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Fiscal consolidation and political instability

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Abstract

This paper analyses how fiscal consolidation shocks affect political instability in advanced economies. Using data on fiscal tightening in 17 OECD countries from 1980 to 2020, we estimate dynamic effects in a local projection framework employing a narrative-based instrumental variable approach that isolates exogenous fiscal changes motivated by deficit reduction. Fiscal consolidation carries substantial short-term political costs: it lowers government approval and increases the likelihood of protests and major government crises. These effects are temporary and dissipate over time. The decline in government approval is largely accounted for by the deterioration in macroeconomic conditions following fiscal adjustment. Consistent with this mechanism, consolidations implemented during economic downturns lead to markedly larger declines in approval and a higher probability of government crises, while effects are muted in stronger economic conditions. Turning to the tax-spending composition, we find that approval declines more sharply when adjustments only rely on spending cuts. Overall, our findings provide new evidence on the political costs of fiscal tightening and point to the importance of economic conditions and policy design.

Keywords: Fiscal consolidation, austerity, government approval, strikes, demonstrations, political instability

JEL classification: D72, E62, H53

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1 Introduction

As fiscal deficits and public debt ratios remain high across many advanced economies compared with their pre-pandemic and pre-energy-crisis levels, governments are under pressure to undertake fiscal consolidation to strengthen their public finances (e.g. Darvas et al., 2025; Dynan & Elmendorf, 2025). This renewed emphasis on restoring budgetary sustainability has intensified scholarly and policy interest in the political economy consequences of fiscal tightening. An emerging body of work examines political economy effects of fiscal adjustments, including shifts in voting behaviour (e.g. Ardanaz et al., 2020; Hübscher et al., 2021; Lago-Peñas et al., 2024), populism and political polarisation (e.g. Baccini & Sattler, 2025; Gabriel et al., 2026; Hübscher & Sattler, 2026), and implications for political instability (e.g. Ponticelli & Voth, 2020; Jacques & Haffert, 2021).[1] Studying the political consequences of fiscal tightening is essential for understanding the conditions under which efforts to restore public finances may destabilise governments and societies, thereby potentially hindering economic development and undermining effective policy making.

In this paper, we provide a systematic assessment of the dynamic effects of fiscal consolidation shocks on political instability. To this end, we adopt a broad conceptualisation of political instability. We define political instability as the propensity of a government to collapse, reflected both in shifts in public support for incumbents and in the incidence of government crises and episodes of social unrest (e.g. Hibbs, 1973; Alesina et al., 1996; Campos & Nugent, 2002). While most related studies focus on distant outcomes, such as vote choice or re-election probabilities (e.g. Arias & Stasavage, 2019; Alesina et al., 2024), reflecting long and complex causal chains in which multiple confounding factors obscure the direct political effects of fiscal consolidation, we provide a more direct measure. Indicators such as government approval, major government crises, and protest activity capture contemporaneous public reactions, such as the (un)popularity of fiscal adjustment and whether governments can implement consolidation without incurring substantial political costs (Jacques & Haffert, 2021; Ponticelli & Voth, 2020; Bojar et al., 2022). Moreover, these measures are available at more regular, higher-frequency intervals than electoral outcomes, enabling the analysis of more immediate responses to fiscal shocks, whereas elections may occur years after the initial policy intervention.

We estimate the effects of fiscal consolidation shocks across these outlined dimensions of political instability – government approval, major government crises, anti-government demonstrations, and general strikes – over the short to medium term. Our framework allows us to examine the role of the business cycle (weaker versus stronger economic conditions) and whether the political-instability effects are explained by a deterioration in economic activity following fiscal adjustment. Additionally, we study to what extent the effects depend on the composition of the adjustment (spending-based versus mixed versus tax-based).

We build on a strand of literature that estimates the effects of fiscal adjustments using local projection frameworks (Jordà, 2005) combined with instrumental variable strategies to identify causal effects (e.g. Guajardo et al., 2014; Jordà & Taylor, 2016; Broner et al., 2022; Gabriel et al., 2025; Heimberger & Matzner, 2026). Specifically, we employ the recently updated narrative

[1] We use the terms fiscal consolidation, fiscal tightening, and fiscal adjustment interchangeably throughout the paper.

fiscal consolidation variable of the International Monetary Fund (IMF) (Adler et al., 2024) as an instrument for tracking changes in the cyclically adjusted budget balance, which allows us to provide new evidence on the political-instability effects of fiscal tightening shocks in a sample of 17 countries of the Organisation for Economic Co-operation and Development (OECD) over the 1980-2020 period.

Our results point to a clear political transmission channel of fiscal consolidation. Consolidations have meaningful but predominantly short-lived consequences for political-instability outcomes: incumbent approval falls, and the likelihood of protest activity and government crises rises. These effects are concentrated in the first years after the shock and do not translate into persistently elevated political instability. Thus, leveraging our continuously observed measures of approval, government crises, and protest activity helps us to uncover short-run dynamics of political instability that may be cushioned when examining the effect on electoral outcomes, which are observed intermittently and at a relatively low frequency.

We find that fiscal consolidation shocks operate through an economic channel. Controlling for macroeconomic dynamics following fiscal adjustment systematically reduces the effects, indicating that a meaningful share of the political cost of consolidation is mediated by a decline in economic activity. These indirect effects are strongest for government approval, where it accounts for the bulk of the effect. Consistent with this interpretation, state-dependent estimates reveal that effects on government approval and the likelihood of government crisis are substantially more pronounced under weak economic conditions, likely reflecting stronger contractionary effects of fiscal tightening in such environments. For strikes and demonstrations, state dependence plays a more limited role.

Finally, we examine the role of tax-spending composition. We find that government approval only declines more sharply following spending-driven consolidations. Under weak economic conditions, composition also affects the likelihood of government crises. Our results are robust to alternative specifications, estimation approaches, sample periods, country samples, and sets of controls.

Related literature. Our paper contributes to several strands of the literature. First, we contribute to a broad strand of the literature that studies macroeconomic effects of fiscal consolidation (e.g. Guajardo et al., 2014; Yang et al., 2015; Jordà & Taylor, 2016) as well as the economic and political conditions under which fiscal consolidations succeed, emphasising factors such as the composition of fiscal adjustment and institutional quality (e.g. Afonso & Jalles, 2012; Heylen et al., 2013).

Second, there is a growing body of empirical work on the political implications of fiscal adjustments. Several studies have explored the electoral consequences of fiscal consolidations using the IMF's narrative dataset. Alesina et al. (2024) draw on an expanded action-based dataset – building on Devries et al. (2011) – to identify consolidation episodes in 16 OECD countries from 1978 to 2014. They find that tax-based consolidations impose sizeable electoral costs on the incumbent leader's party, while expenditure-based adjustments have smaller effects, with somewhat larger penalties for governments that had not campaigned on a small-government platform. Although some of the literature suggests that voters in advanced economies do not consistently punish governments for fiscal adjustments (e.g. Alesina et al., 1998, 2013), other studies argue that consolidation typically triggers voter backlash (Hübscher & Sattler, 2017; Hübscher et al., 2021). Bremer (2024) provides evidence that social democratic parties lose more electoral support when they implement government spending cuts than when they hike taxes. Evidence from emerging markets points to stronger electoral effects than in advanced economies. Using IMF narrative shocks for 14 countries in Latin America and the Caribbean between 1989 and 2016, Ardanaz et al. (2020) show that fiscal consolidations – especially tax-based ones – significantly increase incumbent turnovers.

Another strand of the literature examines the link between fiscal consolidation and populism. Baccini & Sattler (2025) use narrative IMF data and panel regressions to show that consolidations raise populist vote shares, but primarily among groups most exposed to the distributional consequences of adjustment (e.g. low-skilled workers, manufacturing employees, and those vulnerable to automation). Gabriel et al. (2026) combine narratively identified national consolidation episodes with regional data. They find that fiscal consolidations prompt a shift towards extreme parties – particularly those on the right – with the strongest effects observed in regional elections. Fiscal tightening also leads to lower voter turnout and greater political fragmentation. Complementing this evidence, Fetzer (2019) shows that UK welfare reforms implemented as part of fiscal consolidation contributed substantially to the rise in support for Brexit.

While a sizeable body of literature examines the electoral consequences of fiscal consolidations, our paper focuses on earlier links in the causal chain: how fiscal tightening shapes political instability through government approval, government crises, demonstrations, and strikes. Two existing studies are close to our contribution: Jacques & Haffert (2021) and Ponticelli & Voth (2020).

Jacques & Haffert (2021) estimate the impact of fiscal consolidations on government approval in 14 OECD countries between 1978 and 2014. They find that consolidation, especially spending cuts during downturns, reduces approval. Their analysis relies on narrative consolidation shocks, but it faces two empirical challenges that our study addresses. First, their preferred estimates use the narrative shocks directly rather than as instruments. However, narrative measures should not be used directly in such regressions given that they may partly reflect announced policy intentions rather than the exact timing, scale, or implementation of measures, which can lead to mismatches between the recorded shock and the actual economic impulse. Using narrative measures as instruments rather than as direct shocks provides a more credible identification strategy. Second, their panel specification focuses on contemporaneous effects, even though consolidation may trigger adjustment processes that evolve over time. Our approach explicitly focuses on the dynamic responses. Additionally, we focus on a broader concept of political instability, investigating effects also on the incidence of government crises, anti-government demonstrations, and general strikes.

Using a range of indicators as measures, Ponticelli & Voth (2020) study how fiscal consolidation affects social unrest in 24 European countries from 1919 to 2008. They report that consolidations, particularly spending cuts, heighten social unrest. However, two empirical concerns merit consideration. First, their identification strategy relies primarily on changes in the fiscal balance, supplemented by an instrument based on past government expenditure in neighbouring countries, which may not fully isolate exogenous variation in fiscal policy. Second, they estimate a static model that abstracts from potentially important dynamic effects. Our study builds on key dimensions of political instability highlighted by Ponticelli & Voth (2020), in particular strikes and anti-government demonstrations. However, we employ robust empirical strategies, combining narrative measures with instrumental variable estimation, alongside more recent data for advanced economies. Our approach strengthens the credibility of causal identification and allows us to estimate both contemporaneous and short- to medium-run dynamic effects of fiscal tightening on political instability.

The remainder of the paper is structured as follows. Section 2 conceptualises political instablitity. Section 3 discusses our data. Section 4 presents our empirical approach. We present our findings in Section 5 and discuss them in Section 6. Section 7 concludes.

2 Conceptualising political instability

Before turning to the empirical analysis, we conceptualise political instability and derive a set of theoretical predictions that will structure our analysis. Political instability is widely recognised as a major impediment to economic development. Low government approval, frequent government turnover, and episodes of social unrest can undermine economic performance by increasing uncertainty, discouraging investment, and slowing growth (e.g. Carozzi et al., 2022). The concept itself is multifaceted, encompassing both institutional fragility and societal conflict.

In a seminal paper, Alesina et al. (1996) argue that political instability can be understood as a government's propensity to collapse. This executive-instability perspective highlights (irregular) changes in government as key indicators of instability. A broader perspective extends beyond government durability to include social unrest. Early work by Hibbs (1973) focused on mass political violence, constructing composite measures based on events such as strikes, riots, anti-government demonstrations, and politically motivated deaths. In this view, rather than being peripheral phenomena, protests and violence are core expressions of an unstable political system.

Against this background, our study adopts a broad conceptualisation of political instability that encompasses both dimensions: institutional instability (threats to government tenure, reflected in events such as collapsing coalitions or leadership changes) and social instability (manifested in public dissent and unrest). This means that we treat shifts in public support for the incumbent (e.g. Panunzi et al., 2024), incidents of major government crisis, and episodes of social unrest, such as demonstrations and strikes (e.g. Ponticelli & Voth, 2020), as expressions of underlying political instability. Such a comprehensive view is common in prior research (e.g. Hibbs, 1973; Alesina et al., 1996; Campos & Nugent, 2002; Garmignani, 2003). Adopting this broad definition allows us to capture a range of ways in which fiscal consolidation shocks can affect the political environment. Building on this conceptualisation, we outline five hypotheses concerning the effects of fiscal consolidation on political instability.

H1: Fiscal consolidation reduces government approval on impact, but the effect fades over time.

Jacques & Haffert (2021) argue that the literature on the political consequences of fiscal adjustments has overlooked government approval, even though it is a crucial indicator of whether governments can endure consolidation episodes without significant political costs. Shifts in executive popularity should precede any electoral consequences, making approval ratings a more immediate measure of public reactions to fiscal measures than election outcomes; the latter may mask sentiment when governments time consolidations strategically. While Jacques & Haffert (2021) focus on the contemporaneous impact of consolidation on approval, we contend that any negative effect is less likely to persist over the medium run as public attention shifts and the initial salience of the adjustment fades.

H2: Fiscal consolidation raises the likelihood of major government crises, anti-government demonstrations, and general strikes on impact, but these effects dissipate relatively quickly.

Fiscal consolidation may generate acute government instability in the short run due to internal government dynamics. For example, coalition partners may withdraw support if an adjustment is viewed as insufficiently ambitious, while others may defect when spending cuts or tax hikes and their economic consequences are deemed too costly for their constituencies. Such tensions can raise the likelihood of government collapse. At the same time, declining approval can erode a government's control over its parliamentary ranks and exacerbate strains within cabinets (e.g. Bond, 2003). Furthermore, unpopular consolidation measures may trigger broader societal pushback: when voters object to tax hikes or spending cuts, protest activity – reflected in general strikes or anti-government demonstrations – may intensify. However, we expect these effects to dissipate relatively quickly, reflecting the transitory nature of political and social responses to the initial implementation of consolidation measures.

H3: The effect of fiscal consolidation on political instability works through aggregate macroeconomic conditions.

A central channel emphasised in the literature is that fiscal tightening reduces output and deteriorates labour market outcomes. This aggregate economic channel is well established in terms of the macroeconomic effects of fiscal adjustments (e.g. Guajardo et al., 2014; Jordà & Taylor, 2016; Heimberger & Matzner, 2026). A deterioration in economic activity may in turn affect political outcomes, such as government approval and political stability, as suggested by the literature linking economic conditions (and major economic policy aspects) to political outcomes (e.g. Lewis-Beck et al., 2013; Lewis-Beck & Stegmaier, 2013). Against this background, we test whether the response of political instability to fiscal consolidation is largely accounted for by macroeconomic conditions. If this economic channel is the dominant mechanism, accounting for realised macroeconomic outcomes following fiscal tightening should substantially attenuate the estimated effects of consolidation shocks on political-instability measures.

H4: The political-instability effects of fiscal tightening are stronger during economic downturns than during expansions.

Fiscal consolidation may have different political consequences depending on the prevailing business-cycle conditions. The related literature suggests that voters evaluate governments not only based on policy choices per se, but also in light of economic performance (e.g. Lewis-Beck et al., 2013). During economic downturns, when unemployment is rising and growth is weak, fiscal tightening must be expected to exacerbate economic hardship (Jordà & Taylor, 2016; Heimberger & Matzner, 2026) and amplify perceptions of unfairness or mismanagement. Under such conditions, fiscal tightening is likely to be more salient and painful, which can trigger stronger declines in approval and a greater likelihood of government crises. In economic downturns, consolidation may be perceived as procyclical and ill-timed, reinforcing dissatisfaction among voters and increasing pressure within governments. In contrast, in stronger economic conditions, the adverse effects of fiscal adjustment may be partially offset by favourable labour market conditions and rising incomes, thereby dampening political backlash. These considerations suggest that the political-instability effects of fiscal consolidation are likely to be state-dependent, with stronger (and potentially more persistent) destabilising effects during economic downturns than during upswings.

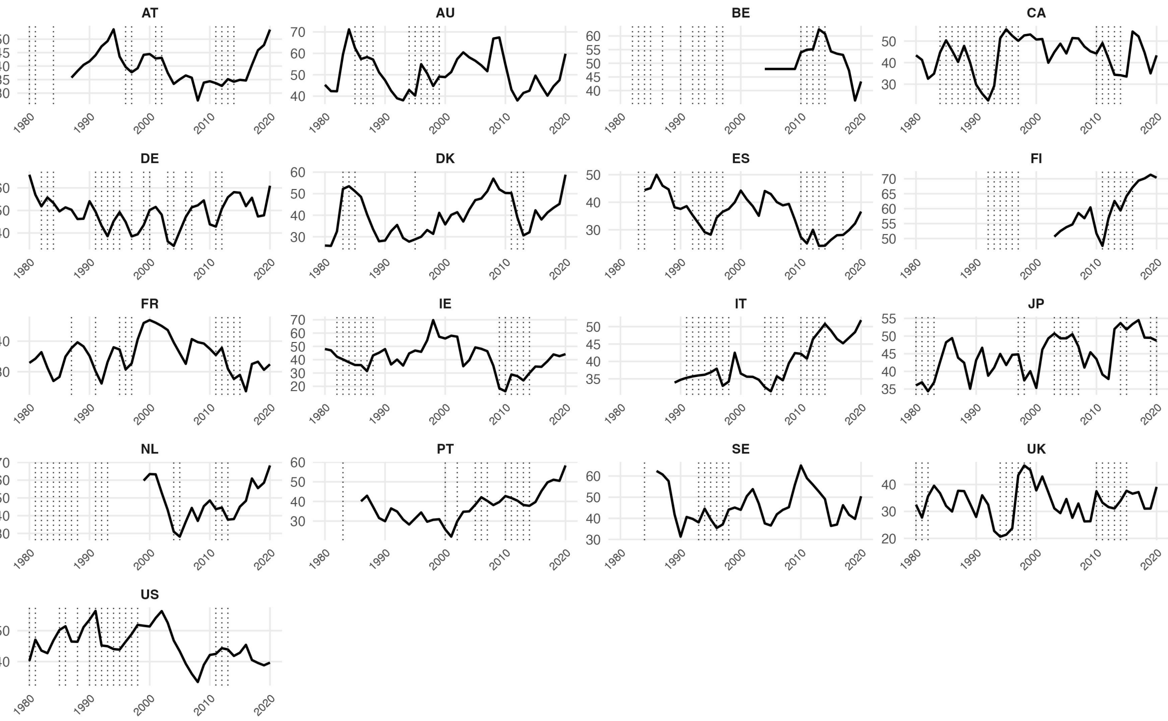
H5: Spending-based consolidations are politically less destabilising than tax-based consolidations.

A long-standing debate in the political economy literature examines whether the costs of fiscal consolidation depend on the composition of the adjustment (e.g. Ziogas & Panagiotidis, 2021). Empirical contributions typically distinguish between tax-based and spending-based measures without accounting for the specific policy instruments implemented within each category. The conventional argument holds that expenditure cuts may provoke resistance from beneficiaries of public programmes and public-sector employees, whereas tax increases may mobilise opposition from taxpayers and business groups. A common view in the literature is that tax-based consolidations are, in many contexts, politically more costly than spending-based adjustments (e.g. Alesina et al., 2019). Hence, we follow the literature and test the hypothesis that spending-based consolidations are less politically costly. However, from a theoretical perspective, it is not obvious that spending cuts should be politically less costly than tax increases. Both tax- and spending-based measures can impose visible and tangible losses, making them politically contentious (e.g. Garritzmann et al., 2023). In advanced economies, where public employment and welfare spending constitute a large share of government expenditure, spending cuts frequently affect public-sector workers, pensioners, and welfare recipients, who are often politically organised and electorally influential as groups (e.g. Pierson, 1996). Tax increases, by contrast, may fall more broadly across the population; or they can be designed to target financially well-off groups and may therefore be perceived as being more progressive. If voters regard tax-based adjustments as fair or equally distributed, the resulting decline in government approval is likely to be muted.

3 Data

We use an unbalanced annual panel dataset of 17 OECD economies over the 1980-2020 period: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, the United Kingdom, and the United States. Country coverage follows the narrative fiscal consolidation dataset compiled by Adler et al. (2024). The time span is determined by data availability: IMF cyclically adjusted fiscal indicators are available from 1980 onward in the World Economic Outlook, while the IMF narrative consolidation series extends to 2020. Government approval refers to public support for the incumbent government and is obtained from the Executive Approval Database 3.0 (Carlin et al., 2025). Government (or executive) approval, conceptualised as a latent measure of public support, is inferred from a wide range of survey-based approval questions that vary in wording and response formats; while no single item perfectly captures executive approval, each provides a partial indicator of the underlying concept. The Executive Approval Database project collects many opinion surveys that ask citizens to evaluate executive performance and then combines these data sources using statistical aggregation to correct for differences that may cause measures to diverge (e.g. survey question wording, survey item effects, survey firm effects, and survey response effects). These corrections produce a standardised, continuous time series of approval levels, which makes it possible to accurately evaluate executive approval across countries and over time. Government popularity provides more frequent observations than electoral outcomes, allowing it to capture more immediate public reactions to fiscal consolidation than voting results (Carlin et al., 2023). Figure 1 depicts government approval over time and the occurrence of fiscal consolidation episodes for each of the 17 OECD countries in our sample over the full time period.

Figure 1: Government approval (in %) and narratively identified fiscal consolidation episodes over time (1980-2020)



Notes: Authors' illustration. Solid lines show government approval in percent. Dotted lines indicate years with fiscal consolidation measures.
Sources: Executive Approval Database 3.0 (Carlin et al., 2025), IMF narrative fiscal consolidation dataset (Adler et al., 2024).

Measures of social unrest are drawn from the 2024 release of the Cross-National Time-Series (CNTS) data archive (Banks, 2010). Major government crises include rapidly evolving events that threaten the collapse of the sitting government, excluding revolts aimed explicitly at regime overthrow. General strikes cover strikes involving at least 1,000 industrial or service workers across multiple employers, which are directed against national government policies or authority. Anti-government demonstrations denote peaceful public gatherings of 100 or more participants primarily protesting government policies or authority, excluding explicitly anti-foreign demonstrations. The CNTS archive reports the number of government crises, anti-government demonstrations, and general strikes, implying that multiple events may occur within a given country-year. Interpreting local projection coefficients based on raw event counts is less straightforward, particularly when the distribution of these variables is highly skewed (see the distribution of events in Figure A.1 in the Appendix). For this reason, we rely on binary indicators that capture the occurrence of at least one event in a given year for government crises, demonstrations, and strikes. Each indicator equals one if at least one such event occurs in a given country-year, and zero otherwise. Table 1 reports the years in which each country experienced major government crises, general strikes, and/or anti-government demonstrations. All remaining variables used in the econometric analysis are sourced from IMF and World Bank databases. Descriptive statistics for all variables are available in Table A.1 in the Appendix. While the dataset spans the 1980-2020 period, the panel is unbalanced, as some country-year observations are dropped due to missing data on one or more variables.

Table 1: Summary of political instability events (1980-2020)

	Major government crises	General strikes	Anti-government demonstrations
Australia	2010, 2015, 2018	1983, 1986, 1992, 2012, 2018, 2019	1979, 1982, 1983, 1984, 1989, 1996, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020
Austria	1980, 1988, 2002, 2008, 2019	2003	1984, 1986, 1990, 2000, 2002, 2016, 2017, 2018, 2019, 2020
Belgium	1980, 1981, 1985, 1988, 1993, 1999, 2007, 2008, 2010, 2018	1983, 1986, 1993, 2005, 2008, 2012, 2014, 2015, 2016, 2018, 2019, 2020	1982, 1983, 1985, 1993, 1996, 1997, 2009, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020
Canada	1979, 1982, 1987, 1991, 2008	1987, 1996, 2019, 2020	1982, 1983, 1990, 1996, 2000, 2003, 2006, 2012, 2015, 2016, 2017, 2018, 2019, 2020
Denmark	1988, 1993, 2014	1985, 2008	1983, 1993, 2007, 2014, 2017, 2018, 2019, 2020
Finland	2015, 2019	2015, 2018, 2019, 2020	1992, 2015, 2017, 2018, 2019
France	2014	1979, 1982, 1984, 1987, 1988, 1991, 1992, 1995, 2002, 2003, 2004, 2009, 2010, 2015, 2016, 2017, 2018, 2019, 2020	1983, 1984, 1985, 1986, 1990, 1991, 1992, 1993, 1994, 1995, 1997, 1998, 1999, 2000, 2003, 2004, 2005, 2006, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020
Germany	1980, 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1993	1980, 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988, 1989, 2018, 2019, 2020	1980, 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1991, 1992, 1993, 1995, 1997, 1998, 2003, 2007, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020
Ireland	1987, 1989, 1991, 1992, 2008, 2010, 2011, 2017	1983, 2017, 2019, 2020	1984, 1993, 2001, 2003, 2006, 2009, 2012, 2014, 2015, 2016, 2017, 2018, 2019, 2020
Italy	1980, 1981, 1982, 1985, 1986, 1987, 1988, 1989, 1990, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 2003, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2016, 2019	1980, 1982, 1983, 1984, 1987, 1991, 1992, 1994, 2002, 2003, 2011, 2012, 2013, 2014, 2015, 2016, 2019, 2020	1983, 1984, 1988, 1990, 1992, 2001, 2002, 2008, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020
Japan	1989, 1992, 1993, 1994, 1995, 1998, 2001, 2007, 2008, 2009, 2010, 2012, 2014		1980, 1981, 1982, 1983, 1984, 1986, 1992, 1996, 1997, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020
Netherlands	1981, 1982, 1984, 1989, 1999, 2002, 2010, 2012, 2015	2019	1980, 1982, 2000, 2004, 2012, 2015, 2018, 2019, 2020
Portugal	1980, 1981, 1983, 1985, 2013, 2015	1982, 1988, 2011, 2012, 2013, 2019, 2020	1982, 2007, 2011, 2012, 2013, 2014, 2015, 2017, 2018, 2019, 2020
Spain	1980, 1981, 1989, 1994, 2011, 2016, 2018, 2019	1981, 1982, 1984, 1988, 1991, 1992, 1994, 2002, 2012, 2013, 2017, 2018, 2019, 2020	1980, 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1991, 1993, 1995, 1996, 1997, 2000, 2002, 2003, 2004, 2005, 2007, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020
Sweden	1981, 1990, 2014, 2018	1980	1983, 2009, 2016, 2017, 2018, 2019
United Kingdom	1990, 1993, 1995, 1996, 2009, 2019	1984, 1986, 1993, 2011, 2012, 2015, 2018, 2019, 2020	1981, 1982, 1983, 1984, 1985, 1986, 1987, 1990, 1992, 1996, 1999, 2000, 2002, 2003, 2004, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020
United States	2019	2011, 2017, 2018, 2019, 2020	1981, 1982, 1983, 1984, 1990, 1991, 1992, 1996, 1998, 1999, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020

Notes: Authors' illustration. The table lists the years in which government crises, general strikes, and/or demonstrations occurred, organised by country. Some events in earlier years are not included in the regressions due to missing data on other variables in the model. For the years before German reunification in 1990, 'Germany' refers to West Germany.

Source: CNTS archive, 2024 release (Banks, 2010).

4 Econometric approach

A key challenge in analysing the economic or political effects of fiscal consolidation is the identification of exogenous variation in fiscal policy. Changes in headline fiscal balances are endogenous to economic activity, as automatic stabilisers trigger cyclical fluctuations of tax revenues and social spending (e.g. Dolls et al., 2012). To address this, a range of empirical strategies has been developed to identify fiscal policy shocks, with two dominant approaches emerging in the literature: the conventional method and the narrative approach. The conventional method infers the size of consolidation from changes in cyclically adjusted budget balances, interpreting increases in the structural balance – defined as the headline fiscal balance net of cyclical and temporary components – as discretionary policy tightening. However, it has been shown that estimates of the structural balance are subject to measurement issues and may themselves be endogenous, partly reflecting macroeconomic developments rather than genuine policy actions (e.g. Guajardo et al., 2014; Yang et al., 2015; Heimberger & Kapeller, 2017).

To address these limitations, researchers have developed the narrative approach, which aims to isolate consolidation measures explicitly motivated by deficit- and debt-reduction objectives rather than as a response to prevailing economic conditions (e.g. Romer & Romer, 2010). This method relies on systematic reviews of official budget documents, economic reports, and policy statements to construct time series of fiscal actions based on their stated objectives, timing, and size (Devries et al., 2011; Adler et al., 2024). The narrative approach has been widely used to estimate the dynamic output effects of fiscal consolidation shocks (e.g. Yang et al., 2015; Jordà & Taylor, 2016; Heimberger, 2025; Heimberger & Matzner, 2026).

An influential contribution by Guajardo et al. (2014) instruments changes in structural budget balances with narrative consolidation measures to estimate the impact of fiscal consolidation on real GDP. We follow their identification strategy and implement it within a local projection framework (Jordà, 2005). This setup allows us to examine the dynamic effects of fiscal consolidation shocks on multiple dimensions of political instability. The baseline specification is estimated separately at each horizon h (with $h = 0,\ldots,4$):

$$y_{i,t+h} = \beta^h F_{i,t} + \gamma^h X_{i,t-1} + \delta_i^h + \theta_t^h + \epsilon_{i,t+h} \tag{1}$$

Here, $y_{i,t+h}$ denotes the political-instability variable of interest (i.e. government approval, major government crises, general strikes, or anti-government demonstrations) measured h periods after a fiscal consolidation shock. We discuss definitions and measurement of the response variables in Section 3. $F_{i,t}$ corresponds to the change in the cyclically adjusted primary balance for country i in year t, serving as our measure of a change in the fiscal stance. The coefficient β^h, therefore, captures the effect of a unit increase in $F_{i,t}$ (i.e. a fiscal consolidation) on the outcome h periods after the shock. The vector $X_{i,t-1}$ contains lagged control variables to account for dynamics and limit omitted-variable bias. These include real GDP growth, reflecting recent economic momentum; the real long-term government bond yield, capturing financial conditions; and the real effective exchange rate, covering external competitiveness.[2] As a robustness exercise (see Section 5.4),

[2]In the local projection specifications, where approval is the dependent variable, we control for its lagged level.

we add other controls and assess the sensitivity of our results to the choice of $X_{i,t-1}$. Country-fixed effects (δ_i^h) and year-fixed effects (θ_t^h) control for time-invariant national characteristics and global shocks, respectively. The error term ($\epsilon_{i,t+h}$) represents the random disturbance. To obtain inference robust to serial correlation and cross-sectional dependence, we compute Driscoll & Kraay (1998) standard errors. Hence, our local projection specification traces how a fiscal consolidation shock affects political instability conditional on recent macroeconomic and fiscal conditions.

Returning to the limitations of using cyclically adjusted indicators outlined above, we employ the IMF's narrative shock series of deficit-reduction-motivated fiscal consolidation periods (Adler et al., 2024) as an instrument for $F_{i,t}$. This dataset was constructed drawing on an extensive set of policy documents from the relevant period to identify actions not taken in response to contemporaneous or anticipated economic conditions. The series is annually available and measured in percent of GDP. Employing narrative instruments within local projection frameworks is now well established (Cloyne et al., 2020; Broner et al., 2022; Gabriel et al., 2025; Jordà & Taylor, 2025). In the first stage, changes in the cyclically adjusted primary balance are regressed on the narrative shocks; in the second stage, the political-instability variable of interest is regressed on the instrumented structural balance change within the local projection framework (Equation 1).

Our identification strategy rests on the assumption that the IMF's narrative-based consolidation measures capture policy actions that are exogenous to contemporaneous and anticipated economic and political conditions. In other words, governments use these measures with the primary objective of reducing fiscal deficits, rather than in response to business cycle fluctuations or changes in political stability. The narrative shocks affect political outcomes only through their impact on the structural fiscal balance. The construction of the narrative series in Adler et al. (2024) supports this assumption, because it focuses on measures motivated by the desire to reduce the fiscal deficit.

Our instrument meets the relevance condition: the first-stage results in the instrumental variable (IV) local projection framework are strong. We test for weak instruments using the Kleibergen-Paap rk Wald F statistic for all horizons. The values of the statistic are shown in Table B.1. All statistics are above 40, thereby exceeding the conventional threshold of 10, enabling a decisive rejection of the null hypothesis that the narrative instrument lacks explanatory power for changes in the structural balance.

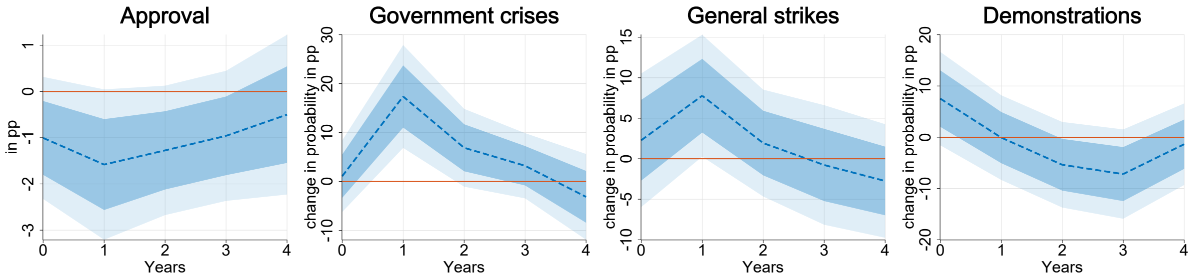
5 Results

This section presents our headline findings (Section 5.1), results on economic channels (Section 5.2), composition effects (Section 5.3), and robustness exercises (Section 5.4).

5.1 Headline findings

Figure 2 shows our main results. When the dependent variable is binary – as is the case for major government crises, anti-government demonstrations, and general strikes (see Section 3) – Equation 1 corresponds to a linear probability model estimated separately at each horizon. Thus, the local projection coefficients measure the change in the probability of observing at least one event at horizon h following a fiscal consolidation shock for those variables. For ease of interpretation, we

Figure 2: The effects of a fiscal consolidation shock of 1 pp of GDP on multiple dimensions of political instability at different response horizons



Notes: Authors' estimations. Shaded light (dark) areas represent 90% (68%) confidence bands.

multiply the estimated coefficients by 100 and report the effects in percentage points (pp). In contrast, when government approval is used as the dependent variable, the coefficients measure changes in approval directly expressed in pp.

A fiscal consolidation shock of 1 pp of GDP lowers government approval by around 1 pp on impact and by roughly 1.6 pp after one year. This is equivalent to about 17% of one standard deviation in approval. The level effect dissipates thereafter and becomes indistinguishable from zero over the medium run. Overall, these results indicate that, on average, fiscal tightening entails a short-term political cost in the form of declining public support for the incumbent government.

We find that fiscal consolidation increases the probability of a major government crisis by 17.4 pp one year after the shock. Given the unconditional incidence of such crises in advanced economies (the mean of our government crisis indicator is 19%), this represents a substantial increase in the likelihood of government collapse. The effect, however, is short-lived and fades over subsequent years.

For general strikes, the likelihood increases by about 7.8 pp one year after the shock (the mean of the general-strike binary variable amounts to 17%). We document a contemporaneous response of anti-government demonstrations. The probability of at least one major demonstration occurring increases by roughly 7.5 pp on impact (the mean of the anti-government-demonstration indicator is 41%). This effect, however, dissipates within one year.

Taken together, these findings point to a coherent political transmission mechanism: fiscal consolidation, on average, erodes public support in the short-run and heightens the probability of protest activity, thereby intensifying pressure on incumbent governments and temporarily increasing the likelihood of major government crises that threaten the sitting government's collapse. These effects are of a meaningful size but rather short-lived, suggesting that the political consequences of fiscal tightening are concentrated in the immediate aftermath of the adjustment rather than persistent over the medium run. These findings should be interpreted as reflecting changes in probabilities. Fiscal tightening does not inevitably lead to social unrest, nor do most consolidation episodes end in protest or executive crisis. Instead, such measures markedly increase the probability of instability relative to the baseline.

We extend the analysis along two dimensions. First, we examine whether effects are driven through their impact on economic performance and introduce an economic channel through which fiscal consolidation may affect political instability. Additionally, we examine whether the effects of fiscal consolidation differ in economic downturns and upswings. Second, we analyse whether the political instability effects of fiscal consolidation depend on the composition of the adjustment (spending-based versus mixed versus tax-based).

5.2 Results on economic channels

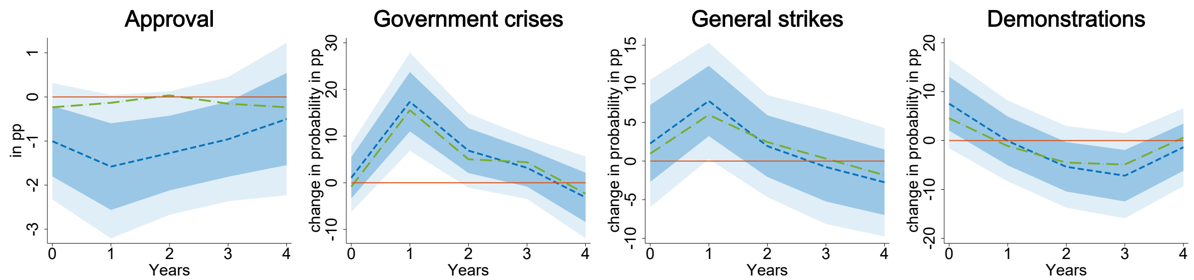
Prior research emphasises that voters evaluate incumbents based on economic performance (e.g. Lewis-Beck et al., 2013). Therefore, adverse short-run consequences of fiscal adjustments likely constitute a key channel through which consolidations translate into a heightened likelihood of political instability. To assess the role of aggregate macroeconomic conditions in shaping the political effects of fiscal consolidation, we augment our baseline specification by including leads of real GDP growth and changes in the unemployment rate. This approach allows us to examine how much of the estimated response of political-instability variables is accounted for by subsequent realised macroeconomic outcomes, following Konradt & Mangiante (2026). Importantly, rather than a structural decomposition of causal channels, this exercise provides an indication of the extent to which aggregate macroeconomic conditions can explain the observed political responses. The equation reads:

$$y_{i,t+h} = \beta^h F_{i,t} + \gamma^h X_{i,t-1} + \delta_i^h + \theta_t^h + \sum_{l=0}^{h} \phi_l^h C_{i,t+l} + \epsilon_{i,t+h} \tag{2}$$

The only difference to Equation 1 is the inclusion of $\sum_{l=0}^{h} \phi_l^h C_{i,t+l}$, which adds leads of macroeconomic controls, GDP growth, and the first difference of the unemployment rate up to horizon h.

Figure 3 presents the results of estimating Equation 2, where the dependent variables are our political-instability measures of interest. The blue short-dashed line reproduces our baseline estimates, while the green long-dashed line corresponds to the specification that additionally conditions on leads of real GDP growth and changes in the unemployment rate. This augmented specification allows us to assess the extent to which the baseline effects are accounted for by realised aggregate macroeconomic conditions.

Figure 3: The responses of political-instability variables to fiscal consolidation when adding leads of real GDP growth and unemployment to assess the economic channel



Notes: Authors' estimations. Shaded light (dark) areas represent 90% (68%) confidence bands. Green long-dashed lines show direct effects of fiscal consolidation (net political effects). Blue short-dashed lines reproduce our baseline estimates.

Several findings emerge. First, conditioning on macroeconomic outcomes attenuates the estimated effects of fiscal consolidation across all political-instability measures, indicating that aggregate economic conditions account for a quantitatively important share of the observed responses. This pattern is consistent with the presence of an aggregate economic channel linking fiscal consolidation to political instability. Second, this attenuation is most pronounced for government approval. The decline in approval following fiscal consolidation is largely reduced once macroeconomic controls are included as leads in the local projections, suggesting that this response is related to the deterioration in aggregate economic conditions induced by consolidation. This finding is consistent with the economic channel accounting for most of the overall effect on approval. Third, for government crises, general strikes, and anti-government demonstrations, the attenuation is comparatively modest. The persistence of these effects after conditioning on aggregate macroeconomic outcomes suggests that the aggregate economic channel alone cannot fully account for the observed responses, pointing to the relevance of additional mechanisms. Fiscal consolidation may affect political outcomes through additional mechanisms that are not captured by aggregate macroeconomic indicators, such as the distributive incidence (i.e. which groups bear the consequences of changes in fiscal policy) (e.g. Agnello & Sousa, 2014; Auerbach et al., 2025) and the salience of policy measures, referring to their visibility and prominence in public debate (e.g. Barnes & Hicks, 2018; Bansak et al., 2021). While these channels are conceptually relevant, they cannot be isolated empirically in our setting using macro data. Our focus therefore lies on assessing the importance of the aggregate economic channel relative to the overall effect.

Taken together, the results suggest that aggregate macroeconomic conditions account for an important share of the political effects of fiscal consolidation – particularly for government approval – while leaving a non-negligible role for additional mechanisms in explaining outcomes related to social unrest and political instability.

As the economic channel matters for the political-instability effects of fiscal consolidation, we have good reasons to believe that the effect of fiscal consolidation on political-outcome variables may vary according to specific economic environments. To capture possible state dependence, we estimate state-dependent local projections. Specifically, we define two regimes based on the 33rd percentile of the IMF's output gap estimates distribution, classifying observations below this threshold as relatively weak economic conditions (lower regime) and those above it as relatively stronger conditions (upper regime). This approach implies that the economy is in a downturn roughly one third of the time within our sample.

To test for state dependencies, we follow Ramey & Zubairy (2018) and extend our baseline specification (Equation 1) as follows:

$$y_{i,t+h} = I_{i,t}\left[\beta_U^h F_{i,t} + \gamma_U^h X_{i,t-1}\right] + (1 - I_{i,t})\left[\beta_L^h F_{i,t} + \gamma_L^h X_{i,t-1}\right] + \delta_i^h + \theta_t^h + \epsilon_{i,t+h} \quad (3)$$

Here, $I_{i,t}$ is an indicator variable for the state of the economy at the time of the shock (t). β_U^h and β_L^h capture the effects of a fiscal consolidation shock on political outcome variables at horizon h for the upper and lower state, respectively. We instrument $I_{i,t}F_{i,t}$ and $(1 - I_{i,t})F_{i,t}$ with $I_{i,t}Z_{i,t}^{IV}$ and $(1 - I_{i,t})Z_{i,t}^{IV}$, respectively. More details on the first stages are provided in Appendix B.2.

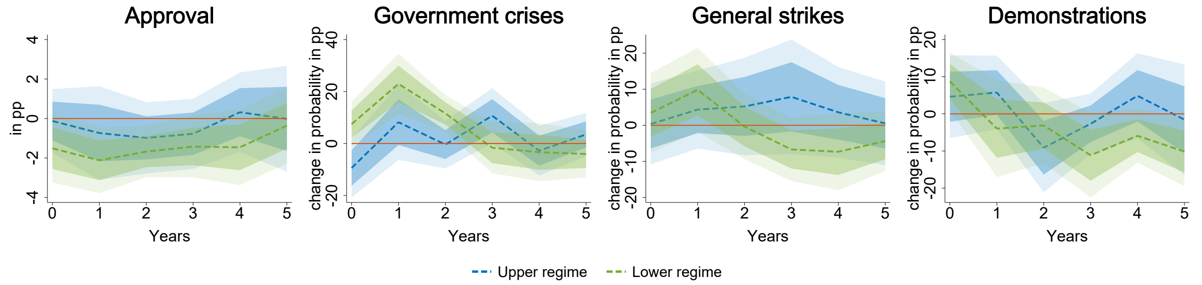
The findings, reported in Figure 4, support the view that the political consequences of fiscal consolidation are state-dependent. In the lower regime, which is characterised by weak economic conditions, fiscal tightening reduces approval by about 1.5 pp on impact, with a peak effect of 2.1 pp after one year. Only in the medium run does the effect become statistically indistinguishable from zero. This pattern suggests that during downturns, consolidation is perceived as costly and ill-timed, reinforcing economic grievances and amplifying voter dissatisfaction. When growth is weak and unemployment elevated, fiscal tightening may have stronger adverse macroeconomic effects, which may lead voters to penalise governments more sharply. Figure C.1 in the Appendix provides evidence that the larger approval losses observed during downturns may plausibly be attributed to the more pronounced (short-run) contractionary macroeconomic effects of fiscal tightening under weak economic conditions than during expansions. This finding is consistent with several papers that find larger fiscal multipliers in downturns (e.g. Jordà & Taylor, 2016; Gabriel et al., 2026; Gechert & Rannenberg, 2018; Heimberger & Matzner, 2026). In the upper regime, which is characterised by more favourable economic conditions, government approval does not decline on impact following a fiscal tightening shock, and the estimated effects remain statistically indistinguishable from zero throughout the horizon.

Similarly, the likelihood of government crises increases substantially in periods characterised by weak economic conditions. The peak effect occurs one year after the consolidation shock. The likelihood of government crisis increases by 22 pp and declines thereafter. There is no increased likelihood of government crisis three years after the shock. In periods of strong economic conditions, we observe no increase in the likelihood of a government crisis.

The responses of general strikes and anti-government demonstrations, on the other hand, are not distinguishable across economic states within five years after the shock. This suggests that while voter approval and the likelihood of government crises are sensitive to the macroeconomic environment, the likelihood of collective action may depend more on the overall contractionary stance itself rather than on cyclical conditions.

Taken together, the results indicate that favourable macroeconomic conditions cushion or offset the political consequences of consolidation. In expansions, fiscal tightening may be viewed as more prudent or timely; its adverse distributional effects may be mitigated by rising incomes and improved labour market prospects. Overall, our results support the argument that fiscal consolidation is politically destabilising primarily when implemented in weaker economic environments, whereas its effects are muted in stronger economic environments. Our findings on state dependence across the lower and upper regimes are robust to modest variations in the percentile thresholds used for the sample split (see Figure D.8 in the Appendix).

Figure 4: The responses of political-instability variables to fiscal consolidation in weaker economic conditions (lower regime) and stronger economic conditions (upper regime)



Notes: Authors' estimations. Shaded light (dark) areas represent 90% (68%) confidence bands. We use the 33rd percentile of the output gap distribution to define the states.

5.3 Composition effects

To examine whether the political-instability consequences of fiscal tightening depend on the composition of the adjustment, we allow the dynamic effects of consolidation shocks to vary with the tax-spending mix. We measure composition by the share of the total fiscal adjustment accounted for by spending cuts. The spending share of consolidation (denoted by $s_{i,t}$ in the following) is calculated as the ratio of expenditure-based tightening to total consolidation.[3] This procedure ensures that the composition indicator captures the relative importance of spending cuts versus tax increases in overall fiscal tightening. To determine the composition effects of fiscal consolidation shocks, we estimate a set of impulse responses for political outcome variables within the following local projection setup:

$$y_{i,t+h} = \beta^h F_{i,t} + \phi^h s_{i,t} F_{i,t} + \gamma^h X_{i,t-1} + \delta_i^h + \theta_t^h + \epsilon_{i,t+h}, \tag{4}$$

where $s_{i,t}$ is the spending share of consolidation, as noted above. The coefficient ϕ^h displays how the effect of a fiscal consolidation shock varies according to the spending share of consolidation. We control for the same comprehensive set of macro-fiscal variables and incorporate two-way fixed effects, as in Equation 1. As before, we instrument changes in the structural fiscal balance using the IMF's narrative fiscal shocks. This first stage yields a predicted consolidation shock that plausibly captures exogenous movements in the size of fiscal adjustment. We instrument $F_{i,t}$ and $s_{i,t}F_{i,t}$ with $Z_{i,t}^{IV}$ and $s_{i,t}Z_{i,t}^{IV}$, respectively. Details on first stages are provided in Appendix B.2.

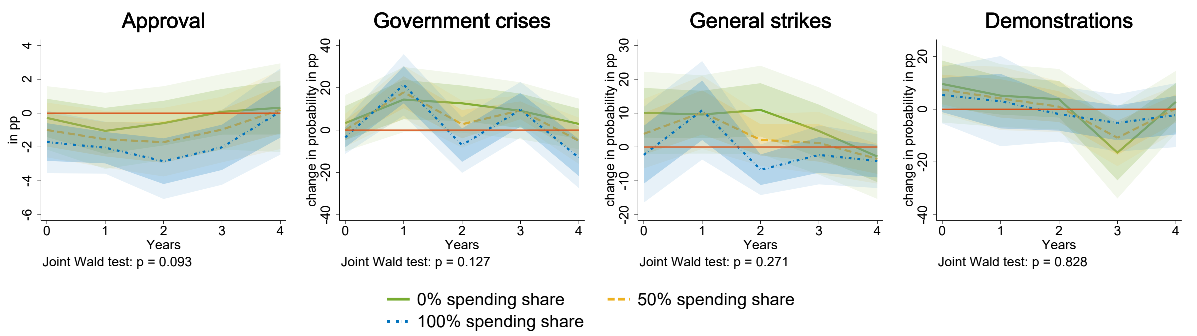
To present the results in an intuitive and economically meaningful way, we compare the political effects of fiscal consolidation that differ in their policy composition. Specifically, we evaluate the estimated responses at fixed values of the spending share. We report impulse responses for spending shares of $s_{i,t} = 0$, $s_{i,t} = 0.5$, and $s_{i,t} = 1$, which represent fully tax-based, mixed, and

[3] We use the OECD's estimates of changes in cyclically adjusted revenues and expenditures, which are intended to capture movements in taxes and spending that are not driven by automatic stabilisers. We use cyclically adjusted taxes and spending to calculate the expenditure share in total tightening, where the latter is measured as changes in the cyclically adjusted fiscal balance. Specifically, we draw on data from the OECD Economic Outlook No. 118, for which cyclically adjusted series are available from 1985 onward. In our sample, 40 % of fiscal consolidation episodes are fully tax-based (share = 0) and 32 % are fully spending-based (share = 1), with 28 % of observations taking interior values. The median is 0.33 and the mean is 0.45.

fully spending-based consolidations, respectively. The reported impulse responses therefore capture the predicted political effects of equally sized consolidations implemented with different spending shares.

The resulting estimates are shown in Figure 5. The composition coefficient ϕ^h is only individually significant for single horizons across selected specifications, suggesting limited horizon-specific effects. To assess overall significance, we apply a Wald test of the joint null $H_0 : \phi^h = 0$ for all $h = 0, 1, ..., H$.[4] We fail to reject the null hypothesis for all outcomes except government approval, where ϕ^h is jointly significant at the 10% level. This suggests that the political effects of fiscal consolidation on protest activity and government crises are largely invariant to its composition (i.e. whether adjustments are spending- or revenue-based does not markedly alter these political instability outcomes). However, government approval declines more sharply when consolidations are only focused on expenditure cuts.

Figure 5: The responses of political-instability variables to fiscal consolidation by tax-spending composition



Notes: Authors' estimations. We use the spending share in total adjustment to display results for different spending-share scenarios. Shaded light (dark) areas represent 90% (68%) confidence bands. Joint test $H_0 : \gamma_h = 0$ across all horizons reported per panel.

Taken together, these findings indicate that the escalation into government conflict or wider social unrest is mainly driven by the overall tightening stance rather than by whether consolidation relies more heavily on taxes or expenditures. For instance, the incidence of protest activity may reflect the distributive tensions around consolidation measures (i.e. which groups bear the costs of adjustment) and their salience in public debate rather than the specific composition of fiscal adjustment (Barnes & Hicks, 2018; Bansak et al., 2021).

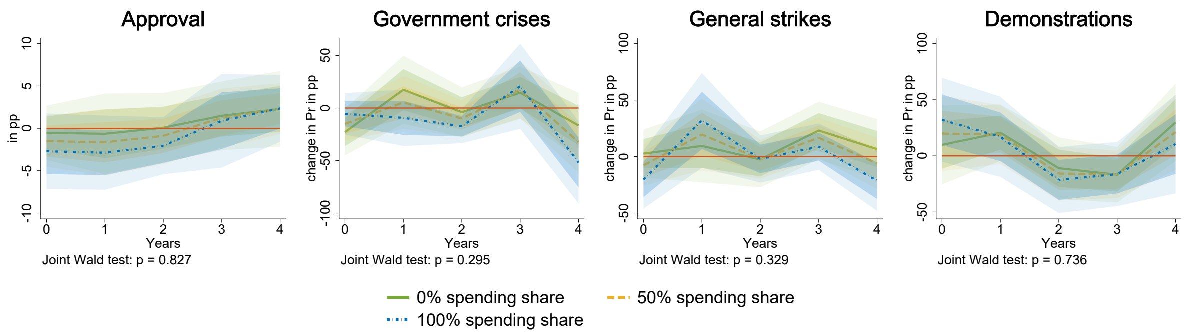
In Section 5.2, we have established that the economic channel plays an important role in explaining the effects of fiscal consolidation on political stability. Therefore, we extend our findings on the composition effects by exploring whether the results are different regarding the economic conditions at the time of the fiscal consolidation shock. To do so, we split our sample according to the definition of lower and upper regimes used above. Figures 6a and 6b display the results for the upper and lower regime, respectively. Figure 6a displays no differences in response to fiscal consolidation according to the spending share in upper regimes. On the other hand, Figure 6b suggests that the spending composition does matter for fiscal consolidation periods that overlap with a lower regime

[4] For computational simplicity, the test uses a diagonal variance-covariance matrix of horizon-specific standard errors, abstracting from cross-horizon covariance.

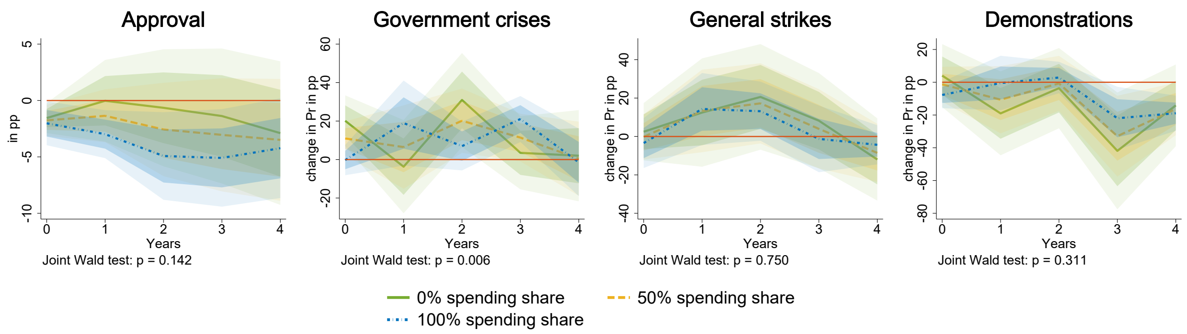
for some dimensions of political instability. As before, we report the Wald test of the joint null. We fail to reject the null hypothesis for approval, general strikes, and demonstrations. For government crisis, ϕ^h is jointly significant at the 1% level. This may reflect larger negative economic effects of spending cuts in downturns, consistent with the existing evidence (e.g. Gechert & Rannenberg, 2018; Bernardini et al., 2020).

Figure 6: The responses of political-instability variables to fiscal consolidation by tax-spending composition

(a) Upper regime



(b) Lower regime



Notes: Authors' estimations. We use the spending share in total adjustment to display results for different spending-share scenarios. We use the 33rd percentile of the output gap distribution to split our sample into an upper and lower regime. Shaded light (dark) areas represent 90% (68%) confidence bands. Joint test $H_0 : \gamma_h = 0$ across all horizons reported per panel.

5.4 Robustness exercises

We conduct a series of additional tests to assess the robustness of our baseline results. Specifically, we (i) modify the time period covered by the analysis; (ii) vary the set of countries included; (iii) test alternative instrumental variables; (iv) vary the set of controls included in the local projections; and (v) test a probit specification for government crises, general strikes, and demonstrations. In each exercise, we alter one component of the baseline specification while keeping all other elements unchanged.

First, political effects may have changed over time. To address this concern, we re-estimate the models after excluding the years 1980 to 1999. Figure D.1 in the Appendix shows that the main findings remain broadly robust: approval falls markedly on impact, although the effect is larger and remains more persistent than for the baseline. The probability of protest activity and major government crises increases in the short run, and the effects dissipate over the medium run.

Second, we restrict the sample to European Union (EU) member states. This more homogeneous group of countries shares a common institutional framework, regulatory environment, and – for euro area members – a single monetary policy, reducing concerns that results are driven by heterogeneity across vastly different political and economic systems. Figure D.2 in the Appendix demonstrates that the results remain robust when excluding non-EU countries from the sample.

Third, to address concerns that the narratively identified consolidations may reflect political selection whereby governments consolidate when they are politically positioned to absorb the costs, we conduct two robustness exercises exploiting the EU's Excessive Deficit Procedure (EDP) as a source of external consolidation pressure. These exercises are necessarily restricted to the EU subsample, as the EDP framework is specific to EU member states and has no equivalent institutional counterpart in the broader sample. In the first exercise, we instrument fiscal consolidation with the interaction of the narrative measure with a binary indicator for active EDP status, isolating consolidations undertaken under formal EU surveillance. In the second exercise, we use as our instrument variable the interaction of the narrative measure with a binary indicator defined by the actual fiscal balance falling below the -3% Maastricht threshold, restricting the identification of variation to episodes where external institutional pressure was most binding. The two instruments differ because not all periods when the Maastricht deficit criterium was violated led to an (immediate) triggering of the EDP. Both instruments leverage the notion that consolidations occurring under external constraint are less likely to reflect the government's political strength or strategic timing, thereby addressing the political-selection concern inherent in the baseline narrative instrument. Reassuringly, both instruments display considerable first-stage strength, with Kleibergen-Paap Wald F-statistics exceeding conventional thresholds. The fact that the results are robust across these alternative instruments provides reassurance that the baseline estimates are not driven by endogenous consolidation timing.

Fourth, one may be concerned that our results depend on the specific set of control variables included in the local projections. To assess this, we vary the control set along several dimensions: we separately add controls (public debt-to-GDP ratio, Figure D.5; output gap, Figure D.6; and drop controls (real effective exchange rate, Figure D.7). The results remain robust to these alternative specifications.

Finally, as a robustness check for our baseline local projection estimates, we re-estimate the model replacing the linear probability model (LPM) with a probit specification (Table D.1). While the LPM offers the advantage of straightforward interpretation and compatibility with Driscoll-Kraay standard errors in a panel setting, it does not impose the [0,1] bounds of a probability and may therefore yield biased estimates when the predicted probabilities lie near the extremes of the distribution. To address the endogeneity of fiscal consolidation in the nonlinear framework, we employ a control function approach, which consists of regressing the endogenous variable on the instrument and all exogenous controls in a first stage and then including the first-stage residuals directly in the probit model. If the residuals are statistically significant, this confirms the presence of endogeneity and validates the correction. Since raw probit coefficients are not directly interpretable in terms of probability changes, we compute average marginal effects (AMEs) of fiscal consolidation at each horizon, which capture the average change in the probability of the outcome variable across all observations for a one-unit change in the structural balance. This renders the probit estimates directly comparable to the LPM coefficients, as both measure the same quantity (i.e. the change in the probability of a political-economy outcome following a fiscal consolidation), and consistency between the two sets of results lends support to the robustness of our baseline findings.

6 Discussion

While an established strand of the literature examines the electoral consequences of fiscal consolidation (e.g. Fetzer, 2019; Baccini & Sattler, 2025; Gabriel et al., 2026), our study focuses on the early links in the causal chain by connecting fiscal consolidation to overall political-instability outcomes. Government approval and protest activity have long been recognised as predictors of incumbent survival and electoral performance. A large body of research on vote and popularity functions, as well as on retrospective voting, demonstrates that evaluations of incumbent performance influence electoral outcomes (Lewis-Beck & Stegmaier, 2013; Plescia & Kritzinger, 2017). Thereby, incumbent performance is commonly proxied by government popularity (i.e approval rates). This literature shows that voters take into account key aspects of economic policy (e.g. fiscal consolidation) when making their voting decisions. Another strand of research highlights the role of protest activity in shaping government survival (Hibbs, 1973; Ponticelli & Voth, 2020).

Our findings point to a consistent interpretation. Fiscal consolidation has meaningful but predominantly short-run political consequences. On average, governments face declining approval, heightened protest activity, and an elevated probability of crisis in the short run. However, these destabilising effects are temporary and do not translate into a persistent risk of unrest. While the state of the economy and, to some extent, adjustment composition may shape approval dynamics, acute forms of political instability appear to respond mainly to the overall contractionary fiscal stance.

In what follows, we discuss our findings in light of the theoretical predictions set out in Section 2. First, consistent with H1, fiscal consolidation reduces government approval in the short run. A consolidation shock leads to an immediate and sizeable decline in approval. Over the medium term, the effect fades. This suggests that voters impose short-run political costs on governments that implement fiscal tightening, but that these costs do not persistently reduce executive popularity. Second, our empirical results largely support H2. Fiscal consolidation raises the probability of anti-government demonstrations and general strikes on impact, accompanied by a higher likelihood of a major government crisis threatening the sitting government's collapse. Importantly, these findings should be interpreted in probabilistic rather than deterministic terms: fiscal tightening does not mechanically trigger instability, nor do most consolidation episodes culminate in protest or executive breakdown. Instead, consolidation systematically increases the probability of such events relative to baseline conditions. This indicates that fiscal tightening and the associated loss in approval heighten the likelihood of temporary political tensions both within the executive arena and in society at large. At the same time, these effects are short-lived, as the elevated probability of protest and government crisis dissipates over the medium run. The political instability linked to consolidation thus appears concentrated in the immediate aftermath of adjustment episodes. Third, we find nuanced evidence in support of H3. In line with previous literature, we find that fiscal consolidation decreases macroeconomic activity (e.g. Jordà & Taylor, 2016). Approval effects of fiscal consolidation are mediated by those macroeconomic effects, introducing an indirect macroeconomic channel. We test whether this channel matters for our political-instability results and find support across all specifications. However, the channel is of limited importance for protest activity and government crises. Fourth, we find partial support for H4. The adverse approval effects of fiscal consolidation are state-dependent and stronger during economic downturns than in upswings. In weak economic conditions, tightening is followed by pronounced and persistent declines in approval, whereas in stronger conditions the approval response is muted and statistically insignificant throughout. The likelihood of government crisis also increases more strongly during downturns. However, the short-run responses of demonstrations and strikes are broadly similar across the business cycle. Fifth, the evidence rejects H5. Spending-based consolidations are not associated with better political-stability outcomes; if anything, the medium-run approval losses for spending-based adjustment are larger than for tax-based ones. This rejects the hypothesis that spending cuts are less politically costly. However, we do not find systematic differences in the responses of major government crises, general strikes, and anti-government demonstrations by adjustment composition. In other words, composition may matter to some extent for popularity but not for broader manifestations of political instability. The escalation into intra-governmental conflict or collective action appears to depend primarily on the overall tightening stance rather than on whether the burden is placed more on taxation or spending.

In sum, our findings can be interpreted as capturing early signals of potential electoral consequences. Although the effects of fiscal consolidation on approval and protest activity tend to be short-lived – while average medium-run estimates for approval remain negative – they are concentrated in the immediate aftermath of policy implementation, when governments are most exposed to political contestation and when electoral expectations are formed. However, even temporary declines in approval can leave lasting political scars if they coincide with electoral cycles or trigger intra-party conflict. In this sense, fiscal consolidations can generate transitory instability that may nonetheless translate into longer-term electoral consequences. More broadly, our results point to upstream mechanisms of political destabilisation through which fiscal tightening may contribute to downstream phenomena, such as incumbent election losses, increased electoral volatility, and the rise in voter support for populist parties found in the literature (Hübscher et al., 2021; Galofré-Vilà et al., 2021; Alesina et al., 2024; Gabriel et al., 2026).

One important caveat to our findings concerns the interpretation of the average effects. Those estimates of the effects on the probability of protest activity due to fiscal consolidation are, on average, sizeable and short-lived. These averages, however, conceal substantial heterogeneity across different contexts. In particular, episodes of fiscal adjustment implemented under conditions of acute economic crisis and external conditionality may generate protest dynamics that differ markedly from those observed in our sample. For example, Greece – which we had to exclude from the analysis because the IMF's narrative fiscal consolidation dataset does not cover it – experienced an exceptionally intense wave of anti-austerity mobilisation during the sovereign debt crisis. Rüdig & Karyotis (2014) document that, in 2010, nearly one third of Greek adults participated in strikes or demonstrations and roughly two thirds expressed support for such actions, reflecting the scale, speed, and externally imposed nature of the adjustment programme. The Greek experience illustrates how large and externally mandated consolidations can trigger mass-protests and sustained political instability that far exceed the temporary losses in approval and limited short-run increases in government crisis and protest risk according to our estimates. Therefore, Greece represents an informative but non-representative case that helps to contextualise the average political costs of fiscal consolidation documented for the advanced economies analysed in this paper.

Our estimation approach comes with limitations. Although we distinguish between tax- and spending-based measures in line with prior work and find stronger average approval effects for spending-based adjustments in the medium run, this broad tax-spending categorisation still runs into clear limits when it comes to assessing how the composition of consolidation affects political instability. Public support for fiscal adjustments may depend less on the overall mix between tax hikes and spending cuts and more on the specific tax and spending measures adopted – as well as on how these measures are framed and portrayed in the media (e.g. Barnes & Hicks, 2018; Bansak et al., 2021). For instance, increases in regressive income taxes or value-added tax (VAT) may be far less popular and more likely to reduce approval or trigger anti-government demonstrations than equally sized but more targeted tax hikes affecting high-income or -wealth groups (e.g. Hübscher et al., 2021). Reductions in government consumption achieved through discretionary structural reforms that enhance administrative efficiency may be expected to generate more benign approval effects than equivalent fiscal improvements implemented through pension cuts. While both measures may yield similar gains in the fiscal balance, the former can be framed as efficiency-enhancing and less directly redistributive, whereas the latter impose visible and concentrated losses on identifiable beneficiary groups, thereby increasing the risk of public backlash.

Future research could gather more granular narrative data on fiscal consolidation episodes and combine these with in-depth case studies to better understand how the detailed policy composition of fiscal tightening shapes political-instability outcomes. Distinguishing between specific instruments (e.g. consumption tax increases, public wage restraint, pension reforms, or targeted transfer cuts) would allow scholars to move beyond broad tax-versus-spending categories and identify the distributive and symbolic features that drive political reactions. Moreover, developing a more fine-grained understanding of which specific tax and spending instruments – introduced under which economic and political conditions – allow governments to preserve public support while undertaking fiscal consolidation constitutes an important direction for future research. Finally, survey experiments and micro-level data could be used to better understand how people respond to the distributive incidence and salience of fiscal policy shocks – key channels beyond aggregate macroeconomic conditions that may shape political responses.

7 Conclusion

In this paper, we provide evidence on the dynamic political-instability effects of fiscal consolidation shocks. We conceptualise political instability to reflect shifts in public support as well as the incidence of government crises and episodes of social unrest. Using the IMF's updated narrative fiscal consolidation dataset and panel data on government approval, government crises, general strikes, and demonstrations for 17 OECD economies over the 1980-2020 period, we find that fiscal consolidation affects political-instability outcomes mostly in the short run. Following a fiscal consolidation shock, governments face declining approval and increased probability of protest activity and government crisis. While the state of the economy and the composition of consolidation shape approval dynamics, acute forms of political instability appear to respond mainly to the overall contractionary fiscal stance.

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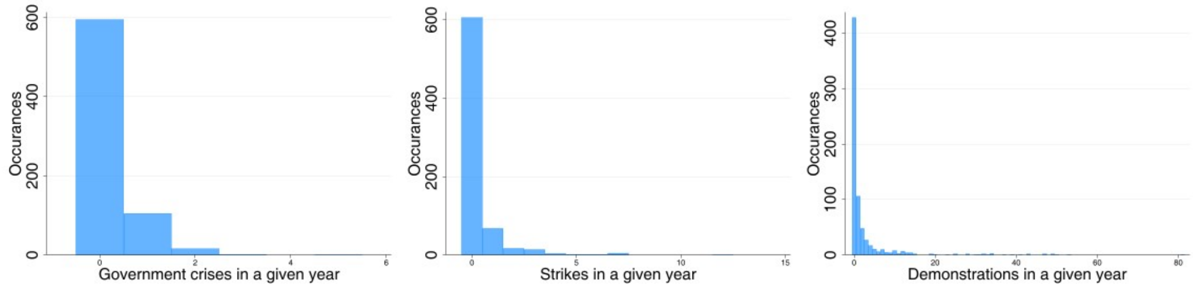
Appendix A Data

Figure A.1: Distribution of political instability events



Notes: Authors' illustration. The United States is excluded from the demonstrations panel in 2020, as the exceptionally high number of events that year compresses the histogram and reduces readability. Source: CNTS archive (Banks, 2010).

Table A.1: Descriptive statistics (17 OECD countries over 1980-2020)

	Mean	SD	Min	Max
Narrative fiscal consolidation (in % of GDP)	0.4	0.8	-0.8	5.2
Change in structural balance (in %-points of GDP)	0	1.5	-8.7	7.5
Government approval	42.3	9.8	16.3	71.4
Government crisis indicator	0.2	0.4	0	1
General strike indicator	0.2	0.4	0	1
Anti-government demonstrations indicator	0.4	0.5	0	1
Output gap (in % of GDP)	-0.6	2.3	-8.9	10
Real GDP growth (annual change in %)	1.9	2.7	-11.2	24.5
Real government bond yield (in %)	2.6	2.4	-2.9	9.6
Unemployment rate (in % of active population)	7.8	3.4	2.4	26.1
Real-effective exchange rate (2010=100)	100.7	11.2	67.6	142.3

Notes: Authors' calculations.

Appendix B Methodological appendix

B.1 Instrument relevance

Table B.1: Instrument relevance: Kleibergen-Paap rk Wald F statistic

	h=0	h=1	h=2	h=3	h=4
Approval	50.6	50.7	53.7	53.7	53.8
Government crises	41.9	41.3	42.8	42.8	43.0
General strikes	41.9	41.4	42.8	42.8	43.0
Demonstrations	41.9	41.3	42.8	42.8	43.0

Notes: Authors' calculations. The table shows the Kleibergen-Paap rk Wald F statistic for each dependent variable and response horizon according to the main specification.

B.2 Identification

State dependent local projections: first stages

With Equation 3, we estimate state-dependent effects of fiscal consolidation. We instrument $I_{i,t}F_{i,t}$ and $(1-I_{i,t})F_{i,t}$ with $I_{i,t}Z^{IV}_{i,t}$ and $(1-I_{i,t})Z^{IV}_{i,t}$, respectively. The first stage regressions are estimated separately for each endogenous interaction term

$$I_{i,t}F_{i,t} = \alpha_1^U\, I_{i,t}Z^{IV}_{i,t} + \alpha_2^U\,(1-I_{i,t})Z^{IV}_{i,t} + I_{i,t}\,\phi^U X_{i,t-1} + (1-I_{i,t})\,\phi^L X_{i,t-1} + \delta_i + \theta_t + u_{i,t} \tag{B.1}$$

$$(1-I_{i,t})F_{i,t} = \alpha_1^L\, I_{i,t}Z^{IV}_{i,t} + \alpha_2^L\,(1-I_{i,t})Z^{IV}_{i,t} + I_{i,t}\,\psi^U X_{i,t-1} + (1-I_{i,t})\,\psi^L X_{i,t-1} + \delta_i + \theta_t + v_{i,t} \tag{B.2}$$

Composition effects: first stages

To estimate Equation 4, we instrument $F_{i,t}$ and $s_{i,t}F_{i,t}$ with $Z^{IV}_{i,t}$ and $s_{i,t}Z^{IV}_{i,t}$, respectively. The first-stage regressions read:

$$F_{i,t} = \lambda_1 Z^{IV}_{i,t} + \lambda_2 s_{i,t}Z^{IV}_{i,t} + \pi X_{i,t-1} + \delta_i + \theta_t + \nu_{i,t} \tag{B.3}$$

$$s_{i,t}F_{i,t} = \mu_1 Z^{IV}_{i,t} + \mu_2 s_{i,t}Z^{IV}_{i,t} + \pi' X_{i,t-1} + \delta_i + \theta_t + \eta_{i,t}. \tag{B.4}$$

We test for relevance of our instruments by consulting the Kleibergen-Paap rk Wald F statistic for $h = 0$. The statistic is slightly above 17 for each specification, a value that is well above the conventional threshold of 10, allowing us to claim relevance of our instruments.

Appendix C Additional results

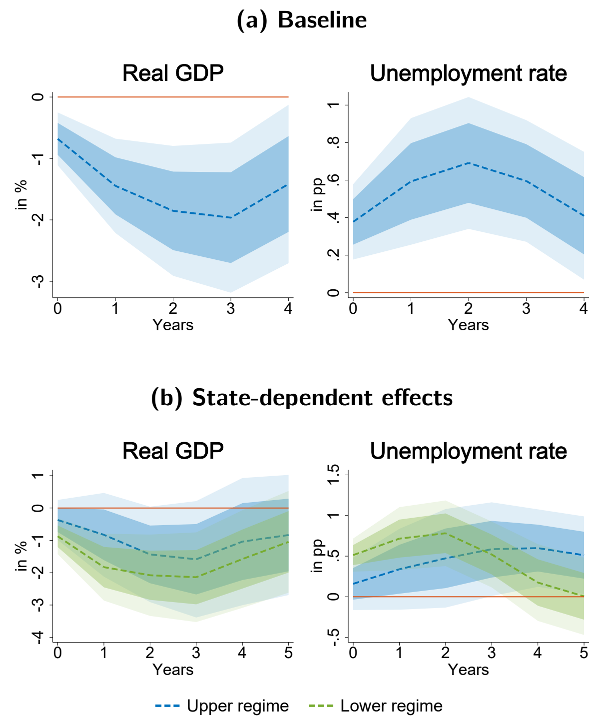
C.1 Macroeconomic effects of fiscal consolidation shocks

To estimate the effects of fiscal consolidation on macroeconomic outcome variables, we estimate a variation of Equation 1. The specification reads

$$\Delta_h y_{i,t-1} = \beta^h F_{i,t} + \gamma^h X_{i,t-1} + \delta_i^h + \theta_t^h + \epsilon_{i,t+h}, \tag{C.1}$$

where $\Delta_h y_{i,t-1} = y_{i,t+h} - y_{i,t-1}$ denotes the long difference in log(GDP) and the unemployment rate. Therefore, β^h captures the cumulative response of GDP and unemployment h periods after the shock. Results are shown in Figure C.1.

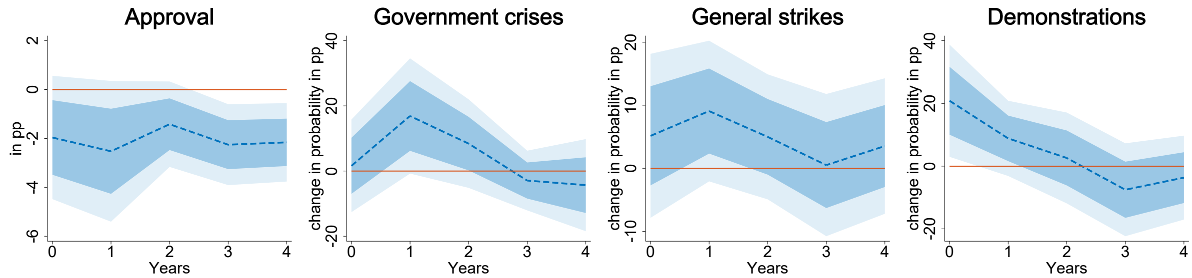
Figure C.1: The macroeconomic effects of a fiscal consolidation shock of 1 pp of GDP



Notes: Authors' estimations. Shaded light (dark) areas represent 90% (68%) confidence bands.

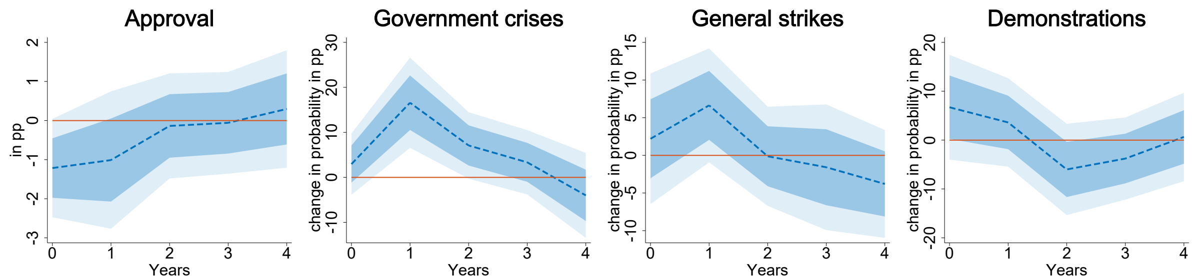
Appendix D Robustness

Figure D.1: Robustness: Excluding 1980-1999



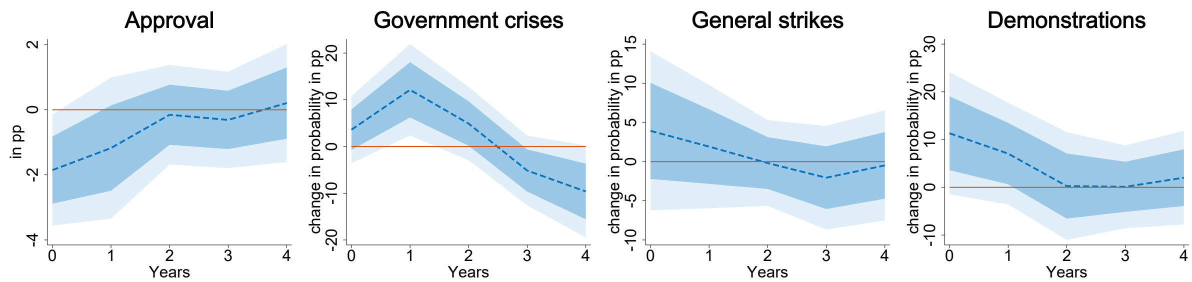
Notes: Authors' estimations. The figure shows effects of a fiscal consolidation shock of 1 pp of GDP on multiple dimensions of political instability at different response horizons. We exclude the years 1980 to 1999. Shaded light (dark) areas represent 90% (68%) confidence bands.

Figure D.2: Robustness: EU subsample



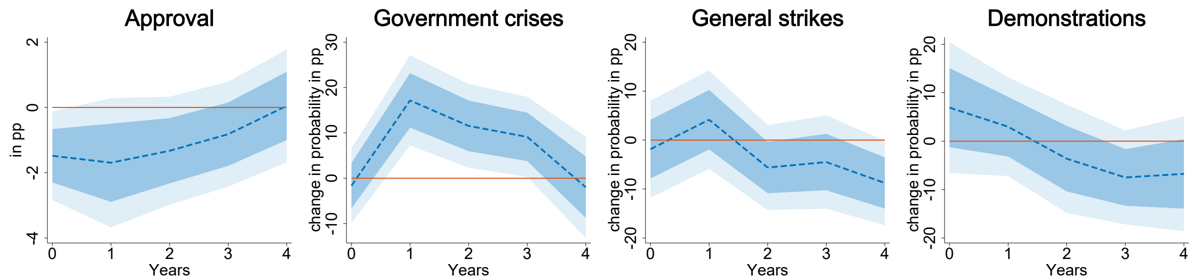
Notes: Authors' estimations. The figure shows effects of a fiscal consolidation shock of 1 pp of GDP on multiple dimensions of political instability at different response horizons for a subsample of EU countries. Shaded light (dark) areas represent 90% (68%) confidence bands.

Figure D.3: Robustness: IV with excessive deficit procedure



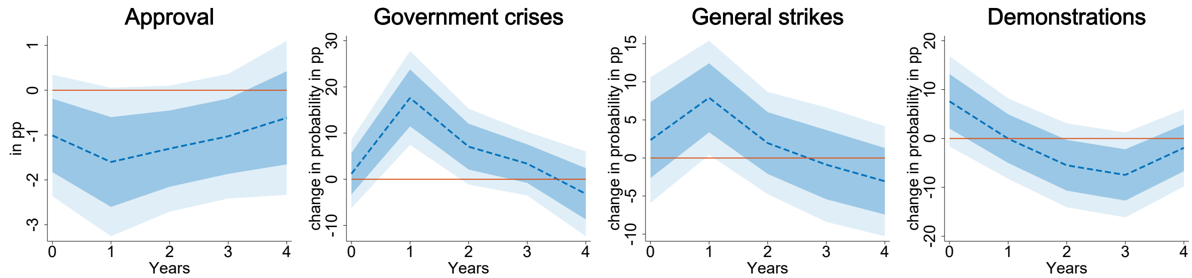
Notes: Authors' estimations. The figure shows effects of a fiscal consolidation shock of 1 pp of GDP on multiple dimensions of political instability at different response horizons for a subsample of EU countries. The instrumental variable is the interaction of the narrative consolidation measure with a binary indicator defined as the actual fiscal balance falling below the -3% Maastricht Treaty threshold. Shaded light (dark) areas represent 90% (68%) confidence bands.

Figure D.4: Robustness: IV with Maastricht threshold



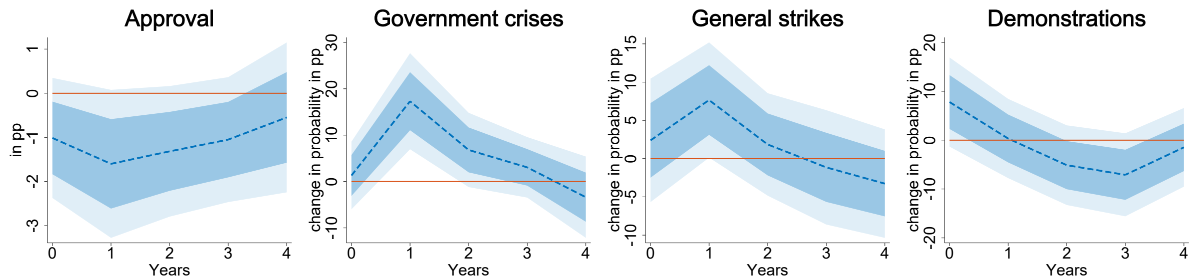
Notes: Authors' estimations. The figure shows effects of a fiscal consolidation shock of 1 pp of GDP on multiple dimensions of political instability at different response horizons for a subsample of EU countries. Shaded light (dark) areas represent 90% (68%) confidence bands.

Figure D.5: Robustness: Debt-to-GDP ratio as additional control



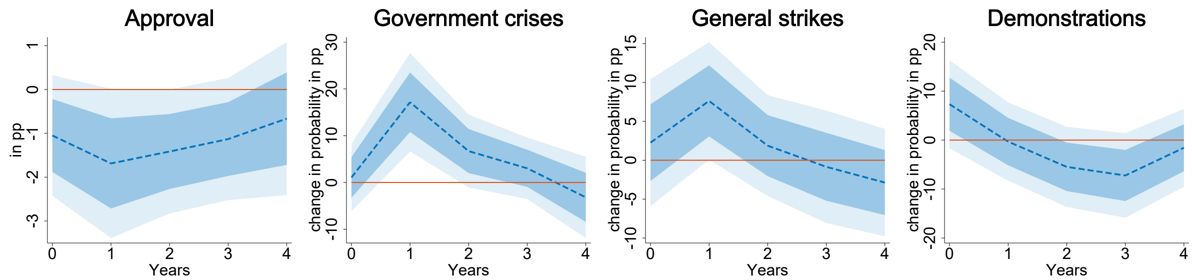
Notes: Authors' estimations. The figure shows effects of a fiscal consolidation shock of 1 pp of GDP on multiple dimensions of political instability at different response horizons. We add the debt-to-GDP ratio to our set of controls. Shaded light (dark) areas represent 90% (68%) confidence bands.

Figure D.6: Robustness: Output gap as additional control



Notes: Authors' estimations. The figure shows effects of a fiscal consolidation shock of 1 pp of GDP on multiple dimensions of political instability at different response horizons. We add the output gap to our set of controls. Shaded light (dark) areas represent 90% (68%) confidence bands.

Figure D.7: Robustness: Remove real effective exchange rate from set of controls



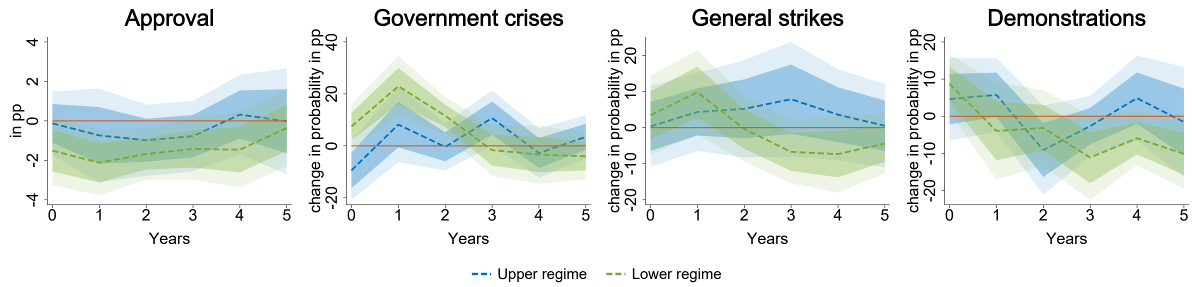
Notes: Authors' estimations. The figure shows effects of a fiscal consolidation shock of 1 pp of GDP on multiple dimensions of political instability at different response horizons. We drop the real effective exchange rate from our set of controls. Shaded light (dark) areas represent 90% (68%) confidence bands.

Table D.1: Robustness: Probit estimations

	(1) h=0	(2) h=1	(3) h=2	(4) h=3	(5) h=4	(6) h=5
Panel A: Government Crises						
Fiscal consolidation shock	1.367	17.088*	8.284*	2.636	-8.443+	-2.932
	(4.579)	(4.807)	(4.715)	(4.511)	(5.878)	(5.169)
Num. obs.	441	424	387	377	351	344
Panel B: General strikes						
Fiscal consolidation shock	-0.268	6.650*	3.402	-3.137	-8.119*	-8.981*
	(5.705)	(3.994)	(4.782)	(3.601)	(4.079)	(5.350)
Num. obs.	359	350	335	328	319	307
Panel C: Demonstrations						
Fiscal consolidation shock	6.757+	0.012	-5.812	-11.094*	-1.157	-7.424+
	(6.324)	(6.425)	(6.365)	(3.757)	(5.158)	(5.911)
Num. obs.	467	456	441	426	410	394

Notes: Authors' estimations. The table shows the average marginal effects of a fiscal consolidation shock of 1 pp of GDP on binary outcome variables. Standard errors are clustered by country and displayed in parentheses. + significant at 68% confidence level (a=0.32). ∗significant at 90% confidence level (a=0.10). Control function approach used to address endogeneity.

Figure D.8: Robustness: 30th percentile of the output gap distribution to define threshold



Notes: Authors' estimations. Shaded light (dark) areas represent 90% (68%) confidence bands. We use the 30rd percentile of the output gap distribution to define the states.

IMPRESSUM

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