

Distributional consequences of fiscal consolidation: The case of Spain

Topic: (4.5) CGE Modelling (2)

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The Great Recession has led an uneven increase in public debt for most of advanced economies, raising concerns about fiscal sustainability. A growing body of literature are focused on the macroeconomic consequences of fiscal adjustment but the research about microeconomic effects and especially distributional effects remains fairly limited. In this paper, we analyze the effects of austerity measures on inequality, as maintaining deficit reduction efforts is difficult when it is perceived as unfair. Moreover, a resulting high income inequality could harm the growth in the medium-term. To do so, we integrate a Computable General Equilibrium (CGE) model and a microsimulation model for the Spanish economy in 2015, within a top-down approach. The results will show the effects on income distribution of a hypothetical reduction of public deficit until 3%, as required by Stability and Growth Pact.