The Distributional Effects of Austerity Measures: A Comparison of Six EU Countries

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In this paper we compare the distributional effects of austerity measures that are being introduced in 6 EU countries in the period of economic retrenchment following the 2008 economic downturn. We explore the effects of policy changes presented as "austerity measures" in Estonia, Ireland, Greece, Spain, Portugal and the UK, using the EU microsimulation model EUROMOD. The six countries have chosen a different policy mix to achieve varying degrees of fiscal consolidation. We focus on the direct effects of tax increases, cuts in spending on cash benefits and reductions in public sector pay across the distributions of household income. There is a range of important conceptual and consistency issues to be addressed when doing such analysis in a comparative setting. These include how to identify "austerity measures" in a consistent manner, the relevant time periods to consider, and the assumptions behind the counter-factual scenarios. Using a set of common assumptions we find that the burden of fiscal consolidation is not shared equally across households. It is generally higher for better off households if increases to indirect taxes are ignored, but the extent to which this is the case varies widely across the six countries and accounting for indirect tax cuts can reverse this conclusion.