Comparative Politics Speaker Series

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presents

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"Regime Type and the Fiscal Costs of Financial Crises: New Forms of Political Business Cycles in Europe"

How do political institutions shape the costs of responding to financial crises? Previous research contends that policy-makers in democracies choose policies less costly to taxpayers than politicians in autocracies. In this research note we re-evaluate Keefer's (2007) contribution to this body of research using an updated theoretical model as well as updated fiscal costs data, which is his dependent variable. We argue that political institutions shapes when politicians spend, rather than how much they spend, in response to financial crises. In the updated theoretical model we include the possibility that politicians can shift crisis response costs into the future by using policies that create contingent liabilities. Politicians facing removal pressures--such as elections--have incentives to create contingent, rather than immediately realized liabilities. Empirically we illustrate this dynamic by first updating Keefer (2007) using new data on the fiscal costs of financial crises. We further substantiate our argument with Eurostat's detailed yearly, cross-country comparable data from the late 2000s financial crisis to show that politicians in democracies tend to increase contingent liabilities, while also decreasing realized liabilities, before elections.

Thursday, April 24th, 2014
SSB 104 at 12:30 p.m.
Lunch provided