

Does fiscal pressure constrain democratic representation?

Evidence from Germany

Paper prepared for the “Unequal Democracies Workshop”, Geneva, June 25-26, 2019

-Comments welcome, please do not cite or circulate without authors’ permission-

Lea Elsässer, Universität Duisburg-Essen, lea.elsaesser@uni-due.de

Lukas Haffert, Universität Zürich, haffert@ipz.uzh.ch

Abstract

How does politics in the age of permanent austerity differ from politics in fiscally more permissive times? Many authors fear that a fiscally constrained state is also a less democratic state. In this paper, we study this question from the perspective of political responsiveness and ask how responsiveness is connected to fiscal pressure. We hypothesize that the rise of “permanent austerity” has contributed to a systematic but unequal decline of responsiveness. Using a unique dataset containing public opinion data on more than 1000 policy proposals in Germany between 1980 and 2015, we investigate whether policymakers are more responsive on issues without fiscal consequences than on issues that affect the public budget. We find that responsiveness varies systematically with the degree of fiscal pressure and that policymakers are less responsive on fiscal issues than on non-fiscal issues, in particular when fiscal pressure is high.

Introduction

'This is a parliamentary democracy. Therefore the budget right is a core right of parliament. To this extent we will find ways to shape parliamentary co-decision in such a way that it is nevertheless also market-conforming, so that the respective signals emerge on the market.'

(Merkel 2011)

In this often-quoted remark, made during a joint press statement with then Portuguese Prime Minister Pedro Passos Coelho, Angela Merkel seemed to suggest that austerity pressures emanating from financial markets necessitate restricting the political discretion of elected parliaments. Financial markets trump democracy, she implied in the eyes of her critics (Bofinger, Habermas, and Nida-Rümelin 2012, Streeck 2016).

While Merkel's technocratic language makes it difficult to understand what exactly she intended to say, it is a common assumption that fiscal pressure puts the political systems of developed democracies under stress. As these countries are confronted with an era of "permanent austerity" (Pierson 1998, 2001), and against the backdrop of a decade of harsh austerity programs, political scientists have thus started to ask whether "politics in the age of austerity" (Schäfer and Streeck 2013) differs systematically from politics in fiscally more permissive times. As these authors have argued, fiscal pressure threatens to make politics less democratic, as governments have to balance the demands of voters against the demands of bondholders or rating agencies (Hager 2016). Growing fiscal pressure may thus be an important reason why political actors find it increasingly difficult to be both responsive to the preferences of their voters and responsible with regard to the necessities imposed by external constraints, as argued by the late Peter Mair (2009, 2013).

Most empirical analyses of the societal effects of fiscal pressure have focused on electoral consequences (Fetzer 2018) or on aggregate political and economic outcomes, which are the result of many individual policies and to an important extent driven by developments outside of political control (Schaltegger and Weder 2014, Karanikolos et al. 2013, Ponticelli and Voth 2017). The direct link between constituents' demands and political decisions, by contrast, is rarely investigated. Instead, most studies implicitly assume that "the voters" hold homogenous preferences that governments under fiscal pressure can no longer address (Schäfer and Streeck 2013: 2). As the recent literature on unequal political responsiveness has shown, however, different parts of the population differ substantially in their political demands – and policymakers tend to respond more strongly to the preferences of wealthy citizens than to the demands of poorer members of society (Gilens 2012,

Bartels 2008, Elsässer, Hense, and Schäfer 2018, Schakel 2019). Given that Western political systems have historically been structured by an economic conflict between lower and upper classes, such differences may be particularly important when they concern economic and social policy. This raises the question how fiscal pressure affects government decisions and whether political responsiveness declines equally for different social groups when governments are faced with external constraints.

In this paper, we focus on political decisions on specific policy proposals and investigate whether fiscal pressure reduces political responsiveness, both towards the population as a whole and towards different sub-constituencies. We study whether policymakers are less responsive with regard to proposals that affect the budget than with regard to proposals that do not, how this varies over time, and to what extent fiscal stress fosters inequality in political representation.

Empirically, we focus on the German case, since Germany is a country that experienced very different levels of fiscal pressure over recent decades. Using a database containing public opinion data on more than 1200 policy proposals between 1980 and 2015, we find that the general level of responsiveness is indeed lower for fiscal issues than for non-fiscal issues. Moreover, it varies over time: Public policy on fiscal issues is more responsive when fiscal pressure decreases than when it increases. Responsiveness is also highly unequal, but this is the case for both fiscal and non-fiscal issues, although opinion differences are generally bigger about fiscal issues.

Whereas the extant literature has been able to demonstrate the detrimental consequences of austerity on the level of societal outcomes, we thus show them on the level of political processes. We thus conclude that “politics in the age of austerity” is indeed characterized by a lack of congruence between citizens’ opinions and political decisions. It seems that democracy is “the first victim” (Enderlein 2013) of austerity pressures.

In order to develop our argument systematically, we first explain in greater detail why fiscal pressure may reduce political responsiveness and how this effect may be expected to vary over time and with regard to different types of proposals. Afterwards, we describe the dataset used for our analysis and explain the methodological approach of the paper. In the empirical section, we estimate the effect of citizens’ preferences on political decision-making, both for different types of proposals and different subgroups of the population. We conclude with a discussion of the implications of our findings.

Theory

Fiscal pressure can take a variety of forms, from the acute to the chronic – although chronic fiscal pressures may sometimes become highly acute almost overnight. The last decade has been characterized by very acute fiscal pressures in many developed economies. These pressures have often

required highly controversial political reactions in the form of austerity packages consisting of massive tax increases and spending cuts (Blyth 2013, Alesina, Favero, and Giavazzi 2019). Such measures are usually highly unpopular – and thus often considered as form of responsiveness towards markets instead of citizens (Streeck 2014).

While acute fiscal pressures can thus reduce democratic responsiveness quite immediately, in this paper we focus on more structural forms of fiscal pressure. These structural pressures have often been captured by the idea that developed democracies have entered an era of “permanent austerity” (Pierson 1998, 2001). According to this argument, the ageing of their societies and the resulting demands on the welfare state have created a permanent upward pressure on the expenditure side of developed democracies’ budgets. At the same time, their capacity to tax has become restricted by the increased mobility of capital and high-skilled labor and by growing tax resistance among large parts of their populations (Genschel and Schwarz 2013). For some time, governments filled the growing gap between expenditure needs and revenue capacities with public debt (Streeck 2014), but this has become unfeasible since at least 2008. In many countries, the long-term effect of debt has been to increase austerity pressures even more by raising interest burdens and vulnerability to financial market speculation.

The notion of permanent austerity, however, is not only a question of budgetary numbers. Instead, it is underpinned by ideational and institutional changes that ensure a long-term, bipartisan commitment to fiscal restraint (Pierson 2001, Haffert 2017). The last three decades, for example, have seen the rise of explicit fiscal rules, sometimes even enshrined in constitutional form, and of independent fiscal councils (Tesche 2019). Moreover, even center-left parties have often committed themselves to supply-side economic theories which stress the importance of sound fiscal policies (Bremer and McDaniel 2019).

Several authors have diagnosed a decline of “fiscal democracy” as a direct consequence of this rise of “austerity regimes” (Steuerle 2014, Streeck and Mertens 2010, Haffert 2016). This diagnosis starts with the observation that many governments have reacted to growing fiscal pressures by reducing their long-term investments into education or infrastructure (Breunig and Busemeyer 2011). More generally, the share of public budgets used for mandatory spending (which is removed from political decision-making) has steadily increased, whereas the share of discretionary spending (which is available for political decision-making) has declined. These trends are seen as restraining fiscal democracy, since it seriously restricts the potential impact of elections when elected politicians can only re-allocate ever-smaller portions of the budget

The fiscal capacity of a state, however, while being a necessary condition for democratic decision-making, is in itself not yet sufficient. After all, the size of discretionary spending only measures the

“fiscal room for maneuver” but says nothing about what maneuvers are being made. A government could potentially spend huge amounts of money on discretionary items that a majority of voters opposes. It would be hard to describe such a situation as an example of democratic responsiveness. Moreover, this definition of fiscal democracy only focuses on the expenditure side of the public budget. Changes of the revenue system, however, are an equally important dimension of responsive fiscal policymaking. Finally, a lot of what is mandatory in the short run becomes discretionary in the longer run. Welfare states are indeed hard to reform, but the last decades have shown that governments can engage in serious retrenchment (Starke 2008, Scruggs 2007). It is likely that the question of welfare state retrenchment generates the greatest democratic contestation between different societal groups and the greatest disagreement between the rich and the poor.

In this paper, we therefore approach the question of “fiscal democracy” from a different perspective and ask whose political preferences are actually being heard in (fiscal) decision-making. Our study thus follows in the footsteps of the influential literature on (unequal) political responsiveness (Bartels 2008, Gilens 2012, Gilens and Page 2014, Shapiro 2011, Wlezien 2004). This literature has extensively analyzed to what extent policy decisions correspond to the preferences of the population and, more recently, to the preferences of different subsets of the population. Whereas earlier studies have found a fairly strong link between general public opinion and overall policy decisions (for a literature overview, see Manza (2002) or Shapiro (2011)), recent studies focusing on differential responsiveness have shown that high-income citizens have much better chances to see their preferences translated into policy change than citizens with lower incomes. This is true not just for the United States but also for European countries (Elsässer 2018, Elsässer, Hense, and Schäfer 2018, Persson and Gilljam 2017, Schakel 2019, Peters and Ensink 2015). However, this literature has rarely considered fiscal constraints as a relevant factor influencing the potential for responsive behavior on part of policymakers.¹ We thus add an important dimension to this literature by focusing on one of the structural constraints under which policymakers operate.

Whereas analysts of austerity often draw a direct link from austerity pressures to societal outcomes but pay little attention to the intervening level of political decision-making, responsiveness scholars thus focus almost exclusively on this intermediate level and tend to leave the broader structural changes aside in which policy processes are embedded. Drawing on arguments from both literature strands, we contend that a systematic connection of research on responsiveness and research on public finance can thus advance our understanding of democratic politics in times of fiscal austerity.

¹ This is also reflected in the discussion about potential explanations for the pattern of unequal responsiveness. With few exceptions (Elsässer 2018), this discussion has mainly focused on the role of money in politics (Page and Gilens 2017), the importance of business group lobbying (Hacker and Pierson 2010) or the role of descriptive (mis-)representation of the working class (Pontusson 2015).

We develop our theoretical expectations on the level of individual policies, which we separate into policies with fiscal consequences and policies without fiscal consequences.² The idea is that fiscal pressure should affect a government's capacity to be responsive on the former, but not on the latter. In fact, theorists of post-democracy have argued that the declining room for political conflict on the economic dimension may lead political parties to emphasize non-economic, and thus also non-fiscal issues instead (Crouch 2005). This could mean that fiscal pressure could have the paradox effect to decrease responsiveness on fiscal issues but to increase it on non-fiscal issues, as parties could seek to compensate for their lower responsiveness on the former. Hence, we hypothesize that

- 1) In the context of permanent austerity, responsiveness is generally lower on issues that affect the budget than on issues without a fiscal dimension.

This is our broadest and most general hypothesis. However, this hypothesis can be made more specific in at least two ways. Firstly, the hypothesis has a temporal dimension. While established democracies have never fully lived up to their ideals, the responsiveness literature is built on the implicit assumption that these democracies used to be more responsive than they are today. At the same time, fiscal pressures have clearly increased, as countries have moved from an era of expansionary finance to an era of permanent austerity. Thus, based on the existing literature we can expect that the two measures are correlated over time. Moreover, fiscal pressure in Germany has receded substantially in recent years, which may have increased the potential for responsiveness again. Hence, we hypothesize that

- 2) The level of political responsiveness on fiscal issues varies over time as fiscal pressures increase or decrease.

This variation over time may be closely related to a second distinction between proposals for spending money (for higher expenditure or tax cuts) and proposals for saving money (through lower expenditure

² The extant literature has investigated responsiveness on three different levels: in terms of party positions (Giger, Rosset, and Bernauer 2012), policies (Gilens 2012, Persson and Gilljam 2017, Elsässer, Hense, and Schäfer 2018), and outcomes (Brooks and Manza 2007, Peters and Ensink 2015). Here, we focus on the level of policy outputs as this is the most suitable level for analyzing the effect of fiscal pressure on political responsiveness. After all, fiscal pressure may affect what parties can do, but not necessarily what they can demand. A lack of financial resources will thus not necessarily translate into lower congruence between parties and voters. Moreover, a gap between outcomes (like inequality) and public preferences can be caused by fiscal policies, but also by non-fiscal policies (e.g. labor market regulation), or by developments outside of political control. It is thus difficult to measure to what extent such a gap is caused by fiscal pressure.

or tax increases). In principle, one might assume that politicians attach a higher importance to being responsive on (unpopular) austerity measures than on (popular) expansionary measures, as voters tend to punish governments much more strongly for negative outcomes than they reward them for positive outcomes (Soroka 2014). However, their capacity to follow such a logic may be strongly restricted by the structural conditions under which proposals make it on the political agenda. There are good reasons to assume that political discussions will be dominated by austerity proposals when fiscal pressure is high and that expansionary proposals only make it on the agenda when fiscal pressure is low. Our theoretical expectations about responsiveness on austerity or expansion are thus ambiguous.

Finally, we address the question of unequal responsiveness. After all, the crucial finding of the responsiveness literature is not so much the generally low level of responsiveness, but rather its enormous inequality. In fact, policymakers are quite responsive, but predominantly to the preferences of the better-off. However, the political influence of wealthier citizens is likely to differ across policy issues. We assume that they have the greatest chance to influence policymakers on issues on which they are united.³ This would imply that their influence is generally bigger on economic, and in particular fiscal issues, than on cultural issues. After all, their preferences on economic issues should be quite homogenous, whereas there are both culturally conservative and culturally progressive citizens among the wealthy. At the same time, there is good reason to believe that fiscal pressure structurally reduces the political capacity to respond to the preferences of the poor more strongly than the capacity to respond to the rich, since the less privileged are more in need of public social protection and a strong fiscal state. As has been shown by several authors, workers and lower income groups indeed show stronger preferences for re-distribution and state intervention than the better-off (Beramendi et al. 2015).

We therefore hypothesize that this pattern of unequal responsiveness is even more pronounced on issues with a budgetary impact than on issues without such an impact, which are often cultural issues:

- 3) Responsiveness is more unequal on issues that affect the budget than on issues without a fiscal dimension.

³ As Page et al. (2013: 55-56) show in their study of wealthy Americans, the very wealthy are particularly concerned with budget deficits and “excessive government spending”, and place a very high political priority on both issues.

Before we test these hypotheses against our empirical data, we briefly describe the development of fiscal pressure in Germany and explain how we have coded the individual policy decisions.

Data and case selection

We test our hypotheses about the relationship between fiscal pressure and (unequal) responsiveness on a unique dataset covering policy proposals and public opinion in Germany between 1980 and 2015 (ResPOG 2018). Germany might appear as a somewhat atypical case for the analysis of fiscal pressure. After all, the country has clearly been at the sending end rather than the receiving end of fiscal pressure during the Euro crisis. Moreover, Germany has been running budget surpluses for the last five years. This would seem to make Germany a least likely case for finding a relationship between fiscal pressure and unequal responsiveness: if we do find such a relationship here, it is likely to also hold in other countries.

At the same time, the development of German public finances during our period of investigation is more complex than a focus on the most recent years might suggest. We can distinguish three periods with different degrees of fiscal pressure (table 1).

Period	Degree of fiscal pressure
1980-1990	Low and constant fiscal pressure
1991-2005	High and increasing fiscal pressure
2006-2015	High but declining fiscal pressure

Table 1: Three periods of fiscal pressure in Germany, own illustration

A first period, running from 1980 to about 1990 was characterized by a relatively permissive fiscal environment (figure 1, upper panel). Deficits were generally low and the debt-to-GDP ratio was stable at around 40%. Thus, neither the level nor the trend of fiscal pressure were a reason for concern.

This period of fiscal calm ended with reunification, which heralded a period of quickly growing fiscal stress. Despite steep increases of tax rates and social security contributions, the budget balance turned sharply negative and the debt-to-GDP ratio jumped to about 60%. When these problems were exacerbated by an expensive tax reform and the fallout of the new economy bubble, Germany became the first Euro member to breach the 3% criterion of the Stability and Growth Pact in 2003 and 2004. In this period, the share of discretionary spending in the budget declined from around 30 per cent to less

than 10 per cent (figure 1, middle panel), signaling strong pressures on fiscal democracy. Thus, this period was characterized by high and increasing fiscal pressure.

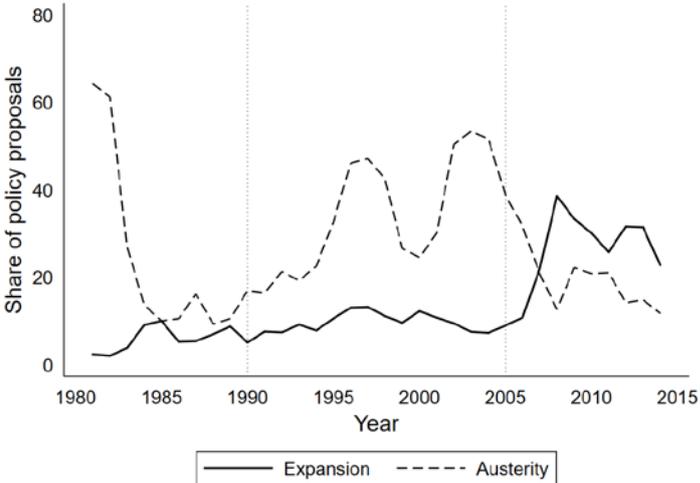
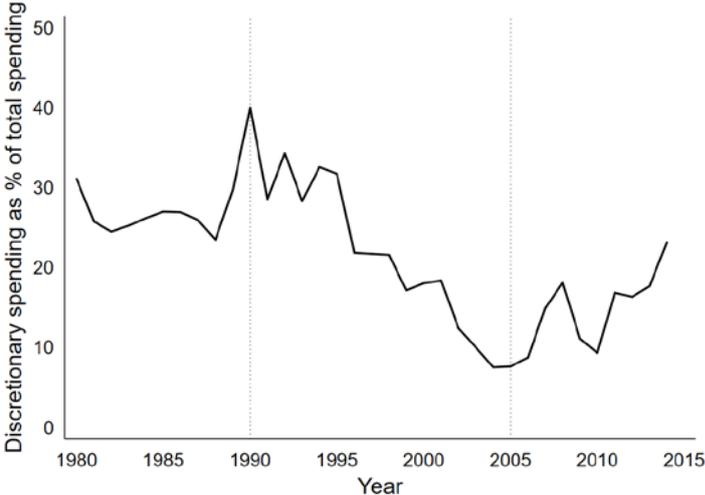
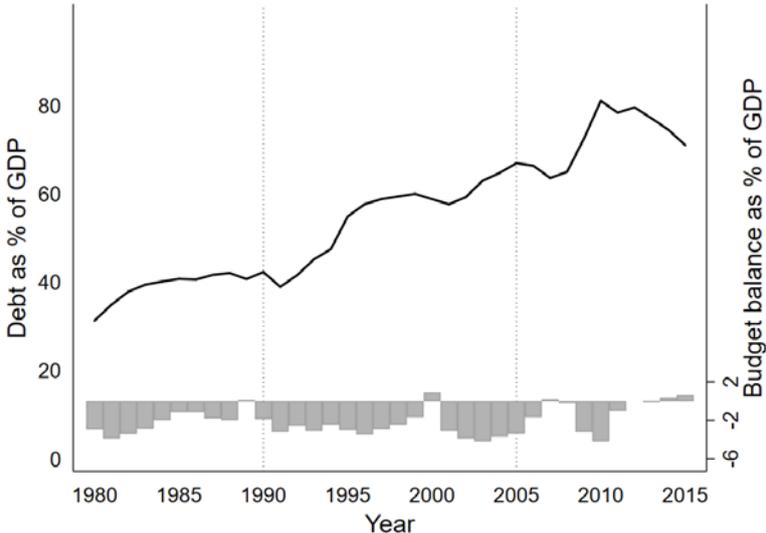


Figure 1: Upper panel: German public debt and German deficits, 1980-2015, Source: IMF. Middle panel: German discretionary spending, 1980-2015. Source: Own calculation based on Streeck and Mertens(2010). Lower panel: Share of Expansion- and Austerity-Related Policy Proposals in all Policy Proposals over Time. Source: ResPOG database

Interestingly, the turnaround of German public finances already began before the financial crisis. A combination of tax increases, spending cuts, and the start of a long export boom led to almost balanced budgets in 2006 and 2007. In fact, the effect of the great recession on public finance was quite ambivalent. While the crisis first caused another jump in the debt-to-GDP ratio, the super-low interest rates accelerated the improvement of the budget balance. Thus, this final period was still characterized by a high level of fiscal pressure, but pressure was now declining.

The level of fiscal pressure in Germany thus varied quite substantially over our period of analysis. This is important, as it allows us to analyze whether the degree of responsiveness indeed varies with the strength of fiscal pressures (hypothesis 2). Moreover, this assessment is also supported by the development of the political agenda, as is demonstrated by the lower panel of figure 1. This figure is based on data from the two major representative public opinion polls of the German national public broadcasters (Politbarometer and DeutschlandTrend) and shows the share of policy proposals contained in these surveys that were related to fiscal austerity or fiscal expansion. Whereas fiscal policy proposals discussed in the first period were relatively equally balanced between expansionary and austerity proposals, austerity proposals clearly dominated between 1990 and 2005. Since then, however, expansionary proposals clearly outnumber austerity proposals. These data thus show that fiscal pressures were not just a matter of debt and deficit statistics, but also of the ideational framework that dominated the political agenda – in some years, more than 50% of survey questions asked about proposed austerity measures.

The data for the lower panel of figure 1, and for all our following analyses, come from the database “Responsiveness and Public Opinion in Germany” (ResPOG), which was set up by a research group on political responsiveness at Osnabrück University.⁴ The database includes information on public opinion and respective political decisions for more than 1000 policy proposals between 1980 and 2015, derived from the Politbarometer and DeutschlandTrend opinion polls. Questions usually deal with political decisions that were high on the political agenda at the time or that are of general public interest and ask about the respondents’ agreement with a specific policy proposal.

The dataset includes information on whether the policy proposals would affect the public budget (e.g. tax reforms, pension reforms, disaster relief) or not (e.g. same-sex marriage, foreign policy, regulatory policies). In addition to this information, we included two further variables and coded all budgetary

⁴ The ResPOG database was developed jointly by Lea Elsässer, Svenja Hense and Armin Schäfer.

proposals on the following two dimensions: whether they concern the revenue side or the expenditure side of the budget, and whether they aim for austerity or for an expansion of the role of government. As table 2 shows, slightly more than half of the 1202 policy proposals in the dataset concern the public finances, whereas the other half has no budgetary implications. Among the budget-related proposals, there is a clear majority of austerity proposals: 62.5 per cent of those policies that we can code on the expansion-austerity dimension propose austerity measures, whereas only 37.5 per cent contain expansionary proposals.⁵ The proposals are more balanced on the expenditure-revenue dimension, with 56.8 per cent of policies being expenditure-related and 43.2 per cent being revenue-related. This clear predominance of austerity proposals already suggests that our analysis indeed captures politics in the age of permanent austerity.

No public finance	Public finance		
588	614		
	Of which revenue: 245	Of which expenditure: 322	Not codeable 47
	Of which expansion: 206	Of which austerity: 344	Not codeable 64

Table 2: Budget-related proposals in the ResPOG dataset (source: ResPOG database, own coding)

Moreover, the number of questions asked in the respective categories also confirms our distinction of three periods of different fiscal pressure (Figure 1, lower panel). From the early 1980s to the early 1990s, the surveys asked about roughly the same number of expansionary and austerity-related proposals. From the early 1990s onwards, however, austerity proposal clearly dominated the fiscal policy agenda. Finally, since 2008 (and with the exception of the crisis year 2010), the majority of budget-related proposals had an expansionary character.

To be able to evaluate political responsiveness towards different social groups, we use the degree of support within different groups for each proposal as our independent variables. While the ResPOG database contains data on several group categories, we focus on occupational groups as our main measure of social stratification, since information on respondents' income is only available for a subgroup of questions. The database contains information on policy support in six different

⁵ Sometimes it is not possible to code a proposal on the revenue-expenditure or the expansion-austerity dimension because the proposal affects both dimensions (e.g. a tax increase to pay for higher social benefits) or none of them (e.g. a generic question about reducing the deficit).

occupational groups: Unskilled workers, skilled workers, lower-grade employees, higher-grade employees, civil servants and self-employed.⁶

To allow a systematic analysis of the link between public preferences and political decisions, the ResPOG database also contains information on whether or not the specific policy proposal was enacted within two years after the question was asked in the survey. This was the case in 54 per cent of the proposals. We can thus evaluate political responsiveness by comparing the policy outcome over this two-year period with the preferences expressed in the respective survey.

Results

We now use this data to study the development of political responsiveness in Germany and its relationship with fiscal pressures since 1980. Our first hypothesis was that German policymakers are more responsive to general public opinion on issues that are not related to the budget than on budget-related proposals. This is strongly supported by the data. Figure 4 is based on a logistic regression in which we regress the policy outcome (proposal adopted or not) on the share of survey participants that supported the proposal. On the fiscal dimension, the likelihood that a proposal is adopted is practically unrelated to the views of the public ($p = 0.34$, see Table 3, column 1). Whether it is supported by 20 per cent or by 80 per cent of the population, the likelihood of adoption is constant at just below 60 per cent. By contrast, public opinion has a strong and significant effect on the likelihood of policy adoption when the proposal does not affect the public budget ($p < 0.05$, see Table 3, column 2). Here, the likelihood of adoption increases from less than 40 to more than 60 per cent if public support increases from 20 to 80 per cent. This suggests that austerity pressures can indeed lead to a lack of democratic responsiveness.

⁶ The measure of occupational groups is based on the scheme developed by Erikson and Goldthorpe (1993). For a more detailed explanation of the different group categories, see (Elsässer, Hense, and Schäfer 2018).

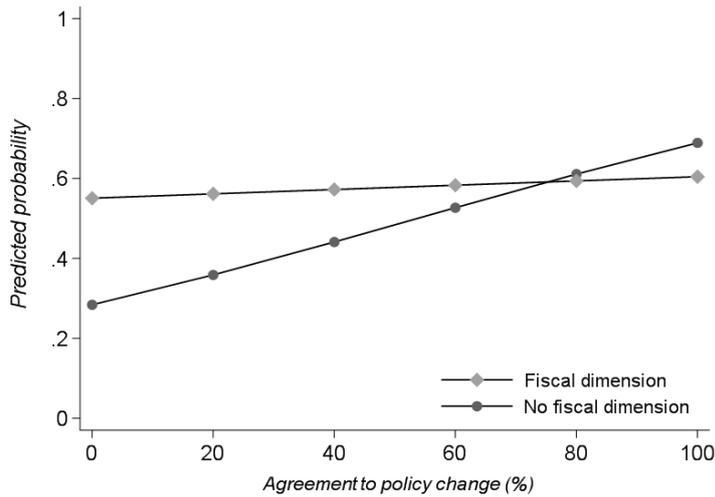


Figure 4: Public opinion and policy change on fiscal and non-fiscal issues

If austerity pressures are indeed a cause for the lack of democratic responsiveness, however, we should see changes in responsiveness over time as fiscal pressure increases or declines (hypothesis 2). We distinguished between three periods of low, increasing, and decreasing fiscal pressure in Germany between 1980 and 2015. Unfortunately, only 46 of our budgetary policy observations are from the first period of 1980-1990. Hence, we cannot systematically investigate our hypothesis for this period. For the second and third period, however, we do have enough observations. We thus repeat our logistic regressions separately for these two periods (Table 3, column 3 and 4).

	Fiscal dimension	No dimension	fiscal	1991-2005 (Fiscal dimension)	2006-2015 (Fiscal dimension)
Coefficient	0.431 (0.456)	1.372* (0.613)		-0.110 (0.698)	1.086+ (0.652)
Constant	0.127 (0.250)	-0.668+ (0.363)		0.207 (0.361)	-0.196 (0.377)
P-Value	0.344	0.0238		0.874	0.0940
No. observations	439	349		208	203

Standard errors in parentheses

+ p<0.1, * p<0.05, ** p<0.01, *** p<0.001

Table 3: Impact of preferences on policy change

As expected, we find that public opinion is completely unrelated to changes in budgetary policy during the period of maximal fiscal pressure between 1991 and 2005. Even if the population strongly opposed

proposed savings measures during this period, this had no statistical effect on the proposals' likelihood of being adopted. With the improvement of the budgetary situation since 2006, however, political responsiveness also seems to have recovered a bit. While the coefficient for political responsiveness narrowly misses conventional levels of statistical significance ($p = 0.09$), the comparison with the first period strongly suggests that responsiveness increased in the second period.

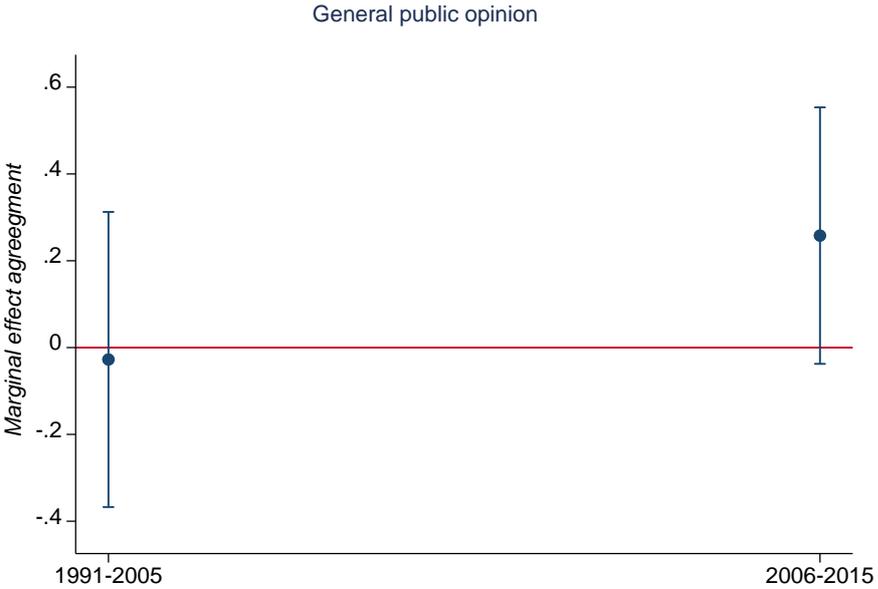


Figure 5: Public opinion and policy change on fiscal issues, two time periods

How should we interpret this increase in political responsiveness? Perhaps, German public policy has generally become more responsive after 2006 and this has nothing to do with fiscal developments at all? To test for this possibility, we repeated our analysis for those proposals which did not have a budgetary dimension. However, we did not find a similar development over time. To the contrary, responsiveness on non-budgetary issues declined significantly in the later period (not shown).

This suggests that the increase in responsiveness after 2006 is indeed related to the decline of fiscal pressure. As we have seen, this decline is also visible in the type of proposals that make it to the political agenda. Whereas austerity-related proposals dominated before 2006, expansionary proposals outnumbered austerity proposals in the following decade.

As figure 6 shows, this distinction between expansionary and austerity proposals also leads to very different levels of responsiveness. Policymakers are significantly more responsive when they deal with expansionary proposals than when they deal with austerity proposals.

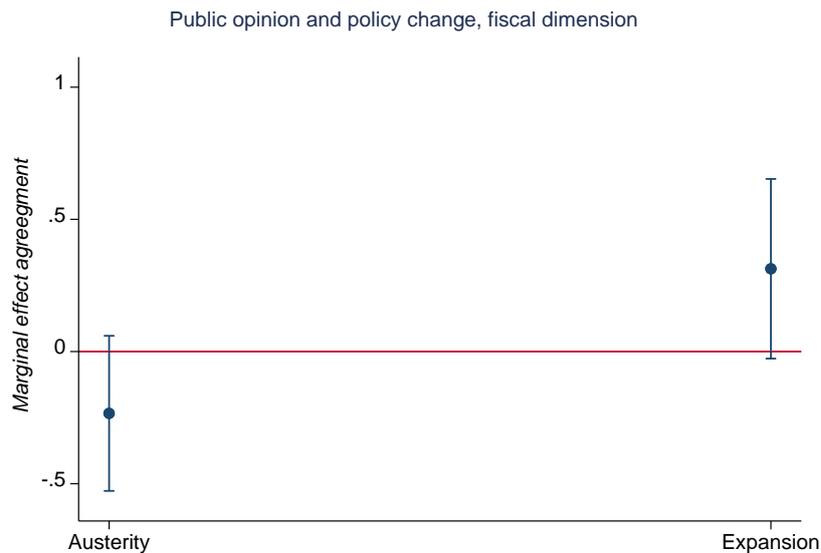


Figure 6: Public opinion and policy change on austerity and expansionary proposals

In all of our analyses so far, we have looked at the aggregate opinion of all survey respondents. However, the literature has demonstrated that responsiveness is highly unequal across different social strata. We therefore hypothesized that responsiveness would be particularly unequal if a proposal concerned the public budget (hypothesis 3).

In order to study this hypothesis, we first ask to what extent the preferences of occupational groups differ when the public finances are concerned. Figure 7 shows median differences in support for a policy proposal between the lowest occupational group (unskilled workers) and the five other groups. Evidently, the views of unskilled workers (but also of skilled workers and lower-grade employees) differ substantially from the views of higher-grade employees, civil servants, and the self-employed. Importantly, these differences are generally bigger when the public budget is concerned, and, in particular, with regard to austerity proposals (Figure 8). On austerity measures, civil servants and self-employed voters have very different opinions from the lower strata of society. This suggests that responsiveness may indeed become more unequal in periods in which austerity dominates the political agenda.

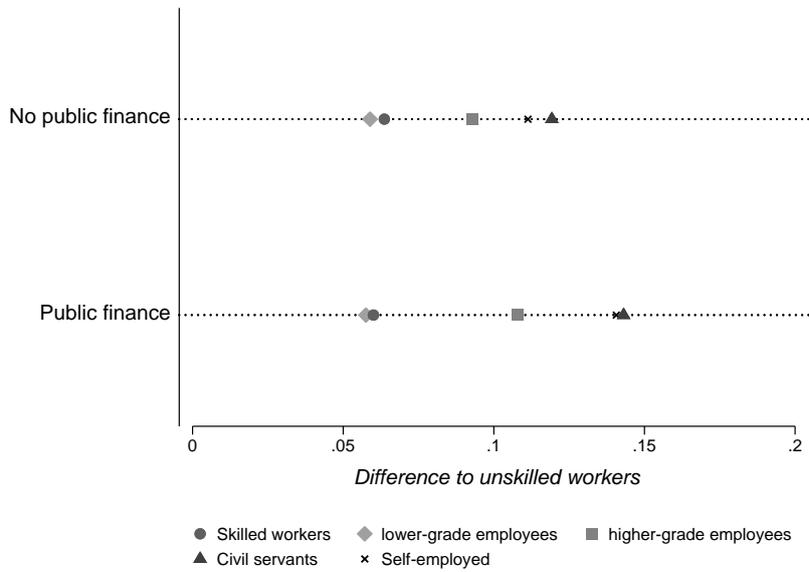


Figure 7: Opinion differences between occupational groups on fiscal and non-fiscal issues

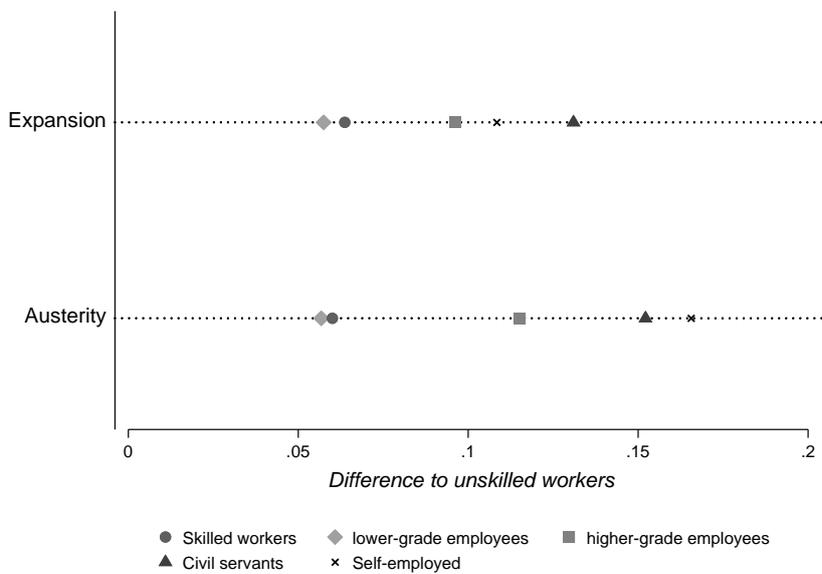


Figure 8: Opinion differences between occupational groups on austerity and expansion

Different social groups thus hold very different opinions on fiscal issues. Are these opinion differences reflected in actual policies, or are policymakers simply non-responsive to all social groups? In order to answer this question, we repeat the logit regression once more but do not use the aggregate support among all citizens but group-specific support for a proposal as our independent variable. As the regression shows, responsiveness is indeed highly unequal (table 4): Whereas the preferences of the lower social groups are completely unrelated to policy outcomes, there is a positive and significant link

for the preferences of civil servants and the self-employed. The familiar finding of unequal responsiveness thus also holds for fiscal policy issues.

	All Respondents	Unskilled workers	Skilled workers	Lower-grade employees	Higher-grade employees	Civil servants	Self-employed
Coefficient	0.431 (0.456)	-0.170 (0.394)	-0.186 (0.408)	-0.0650 (0.410)	0.432 (0.459)	0.830+ (0.444)	1.370** (0.484)
Constant	0.127 (0.250)	0.406+ (0.213)	0.416+ (0.225)	0.357 (0.226)	0.102 (0.255)	-0.0999 (0.256)	-0.370 (0.269)
P-Value	0.344	0.665	0.649	0.874	0.346	0.0605	0.00422
No. observations	439	429	429	429	429	439	439

Standard errors in parentheses, + $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 4: Impact of preferences on policy change for social classes, budgetary issues

But is responsiveness on fiscal issues even more unequal than on non-fiscal issues? To answer this question, we repeated the regressions for policies without a budgetary dimension (Table 5). As aggregated responsiveness is higher on these issues, it follows that group-specific responsiveness is also systematically higher. Even skilled workers now have a slight chance to affect policies. However, responsiveness is no less unequal than on the fiscal dimension. Again, civil servants and the self-employed are much more likely to have an influence on policy outcomes.

	All Respondents	Unskilled workers	Skilled workers	Lower-grade employees	Higher-grade employees	Civil servants	Self-employed
Coefficient	1.372* (0.613)	0.604 (0.535)	0.933+ (0.563)	0.734 (0.564)	1.782** (0.636)	2.290*** (0.609)	1.879** (0.653)
Constant	-0.668+ (0.363)	-0.253 (0.324)	-0.440 (0.339)	-0.327 (0.339)	-0.925* (0.379)	-1.199*** (0.364)	-0.976* (0.392)
P-Value	0.0238	0.258	0.0959	0.192	0.00439	0.000111	0.00341
No. observations	349	329	329	329	329	349	349

Standard errors in parentheses, + $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 5: Impact of preferences on policy change for social classes, non-budgetary issues

To summarize the results of our analysis, we have found that levels of fiscal pressure are closely related to the level of political responsiveness. When fiscal pressure is high, the political agenda is dominated by austerity proposals and politicians often disregard the views of citizens when they enact the proposed policies. When fiscal pressure is low, by contrast, expansionary proposals play a much bigger role and policymakers are much more likely to follow the majority view. Whereas levels of responsiveness are thus strongly affected by fiscal pressure, this is much less the case for inequality of responsiveness. Apparently, policymakers respond much more strongly to the preferences of the upper classes, no matter whether the specific policy proposal has a budgetary dimension or not.

Discussion

In this paper, we have studied political responsiveness in an era of permanent austerity. We have argued that fiscal pressure may be an important cause for low and unequal levels of responsiveness in many advanced democracies. Our analysis of the German case between 1980 and 2015 has generated substantial evidence that fiscal pressure indeed reduces political responsiveness, even if not all of our hypotheses could be confirmed empirically.

Specifically, we have found that the Bundestag has been much less responsive with regard to budgetary proposals than with regard to proposals without a budgetary dimension between 1980 and 2015. Moreover, the degree of budgetary responsiveness varied substantially over time. Whereas German policy was completely unresponsive on the fiscal dimension in the period of high fiscal pressure between 1990 and 2005, responsiveness seems to have recovered somewhat since 2006. This increase of responsiveness coincided with a substantive change of the budgetary agenda: whereas most proposal in the first period were related to austerity, expansionary measures played a much bigger role in the later period.

While fiscal pressure is thus clearly related to the general level of political responsiveness, we found less evidence that it is also related to unequal responsiveness. On the one hand, budgetary measures, and austerity measures in particular, generate big disagreement in the population. The differences in opinion between the upper and the lower strata of society are much bigger for austerity measures than for non-fiscal issues. On the other hand, these bigger differences do not translate into a higher degree of inequality. German public policy is much more responsive to the preferences of the upper classes than to the preferences of the lower classes, but this is independent of the policy type.

With these findings, we offer an important addition to the literature on the political effects of austerity by studying the specific policy measures that link fiscal pressures and societal outcomes. This raises interesting new question for this literature. If this literature finds that voters punish incumbents electorally for the negative effects of austerity, is this punishment only triggered by the societal outcomes or perhaps also by the lack of responsiveness, independently of the outcome?

We also contribute to the literature on political responsiveness by highlighting how structural constraints can affect responsiveness, independently of political institutions. At the same time, the question of unequal responsiveness remains puzzling. Against our expectations, responsiveness on fiscal issues was not more unequal than on non-fiscal issues. Against the backdrop of the existing literature on unequal responsiveness, this is a surprising result which deserves further investigation. In the next iteration of this paper, we will therefore look at this specific question more closely.

An obvious limitation of our analysis is that we have only studied a single case. This makes it difficult to evaluate whether we can generalize our findings to other developed economies. At the same time, there are at least two reasons why it is not unlikely that our findings are relevant to other countries as well. Firstly, Germany has never been subjected to financial market pressure and is thus a least-likely case for finding an effect of fiscal pressure on political responsiveness. If we do find such an effect in Germany, we are likely to find even stronger effects in market-pressured countries like Spain or Greece. Secondly, Germany provides us with substantial variation over time in terms of fiscal pressure.

Nevertheless, similar studies beyond the German context could further advance our understanding of the link between fiscal pressure and political responsiveness in contemporary democracies.

References

- Alesina, Alberto, Carlo Favero, and Francesco Giavazzi. 2019. *Austerity: When it Works and when it Doesn't*. Princeton: Princeton University Press.
- Bartels, Larry M. 2008. *Unequal Democracy: The Political Economy of the New Gilded Age*. Princeton, N.Y. : Princeton University Press.
- Beramendi, Pablo, Silja Häusermann, Herbert Kitschelt, and Hanspeter Kriesi. 2015. "Introduction: The Politics of Advanced Capitalism." In *The Politics of Advanced Capitalism*, edited by Pablo Beramendi, Silja Häusermann, Herbert Kitschelt and Hanspeter Kriesi. New York: Cambridge University Press.
- Blyth, Mark. 2013. *Austerity. The History of a Dangerous Idea*. Oxford: Oxford University Press.
- Bofinger, Peter, Jürgen Habermas, and Julian Nida-Rümelin. 2012. "Einspruch gegen die Fassadendemokratie " *Frankfurter Allgemeine Zeitung*.
<http://www.faz.net/aktuell/feuilleton/debatten/europas-zukunft/kurswechsel-fuer-europa-einspruch-gegen-die-fassadendemokratie-11842820.html>.
- Bremer, Björn, and Sean McDaniel. 2019. "The ideational foundations of social democratic austerity in the context of the great recession." *Socio-Economic Review* Online First.
- Breunig, Christian, and Marius Busemeyer. 2011. "Fiscal Austerity and the Trade-Off between Public Investment and Social Spending." *Journal of European Public Policy* 19 (6):921-938.
- Brooks, Clem, and Jeff Manza. 2007. *Why Welfare States Persist. The Importance of Public Opinion in Democracies*. Chicago and London: The University of Chicago Press.
- Crouch, Colin. 2005. *Post-democracy*. Cambridge: Polity.
- Elsässer, Lea. 2018. *Wessen Stimme zählt? Soziale und politische Ungleichheit in Deutschland*. Frankfurt: Campus Verlag.
- Elsässer, Lea, Svenja Hense, and Armin Schäfer. 2018. Government of the People, by the Elite, for the Rich Unequal Responsiveness in an Unlikely Case. In *MPIfG Discussion Paper 18/5*.
- Enderlein, Henrik. 2013. "Das erste Opfer der Krise ist die Demokratie: Wirtschaftspolitik und ihre Legitimation in der Finanzmarktkrise 2008-2013." *Politische Vierteljahresschrift* 54 (4):714-739.
- Erikson, Robert, and John H. Goldthorpe. 1993. *The Constant Flux: A Study of Class Mobility in Industrial Societies*. Oxford: Clarendon Press.
- Fetzer, Thiemo. 2018. Did Austerity Cause Brexit? In *CESifo Working Paper, No. 7159*. Munich.
- Genschel, P., and P. Schwarz. 2013. "Tax Competition and Fiscal Democracy." In *Politics in the Age of Austerity*, edited by Armin Schäfer and Wolfgang Streeck, 59-83. Cambridge: Polity.
- Giger, Nathalie, Jan Rosset, and Julian Bernauer. 2012. "The Poor Political Representation of the Poor in a Comparative Perspective." *Representation* 48 (1):47-61.
- Gilens, Martin. 2012. *Affluence and Influence: Economic Inequality and Political Power in America*. Princeton: Princeton University Press.
- Gilens, Martin, and Benjamin I. Page. 2014. "Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens." *Perspectives on Politics* 12 (3):564–81.
- Hacker, Jacob S., and Paul Pierson. 2010. "Winner-take-all politics: Public policy, political organization, and the precipitous rise of top incomes in the United States." *Politics & Society* 38 (2):152-204.
- Haffert, Lukas. 2016. *Die schwarze Null. Über die Schattenseiten ausgeglichener Haushalte*. Berlin: Suhrkamp.
- Haffert, Lukas. 2017. "Permanent Budget Surpluses as a Fiscal Regime." *Socio-Economic Review*. Online First.
- Hager, Sandy Brian. 2016. *Public Debt, Inequality, and Power The Making of a Modern Debt State*: University of California Press.

- Karanikolos, Marina, Philipa Mladovsky, Jonathan Cylus, Sarah Thomson, Sanjay Basu, David Stuckler, Johan P Mackenbach, and Martin McKee. 2013. "Financial crisis, austerity, and health in Europe." *The Lancet*.
- Mair, Peter. 2009. Representative versus Responsible Government. In *MPIfG Working Paper 09/08*.
- Mair, Peter. 2013. "Smaghi versus the Parties: Representative Government and Institutional Constraints." In *Politics in the age of austerity*, edited by Armin Schäfer and Wolfgang Streeck, 143-168. Cambridge: Polity Press.
- Manza, Jeff, and Fay Lomax Cook. 2002. "A Democratic Polity? Three Views of Policy Responsiveness to Public Opinion in the United States." *American Politics Research* 30:630-667.
- Merkel, Angela. 2011. Pressestatements von Bundeskanzlerin Angela Merkel und dem Ministerpräsidenten der Republik Portugal, Pedro Passos Coelho. Berlin: Presse- und Informationsamt der Bundesregierung.
- Page, Benjamin I, Larry M Bartels, and Jason Seawright. 2013. "Democracy and the Policy Preferences of Wealthy Americans." *Perspectives on Politics* 11 (1):51-73.
- Page, Benjamin I., and Martin Gilens. 2017. *Democracy in America? What Has Gone Wrong and What We Can Do about It*. Chicago: The University of Chicago Press.
- Persson, Mikael, and Mikael Gilljam. 2017. "Who Got What They Wanted? The Opinion-Policy Link in Sweden 1956-2014." *Unpublished Manuscript*.
- Peters, Yvette, and Sander J Ensink. 2015. "Differential Responsiveness in Europe: The Effects of Preference Difference and Electoral Participation." *West European Politics* 38 (3):577-600.
- Pierson, Paul. 1998. "Irresistible Forces, Immovable Objects: Post-industrial Welfare States Confront Permanent Austerity." *Journal of European Public Policy* 5 (4):539-560.
- Pierson, Paul. 2001. "From Expansion to Austerity. The New Politics of Taxing and Spending." In *Seeking the Center: Politics and Policymaking in the New Century*, edited by Martin A. Levin, Marc K. Landy and M. Shapiro, 54-80. Washington, D.C.: Georgetown University Press.
- Ponticelli, Jacopo, and Hans-Joachim Voth. 2017. "Austerity and Anarchy: Budget Cuts and Social Unrest in Europe, 1919-2008."
- Pontusson, Jonas. 2015. "Introduction to the Debate: Does Descriptive Misrepresentation by Income and Class Matter?" *Swiss Political Science Review* 21 (2):207-212.
- Schäfer, Armin, and Wolfgang Streeck, eds. 2013. *Politics in the Age of Austerity*. Cambridge: Polity.
- Schakel, Wouter. 2019. "Unequal policy responsiveness in the Netherlands." *Socio-Economic Review* Online first.
- Schaltegger, Christoph A., and Martin Weder. 2014. "Austerity, inequality and politics." *European Journal of Political Economy* 35:1-22.
- Scruggs, Lyle. 2007. "Welfare State Generosity Scross Space and Time." In *Investigating Welfare State Change*, edited by Jochen Clasen and Nico A. Siegel, 133-165. Cheltenham: Edward Elgar.
- Shapiro, Robert Y. 2011. "Public Opinion and American Democracy." *Public Opinion Quarterly* 75 (5):982-1017.
- Soroka, Stuart N. 2014. *Negativity in Democratic Politics: Causes and Consequences*. Cambridge: Cambridge University Press.
- Starke, Peter. 2008. *Radical Welfare State Retrenchment: A Comparative Analysis*. Hampshire: Palgrave Macmillan.
- Steuerle, Eugene C. 2014. *Dead Men Ruling: How to Restore Fiscal Freedom and Rescue Our Future*. New York: Century Foundation Press.
- Streeck, Wolfgang. 2014. *Buying time: The delayed crisis of democratic capitalism*. London: Verso Books.
- Streeck, Wolfgang. 2016. *How Will Capitalism End? Essays on a Failing System*. London: Verso.
- Streeck, Wolfgang, and Daniel Mertens. 2010. An Index of Fiscal Democracy. In *MPIfG Working Paper 10/3*.
- Tesche, Tobias. 2019. "'The Troika is Dead, Long Live the Domestic Troikas?': The Diffusion of National Fiscal Councils in the European Union." *Journal of Common Market Studies* Online First.

Wlezien, Christopher. 2004. "Representation: Dynamics of Public Preferences and Policy." *The Journal of Politics* 66 (1):1-24.