

Journal of European Public Policy >

Volume 28, 2021 - [Issue 4](#)

1,625

Views

30
CrossRef citations to date

92

Altmetric

Articles

Austerity and the path of least resistance: how fiscal consolidations crowd out long-term investments

Olivier Jacques 

Pages 551-570 | Published online: 09 Mar 2020

 Cite this article  <https://doi.org/10.1080/13501763.2020.1737957>



Sample our
Politics & International
Relations Journals
>> [Sign in here](#) to start your access
to the latest two volumes for 14 days

 Full Article

 Figures & data

 References

 Supplemental

 Citations

 Metrics

 Reprints & Permissions

Read this article

 Share

ABSTRACT

What policies do government prioritize when they implement austerity? I argue that governments choose the path of least resistance when they engage in fiscal consolidations. Positive policy feedback protects programmes from retrenchment when they cover large segments of the population. In contrast, policies involving discounting short-term benefits for long-term gains are more exposed to austerity as they are subject to an intertemporal trade-off. Using a compositional dependent variable analysis in 17 OECD countries from 1980 to 2014, I show that austerity, measured with the narrative approach to fiscal consolidations, is associated with a decrease in the proportion of public investment in research and development and gross fixed capital formation and an increase in health care and pensions' proportion of budgets. The budget shares of human capital investments in education, childcare and active labour

market policies and of compensatory transfer-based labour market insurance are resilient to austerity.

KEYWORDS:

Austerity fiscal consolidations health care infrastructures long-term investments welfare states

Acknowledgements

The author wishes to thank Daniel Béland, Christian Breunig, Marius Busemeyer, Costin Ciobanu, Lukas Haffert, Juliet Johnson, Paul Kellstedt, Achim Kemmerling, Alain Noël, Dietlind Stolle, as well as participants to the Annual Conference of the Society for Advancement of Socio-Economics and to workshops at McGill University, the University of Zurich and the University of Konstanz for comments on earlier drafts of this article. The paper significantly benefited from the feedback of three anonymous reviewers. The author acknowledges the financial support of the Social Science and Humanities Research Council of Canada and of the Chaire de Recherche en Fiscalité et Finances Publiques of the Université de Sherbrooke.

Disclosure statement

No potential conflict of interest was reported by the author(s).

Notes

1 Fiscal consolidations can involve tax increases, but this article focuses on spending cuts.

2 One could argue that R&D expenditures are similar to human capital investment since they aim to foster knowledge accumulation. However, they differ in many ways that make them closer to physical capital investments. R&D is not proximate to most citizens (they involve transfers to few people in high tech firms and in higher education institutions). Like physical capital investment, R&D is collectively owned once patents

expire, in contrast to human capital investment which is privately owned, making it closer to a public good. It is also a discretionary spending, like physical capital investment and in contrast to human capital investments that are closer to entitlements. In any case, R&D remains a small proportion of the two types of investment and removing R&D from the analysis does not change the main results as shown in appendix Figure A7.

3 The countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Portugal, Spain, Sweden, United Kingdom and the USA.

4 Using the Philips-Perron and LLC test.

5 Using the PSS bounds, Engle-Granger and Westerlund tests

6 Theoretically, the effect of consolidation on budgets should be immediate, it is thus better to use the partial adjustment model than the dead start model (a lagged the value of each covariate). Results from the dead start model are similar.

Additional information

Notes on contributors

Olivier Jacques

Olivier Jacques is a PhD candidate in the Department of Political Science at McGill University.

Related research

People also read

Recommended articles

Cited by
30

[Fiscal austerity and the trade-off between public investment and social spending](#) >

Christian Breunig et al.
Journal of European Public Policy
Published online: 27 Sep 2011

Policy feedback and economic risk: the influence of privatization on social policy preferences >

Ling Zhu et al.

Journal of European Public Policy

Published online: 20 Apr 2015

Trade-offs between redistribution and environmental protection: the role of information, ideology, and self-interest >

Klaus Armingeon et al.

Journal of European Public Policy

Published online: 10 Apr 2020

[View more](#)

Information for

[Authors](#)

[R&D professionals](#)

[Editors](#)

[Librarians](#)

[Societies](#)

Opportunities

[Reprints and e-prints](#)

[Advertising solutions](#)

[Accelerated publication](#)

[Corporate access solutions](#)

Open access

[Overview](#)

[Open journals](#)

[Open Select](#)

[Dove Medical Press](#)

[F1000Research](#)

Help and information

[Help and contact](#)

[Newsroom](#)

[All journals](#)

[Books](#)

Keep up to date

Register to receive personalised research and resources by email



Sign me up



Copyright © 2026 Informa UK Limited [Privacy policy](#)

[Cookies](#) [Terms & conditions](#) [Accessibility](#)

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG



Taylor & Francis
by informa