. Within one country, decisions of succesive governments are distinguished. In the case of all indicators, the *prevailing* characteristic is indicated.

Table 6. Characteristics of cutback decision-making

	Belgium		**Estonia**			**France**	**Germany**	
	(- 2011)	**(2011 -)**	**(2007-09)**	**(2009-11)**	**(2011-)**	**(2007-12)**	**(- 2009)**	**(2009 -)**
None/small/ moderate/large cuts	Small	Moderate	Large	Large	Small	Moderate	Small	Moderate
Swift/slow	Slow	Slow	Swift	Swift	Slow	Slow	Slow	Swift
Targeted/ across-the-board	Across	Across	Across	Across	Targeted	Across	Across	Targeted
Centralized/ decentralized	Central	Central	Central	Central	Central	Central	Central	Central

	Hungary	**Italy**			**Iceland**	**Ireland**		**Lithuania**
	(2008-10)	**(2006-08)**	**(2008-11)**	**(2011-12)**	**(2009-)**	**(2008-10)**	**(2010-12)**	**(2008-12)**
None/small/ moderate/large cuts	Large	Moderate	Moderate	Large	Large	Moderate	Large	Large
Swift/slow	Swift	Slow	Slow	Swift	Swift	Slow	Swift	Swift
Targeted/ across-the-board	Across	Across	Across	Targeted	Targeted	Across the board	targeted	Across
Centralized/ decentralized	Central	Central	Central	Central	Central	Central	Central	Central

	Netherlands		Slovenia		Spain		UK	
	(2010-12)	**(2012 -)**	**(2008-11)**	**(2011 -13)**	**(2004-11)**	**(2011-)**	**(- 2010)**	**(2010 -)**
None/small/ moderate/large cuts	Moderate	Large	Small	Moderate	Large	Large	None	Large
Swift/slow	Slow	Swift	Slow	Swift	Slow	Swift		Swift
Targeted/ across-the-board	Across	Targeted	Targeted	Across-the-board	Targeted	Targeted		Targeted
Centralized/ Decentralized	Central	Central	Central	Central	Central	Central	Central	Central

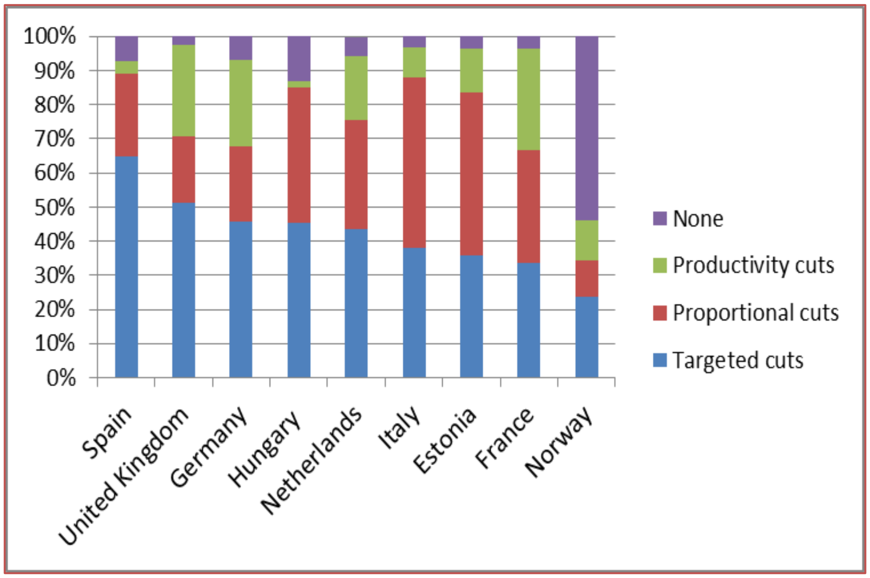
Also the characteristics of the cutback decisions were, to a large extent, related to the size of the fiscal crisis. Countries that were bailed out by the IMF or the Troika, received the loans upon the condition of not only drastic but also swift cutback measures. Also, the British Cameron-Clegg coalition cabinet very quickly agreed upon a drastic retrenchment package by finalising its details in the annual budget within months. The Estonian and Lithuanian governments opted for radical cutbacks and front-loaded them right at the beginning of the crisis. In most countries with a consensual democracy and multi-party coalition governments, the decision-making was accordingly characterized by long-lasting deliberation and compromising, and therefore slow decision-making process. An example of extremely slow decision-making was Belgium. After the 2010 general elections the coalition formation took eighteen months and was more concerned with Flemish-Walloon political language-group conflicts than with the priority-setting for fiscal consolidation. Ultimately fiscal consolidation measures were taken after extreme pressure of the European Union and the falling credit ratings of Standard & Poor’s.

5.2. Targeted versus across-the-board cuts

The extent to which the cutback decisions were targeted or across-the-board, was related to the size of the fiscal crisis. Relatively small cutbacks can easily be realised by across-the-board measures. The higher the necessary cuts come to be, the higher the chance that across-the-board measures will not be sufficient and targeted cuts become inevitable. As table 6 distinguishes between successive governments in a country, we can see how successive stages of cutback decision-making (see also below) yielded not only an increasing size of cuts, but also a shift from across-the-board to more targeted cuts.

The COCOPS public executives’ survey offered a complementary approach to the qualitative research by demonstrating how the public sector executives perceived the cutback decision-making in their particular countries (see Figure 2). In the survey, the dichotomy ‘targeted versus across-the-board cuts’ was expanded to the following three-partition: targeted cuts according to priority-setting; productivity and efficiency savings; and proportional across-the-board cuts.

Figure 2. Types of decision-making perceived by European public sector executives



The survey results show that Norway hardly experienced an economic and fiscal crisis, so it is not surprising that the survey yielded the highest outcome of 'no cutbacks' regarding this question. The drastic and fundamental cutbacks taking place in Spain and the UK are confirmed by the relatively high outcome of 'targeted cuts' in the survey. At the same time, large cuts in Estonia were carried out by using across-the-board cuts as prevailing cutback strategies. In other countries like France, Germany, the Netherlands and Italy, the relatively high perception of 'targeted cuts' in the survey somewhat differs from the information provided by country studies. The survey results also show that often it is not possible to draw a clear-cut line between targeted and across-the-board cuts. Most often, governments tend to use a combination of the two leading to a wide variety in the perceptions of public sector executives.

5.3. Stages of cutback decision-making

The case studies confirmed that the decision-making on fiscal consolidation and cutback measures is not a one-off event, but consists of a series of stages. It occured that the decision-making over the fiscal cutbacks of the 2010s followed a similar trajectory as in the 1980s in most of the European countries. The first cutback decisions in most countries took place in 2009-2010, and subsequent rounds of further cutbacks followed as the financial-economic crisis persisted. In the beginning, the decisions tended to be moderate and temporary, as the actors were unwilling to believe that the crisis and the need to undertake cuts were real. In the majority of European countries, the first cutback plans were met with protest and resistance from the political left, trade unions, and other interest groups affected. Consequently, in the great majority of countries studied, cuts were postponed or planned for later years, as the crisis was believed to be over soon. Later the decisions became less hesitant but still addressing rather small adjustments. Table 7 below outlines the stages of the cutback decision-making in the various countries.

Table 7. Stages of cutback decision-making

	BE	DE	EE	ES	FR	HU	IE	IS	IT	LT	NL	SI	UK
Temporary small measures	2009	-	-	-	-	-	Oct 2008	2009	2009	-	Feb 2009	Feb 2009	2009
Moderate adjustments	2009 -11	-	-	-	-	-	Dec 2008	-	2009	-	Feb 2009	Apr 2009	2009
First attempts at cutbacks	2009	-	-	June 2008	2010	-	April 2009	2009	2010	-	Oct 2010	Apr 2009	2009
Resolute cutback decisions	2012 -	June 2010	June 2008	May 2010	2012	June 2010	Dec 2009	2009 2010	2011	Dec 2008	Oct 2012	May 2012	2010
Fundamental priority-setting	-	-	-	Dec 2011	-	-	Dec 2010	2009	-	-	Oct 2012	May 2012	2010

There are a few countries which handled cutbacks considerably faster than the general European pattern indicates. For example, in Estonia, the coalition government took its fiscal consolidation measures in three successive supplementary budgets. In the June 2008 austerity package, nearly half of the expenditure cuts were about operational costs, mainly dismissals, salary cuts, work-time reduction and lay-offs. In January 2009, the operational expenditures were once again curtailed. The second and third cutback package of June 2009 also introduced cuts in program expenditures. Also, the severe banking crisis in Iceland in October 2008 did not leave room for crisis denial, postponement of measures or temporary solutions. The cutback decision-making was swift and drastic, partly imposed by the IMF. Interestingly, the Icelandic government did not opt for across-the-board cuts, but chose immediately fundamental priority-setting. Ireland, in turn, had eight episodes of fiscal adjustment between summer 2008 and spring 2012. The severity of the crisis was quickly recognised by the government and cemented by the Troika loan program. The first round of consolidation measures relied upon efficiency cuts, moving gradually to across-the-board measures, and from there to targeted cuts.

6. Explanatory factors

6.1 Financial-economic factors

In Table 8 some macro-economic indicators for all the selected countries are provided to characterise the depth of the crisis.

Table 8. Economic indicators 2007-2012 (Eurostat)

	Real GDP growth rate						General government deficit/surplus (% of GDP)						General government gross debt (% of GDP)					
	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
BE	2.9	1.0	-2.8	2.4	1.8	-0.3	-0.1	-1.0	-5.6	-3.8	-3.7	-3.9	84.1	89.3	95.8	96.0	98.0	99.6
DE	3.7	3.3	1.1	-5.1	4.2	0.7	-1.6	0.2	-0.1	-3.2	-4.3	0.2	68.1	65.2	66.7	74.4	83.0	81.9
EE	7.5	-4.2	-14.1	3.3	8.3	3.2	2.4	-2.9	-2.0	0.2	1.0	-0.3	3.7	4.5	7.2	6.7	6.0	10.1
ES	3.5	0.9	-3.7	-0.3	0.4	-1.4	1.9	-4.5	-11.2	-9.3	-8.5	-10.6	36.3	40.2	53.9	61.2	68.5	84.2
FR	2.3	-0.1	-3.1	1.7	1.7	0.0	-2.7	-3.3	-7.5	-7.1	-5.2	-4.8	64.2	68.2	79.2	82.3	85.8	90.2
HU	0.1	0.9	-6.8	1.3	1.6	-1.7	-5.1	-3.7	-4.6	-4.2	4.3	-1.9	67.1	73.0	79.8	81.4	80.6	79.2
IE	5.4	-2.1	-5.5	-0.8	1.4	0.9	0.1	-7.4	-13.9	-30.9	-13.4	-7.6	25.1	44.5	64.9	92.2	106.4	117.6
IS	6.0	1.2	-6.6	-4.0	2.6	1.6	5.4	-13.5	-10.0	-10.1	-4.4	n/a	28.5	70.3	87.9	93.1	98.8	n/a
IT	1.7	-1.2	-5.5	1.8	0.4	-2.4	-1.6	-2.7	-5.4	-4.6	-3.9	-3.0	103.1	105.1	116.0	118.6	120.1	127.0
LT	9.8	2.9	-14.8	1.5	5.9	3.7	-1.0	-3.3	-9.4	-7.2	-5.5	-3.2	16.8	15.5	29.3	37.9	38.5	40.7
NL	3.9	1.8	-3.7	1.6	1.0	-1.0	0.2	0.5	-5.6	-5.1	-4.7	-4.1	47.4	45.3	58.5	60.8	62.9	71.2
NO	2.7	0.0	-1.7	0.7	1.4	3.1	17.5	18.8	10.6	11.2	13.6	n/a	51.5	48.2	43.5	43.7	29.0	n/a
SI	7.0	3.4	-7.8	1.2	0.6	-2.3	0.0	-1.9	-6.0	-5.7	-6.4	-4.0	23.1	22.0	35.0	38.6	46.9	54.1
UK	3.6	-1.0	-4.0	1.8	0.8	0.3	-2.7	-5.0	-11.5	-10.2	-8.3	-6.3	44.4	54.8	69.6	79.6	85.7	90.0

Macro-economic indicators form an important contextual background as the ‘financial size’ of the crisis affects the ‘financial size’ of the consolidation measures. Consolidation decision-making is related to the financial-economic circumstances of a country prior to and during the crisis.

The study at hand confirms earlier findings of the OECD (2012) that the economic size of the fiscal consolidation measures in a country (in per cent of GDP) was primarily related to the size of the fiscal crisis, that is, the budget deficit and debt. The worse the economic situation was (GDP growth rate, unemployment, etc.) and the worse the budgetary situation was (budget deficit, state debt), the more drastic and far-reaching consolidation measures had to be taken by the governments. This comparative analysis shows that in countries where the fiscal crisis was too excessive to be solved domestically and massive loans by IMF (Iceland) or IMF-ECB-EU (Ireland) were necessary, the fiscal consolidation measures were the highest. Spain received a 50 billion loan to rescue its failing financial sector, and correspondingly had to take severe cutback measures. Likewise was the fiscal crisis in the UK so large that drastic measures had to be taken. Countries like Germany and neighbouring Belgium and the Netherlands, were economically better off and suffered a more modest fiscal crisis, which was reflected in their relatively low consolidation measures.

6.2 Political-administrative factors

This study also considered the political-administrative explanatory factors by investigating how the type of state system (unitary, decentralised, federal), political system (majoritarian or consensus democracy), government system (single-party cabinet or coalition government) and the ideological composition of government (right- or left-wing) affected consolidation decision-making. The following table summarises the characteristics of the state and government systems in the countries studied.

Table 9. State and government characteristics

	Belgium		**Estonia**			**France**	**Germany**	
	(-2011)	**(2011-)**	**(2007-09)**	**(2009-11)**	**(2011-)**	**(2007-12)**	**(-2009)**	**(2009-)**
Unitary/decentral./federal	Federal	Federal	Unitary	Unitary	Unitary	Decentral.	Federal	Federal
Single-party/coalition	Coalition	Coalition	Coalition	Coalition	Coalition	Single	Coalition	Coalition
Left/centre/ right-wing cabinet	Left-centre-right	Left-centre-right	Right-centre-left	Right-centre-left	Right-centre-left	Right	Centre-left	Centre-right
Grand/normal/ minority	Grand	Grand	Normal-minority	Minority	Normal	Normal	Grand	Normal

	Hungary	**Italy**			**Ireland**		**Iceland**	**Lithuania**
	(2008-10)	**(2006-08)**	**(2008-11)**	**(2011-12)**	**(2008-11)**	**(2011-13)**	**(2009-)**	**(2008-12)**
Unitary/decentral./federal	Unitary	Decentral.	Decentral.	Decentral.	Unitary	Unitary	Unitary	Unitary
Single-party/coalition	Coalition	Coalition	Coalition	Coalition	Coalition	Coalition	Coalition	Coalition
Left/centre/ right-wing cabinet	Centre-left	Centre-left	Centre-right	Non-political	Centre - right	Centre- left	Left	Centre-right
Grand/normal/ minority	Normal	Normal	Normal	Grand	Normal	Normal	Normal (minority from 2011)	Normal-minority

	Netherlands		**Slovenia**		**Spain**		**UK**	
	(2010-12)	**(2012-)**	**(2008-11)**	**(2011-13)**	**(2004-11)**	**(2011-)**	**(-2010)**	**(2010-)**
Unitary/decentral./federal	Unitary	Unitary	Unitary	Unitary	Decentral.	Decentral.	Unitary	Unitary
Single-party/coalition	Coalition	Coalition	Coalition	Coalition	Single	Single	Single	Coalition
Left/centre/ right-wing cabinet	Centre-right	Right-left	Left	Right	Left	Right	Left	Right-centre
Grand/normal/ minority	Minority	Normal	Normal	Normal	Normal	Grand	Normal	Normal

The usual assumption in international comparative political science research – that *unitary states* are more capable to take swift, drastic and uniform decisions than *federal states* – is confirmed in the cases of Belgium and Spain, but rejected in the case of Germany. The Belgian case seems to provide an example of the high complexity of a federal state hindering resolute political decision-making. The reason why the Spanish Zapatero government did not succeed in taking drastic cutback decisions, however, seems to be related to other issues than its state structure.

The political science assumption that *single-party* governments are more capable to take swift and drastic decisions than *multi-party coalition* governments, is not confirmed. On the contrary, during the single-party Labour government under Prime Minister Brown, the government of the UK did explicitly refrain from taking harsh cutback decisions. It was the 2010 Conservative-Liberal-Democrat Cameron-Clegg coalition cabinet that decided upon drastic and swift cutbacks. Similarly,under President Sarkozy, the single-party French government did not take drastic cutback decisions. In Spain the single-party government under Prime Minister Zapatero did prepare drastic cutbacks under the pressure of the EU and IMF, but the massive protests and demonstrations forced it to call new elections, which it lost. At the same time, coalition governments in both Estonia and Lithuania were capable of carrying out swift and radical cutback measures.

The assumption that *minority coalition* governments are less capable to take swift and drastic decisions than *simple or grand coalitions*, is partly confirmed and partly rejected. On the one hand, the grand majority goverments in Ireland and Hungary did take drastic cutback measures. The Dutch centre-right minority coalition fell in 2012 in preparing drastic cutbacks and had to call new elections. On the other hand, in Denmark, with its long tradition of minority coalitions, a similar centre-right minority cabinet, supported by a similar right-populist party as in the Netherlands, did take drastic cutback decisions, and moreover did so right before the approaching general elections. Also, the Estonian majority coalition government fell in 2009 because of the disagreement on cutbacks, but the new right-wing minority coalition was able to decide swiftly on major consolidation measures. The grand Christian-Social-Democrat coalition in Germany postponed the unpopular decision-making about fiscal consolidation and cutbacks until the 2009 general elections were over.

The political science assumption that the *right-wing* governments are more inclined and capable to take swift and drastic cutback decisions than *left-wing* governments, is partly confirmed and partly rejected. On the one hand, right-wing governments of Estonia and Lithuania were able to carry out swift and radical cutbacks. Also the right-wing government of Hungary did take drastic cutback measures after the landslide victory of FIDESZ in 2010. On the other hand, the left-wing governments in Ireland and Iceland also undertook drastic and immediate cutbacks, and so did the left-wing Spanish Zapatero government. One could argue that the last mentioned cutbacks were strongly imposed by Troika whose influence seemed to override ideologically-driven choices of these governments.

6.3. External influence

While domestic political-administrative factors have rather limited explanatory power, external influence plays a great role in explaining cutback decision-making. First of all, developments in the worldwide economy clearly affected the state of economy and public finances in European countries. The increase of industrial exports to East Asia, especially China, highly contributed to the swift economic recovery of Germany. And therefore, indirectly, to the economic recovery of surrounding countries having strong economic relations with Germany, such as Belgium and the Netherlands.

In addition, also the EU Treaty of Maastricht placed ceilings on budget deficit and state debt. In many European countries, the EU pressure to keep within the deficit limit was influential, thus forcing the government to cut back. In Italy and Spain, the European financial assistance made it imperative. Estonia provides an interesting example of a country where the fiscal tightening was an impendent decision, first and foremost explained by the Estonian government's predominant political priority to join the Eurozone that tied the government with the above-mentioned criteria of the Maastricht Treaty.

Last but not least, countries like Iceland, Ireland and Spain which received financial assistance (bail-outs) from the IMF or Troika had to comply with strict and specified fiscal conditions and cutbacks. In these countries, the fiscal consolidation was externally imposed. It is important to note that the Troika holds an 'orthodox' view in addressing the crisis (Dellepiane, 2012). This involves a general understanding that fiscal consolidation should start early and be imposed quickly in a front-loaded strategy to restore market confidence in governments' ability to manage their public finances: a government must implement a 'cold shower', or fiscal shock treatment (Pisani-Ferry, 2007). It is therefore not surprising that countries following the requirements of the Troika's loan programmes were forced quickly to the real cutbacks, including fundamental priority-setting and targeted cuts.

7. Clusters of countries

Notwithstanding the many differences among the European countries, clusters of countries as to their responses to fiscal crisis can be discerned. The country examples show that decision-making processes were often influenced by the size and extent of the fiscal crisis. The one extreme of such a continuum includes countries which were not or only slightly hit by the financial and economic crisis, and experienced hardly any need for consolidation measures and major cutbacks. The other extreme of the continuum involves countries that were so severely hit by the financial crisis that they had to be bailed out, and where outside financial assistance was conditioned on severe austerity and reform programs. Most of the European countries fall in the middle of these two extremes (see also OECD, 2012). The study at hand allows to distinguish between five clusters of countries.

Firstly, thanks to its North Sea gas and oil revenues *Norway* did not really face a fiscal crisis of excessive budget deficits. Apart from the relatively modest measures to stabilize the financial sector, there was no necessity for fiscal consolidation and significant expenditure cutbacks. The crisis had no impact on the functioning of Norwegian politico-administrative system.

Secondly, several European countries were hit so hard by the crisis that they were forced to seek for the external assistance by the Troika of IMF-EU-ECB. From our selection of countries, this concerned *Iceland, Ireland, Italy,* and *Spain*. The Icelandic and Irish governments were unable to domestically solve the crisis and had to be bailed-out by the external partners which, in turn, led to externally imposed reforms. Although Italy and Spain were not bailed-out, they did receive financial assistance from the EU and ECB leading to conditions of hard retrenchment and reform measures. Italy was hardly affected by the banking crisis and only mildly by the economic crisis, but the Eurozone crisis deeply affected its public finances and fiscal consolidation was seriously addressed. In return for the financial assistance of the ECB for its banking sector, the Spanish government was forced to rapidly introduce hard retrenchments and cutbacks. The sudden and drastic measures taken without much consultation and consensus, contributed to the growing social unrest. A similar feature in this country-cluster is the relatively swift and centralized decision-making process prompted by the Troika conditionality, which led to radical operational cutback measures (e.g. layoffs, pay cuts) and substantive program cuts. These countries did not have the time to gradually move from crisis-denial via small and moderate to radical cuts but were forced to apply severe austerity measures much more quickly than most of the other European countries.

Thirdly, one can distinguish a cluster of continental European countries where the modest size of the economic crisis led to relatively moderate economic recovery packages, and which showed similar cutback decision-making patterns. This group of countries first includes those neighbouring and economically connected to *Germany: Belgium* and *the Netherlands*. They highly benefitted from the swift economic recovery of the German economy. These governments were at first reluctant to apply consolidation measures. In all of these countries the cutback decisions were postponed till after the general elections, and hence coincided with the multi-party deliberations and negotiations about a new coalition cabinet. In Germany that coalition formation was relatively swift, in the Netherlands it took three to four months, but in the highly complex Belgian consensus politics it took eighteen months to form a new coalition cabinet. Similarly, the *Slovenian* government denied the severity of crisis for a while, after which it first applied small consolidation measures and moved gradually to more substantial cutbacks as the crisis grew deeper. Although *France* had a single-party cabinet, and the energetic President Sarkozy as a former Finance Minister and known advocate of austerity and reform put fiscal consolidation high on the agenda, in actual practice the cutback decision-making was only half-hearted.

The fourth cluster of countries involves the Baltic states of *Estonia* and *Lithuania*. The Baltic countries implemented substantial fiscal consolidations during the early stage of the crisis. These small countries were among the first ones hit hard by the crisis. Instead of cuts' denial and postponement which was characteristic to the countries belonging to the third group, the Baltic governments applied radical cutbacks as early as 2008, and subsequently carried out several rounds of substantive cuts. While in the earlier phases of the crisis more across-the-board cuts were applied, as the time progressed, the cuts became more targeted. Such an approach towards the cuts was facilitated firstly, by the relatively underdeveloped civil society unable to mobilize major protests; secondly, by weak unions with trade union density the lowest in Europe; and thirdly, by the missing tenure in the civil service regulation which allowed for pay and personnel cuts.

Finally, the *United Kingdom* seems to represent a unique case. A majoritarian single-party cabinet refuted the alleged assumptions of swift and drastic decision-making. The Labour government under Prime Minister Brown explicitly refused to take cutback decisions in view of the upcoming general elections. It was the Cameron-Clegg two-party coalition cabinet that took unprecedented and unequalled massive cutback decisions.

8. Conclusions

The comparative analysis showed that cutbacks on operational costs, that is, cuts in the administration itself (hiring and pay freeze, wage reduction, staff reduction, efficiency cuts), followed a similar pattern across Europe. Virtually no country could escape the measures to freeze hiring and pay, and to set caps on replacement. In most countries, it was only in the later stages of the crisis that governments introduced the politically sensitive measures of actually reducing wages and employment. However, those European countries which received bail-outs on the condition that the public sector wage bill was reduced, did apply immediate cuts in public sector salaries and employment. Also Estonia and Lithuania opted for applying radical cutbacks immediately after the outset of the crisis.

The study of the characteristics of political decision-making demonstrated that radical and swift cutback decisions were the exception rather than the rule. Most governments relied upon moderate and gradual measures. The extent to which drastic and swift cutbacks were applied was primarily related to the economic size of the fiscal crisis, and only incidentally to political factors like the political orientation of the government (right-wing cabinets in Estonia and Hungary) or the margin of government majority (grand majority in Hungary and Ireland). Likewise was the extent to which governments took targeted cuts (instead of across-the-board ones) primarily related to the size of the crisis: the larger the cuts, the more targeted cuts governments apply.

The comparative analysis did confirm that cutback decision-making was not a one-off event. It consisted of a series of stages in the majority of European countries. In the beginning, denying or delaying the cutbacks prevailed, and only temporary and small measures were undertaken. In the subsequent stage, the gradual recognition of the severity of the fiscal crisis and compliance with the necessity of cutbacks led to first attempts at serious cuts. Thereafter, rather resolute cutback decisions were taken – first across-the-board efficiency cuts, secondly targeted downsizing and cuts, and ultimately the final stage of fundamental political priority-setting. Countries hit hardest by the crisis, such as those in the Baltics and in Southern Europe, reached the stages of serious and resolute cutbacks faster. In the bail-out countries, the conditionality of the Troika forced governments to apply immediate and targeted cutbacks.

Economic factors provided the biggest explanatory power by influencing the size of the fiscal consolidation measures, which is hardly surprising as the main target of the measures was to reduce the budget deficit and state debt. At the same time, the explanatory power of political-administrative factors remained limited as the findings partly supported and partly contradicted the theoretical predictions. The political science assumption that unitary states are better capable to take swift, drastic and uniform measures than federal states, was confirmed in the cases of Belgium and Spain, but rejected in the case of Germany. Single-party governments in France, Spain and the UK were not clearly better able to take swift and drastic cutback decisions than coalition governments. In some cases multi-party minority coalition governments were able to apply radical cutback measures. And the assumption that right-wing governments are more inclined and able to take swift and drastic cutback measures than left-wing governments, could neither be confirmed. Actually the left-wing governments in Ireland, Iceland and Spain took more drastic measures than right-wing governments, with the one exception of the right-wing nationalist government in Hungary.

While domestic political-administrative factors apparently have rather limited explanatory power, external factors play a major role in explaining cutback decision-making. First, developments in the worldwide economy clearly affected the state of economy and public finances. Secondly, the EU-ceilings on budget deficit and debt in many European countries was crucial in forcing government to cut back. And thirdly, countries which received bail-outs, had to comply with strict fiscal conditions and cutbacks.

The comparative analysis carried out in this paper thus provided new insights into the general patterns of fiscal consolidation efforts of European governments. Admittedly, our primary aim to find general patterns in the political decision-making, that is, the 'politics' of fiscal consolidation, yielded limited results. Apparently the usual political science variables of political and government systems have insufficient explanatory power for this comparative analysis. On the other hand, the in-depth country case-studies presented in this symposium do confirm that political factors are paramount to understand the course of events in the domestic fiscal consolidation decision-making.

Basic dilemma

An important lesson deriving from the study at hand, is that sooner or later across-the-board and incremental cutback decisions will become deficient to turn the fiscal tide. Sooner or later the muddling-through of successive rounds of small, slow and gradual cuts, which apparently is what most European governments are best at doing, will have to make place for fundamental political priority-setting which is necessary to arrive at far-reaching and drastic spending cuts to really solve the mounting fiscal crisis. The basic dilemma is between the seeming incapability of governments to take drastic and targeted measures, and the ultimate inevitability of such decisions. Apparently it is not enough for economists to derive from their theories and models what measures ought to be taken. It is also about political decision-making capabilities of governments.

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