Effects of fiscal austerity on inequality in crisis

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**Abstract:**

We have shown that fiscal austerity and the unemployment rate both negatively impacted inequality across Europe since 1995 until 2021. Our work is primarily based on Schneider, Markus et al. (2016) and Agnello, Luca and Sousa, Ricardo (2014) who have shown that inequality evolves differently in times of crisis and fiscal austerity. We use a gini-index based on the Standardized World Income Inequality Database (SWIID) to show growing inequality and its relations with fiscal austerity (accounted for in 3 different ways) and the unemployment rate while controlling for years and countries as well as growth and financial balances with other countries relying on data from AMECO database of the European Commission’s Directorate General for Economic and Financial Affairs. We did a fixed effects regression for countries and years and controlled with time lagged variables for financial balances as well as growth with inequality as our independent variable and years, countries, unemployment rate, three different measures for fiscal austerity as well as greoth and financial balances with other countries. Our results have shown that. XXX impacts inequality the most and that the effects on inequality heavily rely on the fiscal settings of each country.

Keywords: Austerity, Crisis, Europe, Inequality, Unemployment rate

JEL codes: C33, C38, D31, D63, E62, E64, E65, H6

# Introduction:

The effects of various parameters on inequality, such as fiscal austerity, growth and fiscal balances with other countries are an important indicator for economic, social and political decision making. Not measured yet are the effects of the unemployment rate in addition to fiscal consolidation measures on inequality which can be combined with previous findings to give a broader view on inequality. With inequality rising in almost all parts of the world it is vital to understand its economic and social implications.

The literature shows that inequality rises more than usual in times of crisis where countries tighten their fiscal policies and practice austerity (Alesina, Alberto 2018). Furthermore, not only does inequality rise, but the profile of inequality measured by the income distribution increases even more in times of austerity (Schneider 2016). Our approach links in addition to the previously mentioned variables the unemployment rate to inequality.

We use the SWIID data base to have a comparable measure for inequality as our dependent variable across all countries we looked at. We analyzed the 27 countries of the European Union and the United Kingdom. For our independent variables we relied on data from the AMECO data base where we extracted data regarding time periods of fiscal consolidation in three different ways, growth rates, financial balances with other countries and unemployment rates. The regressions show that….

Next chapter summarizes the most recent literature on the topic of inequality and austerity as well as unemployment rate. Then we present our results from the fixed effects panel data regression and shortly discuss the quality of these results. The last chapter shows the implications on inequality of our results and presents more opportunities for future research.

# Literature review:

There are two strands of literature working on the effects of austerity and other factors of inequality. The first strand analyzes if there effects of times of fiscal consolidation on inequality and how different consolidation paths act on inequality (Alesina, Alberto et al. 2018; Ball, Laurence et al. 2013). The second strand differentiates the changing profile of inequality during crisis and fiscal consolidation with a focus on distribution (Schneider et al. 2015; Agnello, Luca and Soursa, Ricardo 2014).

Main research question of these papers is how inequality is influenced by different measures and how the profile of inequality changes in regards to austerity.

Data source of these papers is the OECD data base, … and …. For the measure of inequality, Schneider et al. (2016) use a custom index build by Jenkins, Stephen (2009). This index is build on a Lorentz curve which is able to show changes in inequality even for the edges of the distribution regarding its top and bottom. This allows for a closer look on specific changes in the income distribution, while shifting the focus away from the effects each viariable has on inequality. For a generealized view on inequality, Agnello and Soursa (2014) as well as Ball et al. (2013) use the SWIID data base to work with comparable gini indices for all countries.

The results of these papers show that fiscal austerity in general provokes a rise in inequality while controlling for country and year specific effects as well as for some kind of measurement of import and export activity with foreign countries and factoring in growth data. While the fact of rising inequality is beyond dispute, the effects and causes which lead to this rise in inequality is not.

While these papers focussed on the distribution of inequality we put our focus on the causes for inquality while looking at the broad gini-index based on the SWIID while accepting that this measure does not show any distributional aspects of inequality. Furthermore we added unemployment rate as a independent variable while intuitively inequality should rise with a rising unemployment rate.

# Results:

What we did and what our results have shown, own contribution (time/hypothesis/variables)

# Conclusion:

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(Agnello and Sousa, 2014)

(Schneider, Kinsella and Godin, 2016)

# Bibliography:

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