Summary

Recent years have seen an increasing synergy between two economic fields: macroeconomics and behavioural economics. In the past, both fields evolved in parallel, producing long and distinguished histories and Nobel laureates. In broad terms, behavioural economics investigates how people make economic choices while macroeconomics studies the evolution and dependencies between national income, consumption, fiscal policy, etc. The synergy between these two branches of economics relates to the particular interdependency between consumers’ choices and judgements and the effects of economic policies. This dissertation contributes to the recent literature that studies how citizens and (central) governments interact, more precisely how the fiscal measures undertaken by governments to solve imbalance problems are affected by economic agents’ opinions, judgements, and expectations.

The dissertation follows a logical sequence starting with the different approaches to identify fiscal consolidations. This introductory chapter stresses the advantages and shortcomings of the existing methodologies and combines them to calculate an indicator measuring the gap between fiscal consolidation announcements and fiscal consolidation implementations. Subsequently, the following chapters address the analysis of the effects that confidence may have across different stages of austerity episodes: origins, duration, and consequences.

The origins of fiscal consolidation episodes are grounded in budget disequilibria in terms of the budget deficit and/or the public debt. Other macroeconomic variables and accompanying policies have been found to contribute to the undertaking of austerity measures. One contribution of this dissertation is the demonstration that pessimistic sentiments from
consumers and firms also increase the likelihood of starting fiscal consolidation episodes. In terms of the duration, the analysis in this dissertation sheds light on the claim that increasing confidence constitutes an exit strategy out of recessions. The findings suggest that positive changes in confidence of consumers and firms increase the length of the austerity episodes, contradicting the claims of policymakers during the Great Recession. Finally, in terms of the consequences of fiscal austerity episodes, this dissertation finds that not only the policy mix used to consolidate the budget balance is important but also the implementation delay (the period between announcement and implementation of the policy) is key to determining their consequences. Both the policy mix and the implementation delay determine the interaction between confidence and the macroeconomic variables used to measure the results of the consolidation episodes.