Abstract
The Eurozone crisis has given a new impetus to academic and policy debates about the merits and ills of fiscal consolidation policies (austerity). Fuelled by the huge contraction experienced by some ‘bailout countries’, and especially Greece, a new consensus seems to have emerged, that “austerity doesn’t work”. Yet, many Eurozone countries have seen a relatively fruitful implementation of fiscal consolidation programmes, with fiscal pressures being successfully curtailed and the adverse growth effects of austerity being very short-lived. The literature has only recently shifted its attention to the qualitative characteristics of fiscal consolidation to explain variations in economic performance (growth) across countries in the course of austerity. Still, attention to political-institutional and structural-economic factors is generally lacking. This paper makes a contribution in this direction, by showing that two domestic-context parameters – trade openness and quality of government – exert significant influence on the impact that austerity has on growth and debt-sustainability. Factoring-in these parameters allows us to contextualise a number of ‘stylised facts’ of the Eurozone crisis, including the huge recession and large snowball effect for Greece, the relatively painless fiscal consolidation in parts of the Eurozone north, and the surprising decline in nominal interest rates seen is some of the most agile Eurozone countries.

Keywords: austerity, growth, debt sustainability, quality of government.