Abstract

This thesis investigates the effects of fiscal consolidations on income inequality. Although fiscal consolidations have become a popular economic research topic, their effects on income inequality, which itself has gained broad popularity lately, are relatively unexplored. Therefore, this thesis econometrically assesses the development of Gini coefficients during and after austerity measures. The paper applies regression analysis with panel data techniques using a sample of 17 high-income countries during the period of 1978 – 2009. It finds that a consolidation, measured by a deliberate improvement of the primary budget balance significantly increases income inequality of the referring country. In detail, an improvement of the primary budget balance about one percent of GDP is associated with an increase in market income inequality of 0.6% and a smaller increase in net income inequality in the year after. Moreover, this thesis explores the discretionary effect of different consolidation compositions. To do so, it introduces a novel approach to differentiate between consolidations that are either exclusively undertaken through spending cuts, tax increases or a combination of both. Thereby, it is found that especially tax-only consolidations tend to be equality-friendly but also rather small in size while the opposite is true for spending-only and mixed ones. These findings point to a more pronounced trade-off between different consolidation policy goals than is currently believed.

Keywords

Fiscal consolidation, Fiscal Adjustment, Austerity, Income inequality, Cross-country analysis, Panel data technique