



IS POLITICAL INSTABILITY A PRODUCT OF AUSTERITY MEASURES?

A REGIONAL STUDY IN THE CONTEXT OF SPAIN (1996-2015)

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1 INTRODUCTION

In the aftermath of the financial crisis, austerity has been the norm for Spanish fiscal policy. At the same time, the Spanish political system has experienced instability due to the disruption of new political forces. One might expect austerity, by weakening the social protection programs, to be a relevant factor behind the political instability increase. The thesis aims to investigate this relation.

Objectives:

- Find operational definition for *political instability* and for *fiscal austerity*.
- Analyse the effect of fiscal austerity on political instability.

2 MEASURING POLITICAL INSTABILITY



The Political System Institutionalisation Index (PSI):

$$PSI = 1 - \frac{\sum_{n=0}^T k_{t-n} \times \frac{(TV_{t-n} + RegV_{t-n})}{2}}{\sum_{t=0}^T k_{t-n}}$$

Seizes stability, not just of the incumbent, but of the political system as a whole. It is based on the measures of Total Volatility, as an indicator of **stability**; Regenerative Volatility, as a measure of **predictability**; while taking into account previous elections, to capture **consistency** of the other two characteristics.

To build the dataset, the methodology developed by Chiaramonte and Emmanuele (2017) is used. The data used to compute the index are the General elections results held in the period, disaggregated by NUTS2 regions. Six observations for each region are computed.

3 MEASURING FISCAL AUSTERITY



Literature identifies the possibility of reverse causality with stability. However, this is not identified as a threat in the thesis context, as reforms were imposed rather than optional.

The data used to account for austerity involves the changes on social benefits and in-kind transfer. And in order to avoid electoral expenditure boom, it is proposed a term averaged measure which portrays the fiscal policy of the period.

4 RESULTS

Regressing PSI index on social protection expenditure changes. The most interesting results are found using termed averaged changes.

	Random effects		Fixed effects	
$\Delta \ln k_{ind} trans$	0.068 (0.120)	-0.241 (0.165)	0.070 (0.118)	-0.047 (0.178)
$\Delta Social ben$	0.918 *** (0.103)	0.633 *** (0.131)	0.919 *** (0.107)	0.526 *** (0.159)
$\Delta GDP per capita$		-0.755 *** (0.131)		-0.692 *** (0.210)
$\Delta GDP per capita$		0.693 *** (0.155)		0.541 ** (0.229)
$GDP per capita (Ln)$		-0.043 *** (0.008)		-0.019 (0.024)
Overall R ²	0.462	0.589	0.462	0.548

5 CONCLUSIONS

- Results can be consistent with the idea that cuts on more critical public expenditure, as the case of social benefits, entail larger effects on political stability.
- The study would greatly benefit from enlarging the sample.
- Given the results, it would be interesting to consider inequality in future studies.