

## Abstract

There is ample evidence that fiscal consolidation leads - at least in the short run - to an increase in income inequality. However, the effect of austerity on the distribution of income depends on the composition of the consolidation measures. Expenditure based consolidation, while being more successful with respect to deficit and debt reduction, tends to increase income inequality. The opposite is true for revenue based consolidation measures. Hence, from a policy perspective there seems to be a trade-off between successful fiscal consolidation and income equality. Still open remains the question whether fiscal rules or debt brake institutions either alleviate or even aggravate this trade-off. Based on a panel of Swiss cantons from 1957 to 2011 we empirically assess the implications of fiscal rules on the trade-off between fiscal consolidation and income equality.