

# B2.8 Partisan Differences, Varieties of Capitalism and the International Financial Crisis: Political Determinants of the Fiscal Political Crisis Reaction



**Director/** Felix Hörisch  
**Researcher/** Felix Hörisch  
**Funding/** Fritz Thyssen Foundation

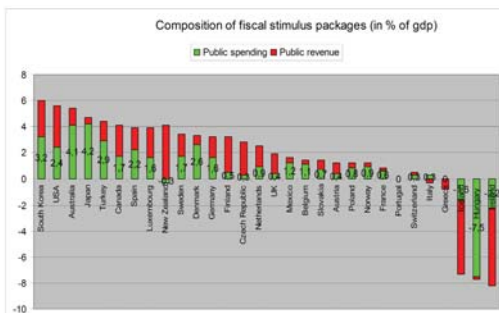
## Puzzle and Research Questions

### Puzzle

The international financial and economic crisis 2008-2010 posed a great challenge to governments all over the world. While they all faced similar challenges – although to different degrees - the governmental reactions of the individual OECD member states varied greatly.

Many states passed large fiscal stimulus packages (FSP), despite the uncertainty of the effectiveness of fiscal stimulus packages, while others such as Ireland and Hungary relied solely on a restrictive fiscal policy even in times of economic crisis.

The composition of fiscal stimulus packages also differed greatly as can be seen in the graph below. While some states boosted public expenditure, others focused on a conjuncture stimulus by tax reductions.



### Main Research Questions

How can this variation in fiscal policy reaction to financial crises be explained in regard to

- The size of fiscal stimulus packages in % of gdp
- The composition of fiscal stimulus packages in regard to the share of spending-sided measures and revenue-sided measures
- The choice of specific fiscal stimulus packages (for example tax cuts for employees or tax cuts for business etc...)?

## Hypotheses, Method and First Results

### Hypotheses

The three main hypotheses to explain the variation in size (F) and composition (S) fiscal policy crisis reaction are:

- (1) The hypothesis of the dominance of partisan effects on fiscal outcomes (P),
- (2) The hypothesis emphasizing the influence of the capitalist system and the role of economic coordination (K) and
- (3) The hypothesis of conditional partisan effects according to the type of market economy

Furthermore other factors such as openness of the economy (O), trade union strength (T) and public debt (D) are controlled for.

### Method

Methodologically a combination of fuzzy-set Qualitative Comparative Analysis and comparative case studies of the four cases US, Australia, Switzerland and Germany is applied.

### First Results

■ No necessary conditions for large and spending-centered fiscal stimulus packages

Sufficient conditions for large FSPs:

Sufficient conditions for spending-centered FSPs:

Solution Term (Parsimonious Solution)	$P + \sim K^* \sim O + K^* O^* \sim T + O^* \sim D + T^* \sim D \rightarrow F$				
Variables Entered	P; K; O; T; D				
Ideal Type	P	$\sim K^* \sim O$	$K^* O^* \sim T$	$O^* \sim D$	$T^* \sim D$
Countries Covered (Contradicting cases are printed red)	AU ES UK NZ NO AT PT	US AU NZ UK CA	DE NL AT CH	SE FI LU AT CH	SE FI LU
Consistency	0.85	0.9	0.82	0.91	0.93
Raw Coverage	0.48	0.37	0.28	0.43	0.28
Unique Coverage	0.10	0.08	0.017	0	0.02
Solution Consistency: 0.86 Solution Coverage: 0.76					

Solution Term (Parsimonious Solution)	$K^* \sim O + \sim K^* \sim O + K^* \sim T + O^* \sim T \rightarrow S$			
Variables Entered	P; K; O; T			
Ideal Type	$K^* \sim O$	$\sim K^* \sim O$	$K^* \sim T$	$O^* \sim T$
Countries Covered (Contradicting cases are printed red)	JP IT GR ES FR NO	IE IS	ES FR CH JP IT GR AT DE NL	CH IE NL DE AT
Consistency	0.95	0.82	0.83	0.71
Raw Coverage	0.49	0.36	0.51	0.38
Unique Coverage	0.03	0.03	0	0
Solution Consistency: 0.77 Solution Coverage: 0.69				

### Selected Publications

Hörisch, Felix, and J. Timo Weishaupt (2012): It's the Youth, Stupid! Explaining Labour Market Policy Reactions to the Crisis. Zeitschrift für Vergleichende Politikwissenschaft (Comparative Governance and Politics), 6, issue 2, p. 233-253.

Hörisch, Felix (2013): Fiscal Policy in Hard Times - A fuzzy-set QCA of fiscal policy reactions to the financial crisis. Zeitschrift für Vergleichende Politikwissenschaft (Comparative Governance and Politics), 7, issue 2 (forthcoming).

Hörisch, Felix, and Jakob Weber (2013): Capitalizing the Crisis? Explanatory factors for the design of short time work across OECD-countries. (forthcoming).

Hörisch, Felix, and Jakob Weber (forthcoming): Varieties of Capitalism - Varieties of Responses? Comparing Fiscal Policy Responses to the Global Financial Crisis in the US, Australia, Switzerland and Germany.