FISCAL RULE STRETCHING DURING FINANCIAL MARKET STRESS AND CRISIS

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ELECTIONS AND FISCAL POLICY

Considerable research has examined how

FISCAL ACCOUNTING IN EUROPE

Stability and Growth Pact (SGP) sets deficit and debt levels.

- Before eurozone debt crisis, focus was on 3% deficit limit

Created an enforceable European government finance accounting regime, with **common rules** (European System of Accounts) and a **common accounting monitoring institution–Eurostat**.

Nonetheless member states have first mover advantage.

Debt and deficit figures are first published by member states themselves. They have first crack at classifying a policy with seemingly ambiguous budgetary effects.

Eurostat only scrutinises and revises published figures post hoc.

It is difficult within the European accounting regime to simply fabricate the government's fiscal position.

However …

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- voters don't really care about revisions...
- governments have strong incentives to **rule stretch**.

ACCOUNTING POLICY RESPONSES TO FINANCIAL CRISES

HYPOTHESES

EMPIRICS: SETUP

Dependent variable: cumulative revisions made by **Eurostat** to government debt and deficit statistics (% of GDP) over the 3 years from initial publication. Revisions occur bi-annually (April & October).

Revisions to data for 2003-2013.

Cumulative **debt** revisions: $[-1.1, 12.7]$

Cumulative **deficit** revisions: $[-4.5, 1.1]$

Unit of analysis: Eurostat revision for a given year.

- There are typically 7 observations per pulication year. The first in October of the publication year + twice a year for the subsequent 3.

DEPENDENT VARIABLE

Note: Revisions due to GDP revisions are **not included**.

Also:

- Years since publication
- Eurozone membership
- Absolute debt & deficit levels (2015 vintage)
- Country varying intercepts

EMPIRICS: (PRELIMINARY) RESULTS

Figure: Marginal Effect of Election Timing (years to election) at Various Levels of Financial Market Stress on **Debt** Revisions

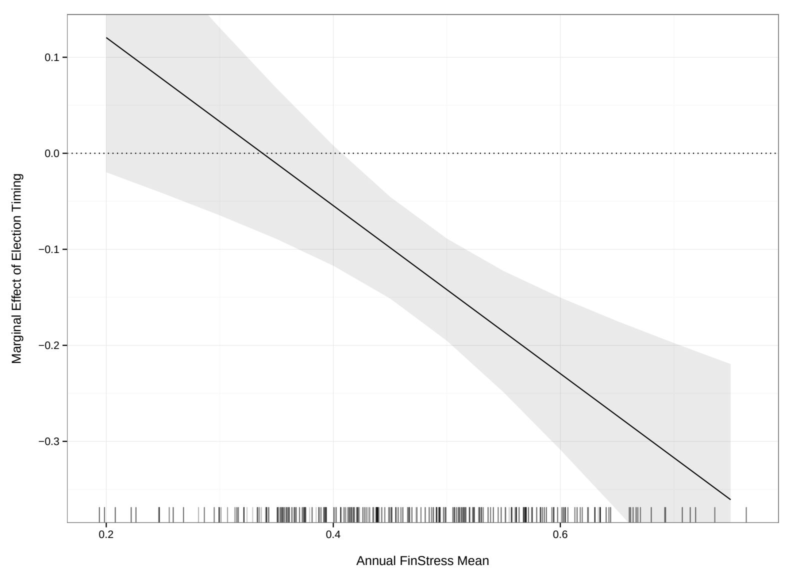


Figure: Marginal Effect of an Endogenous Election at Various Levels of Financial Market Stress on **Debt** Revisions

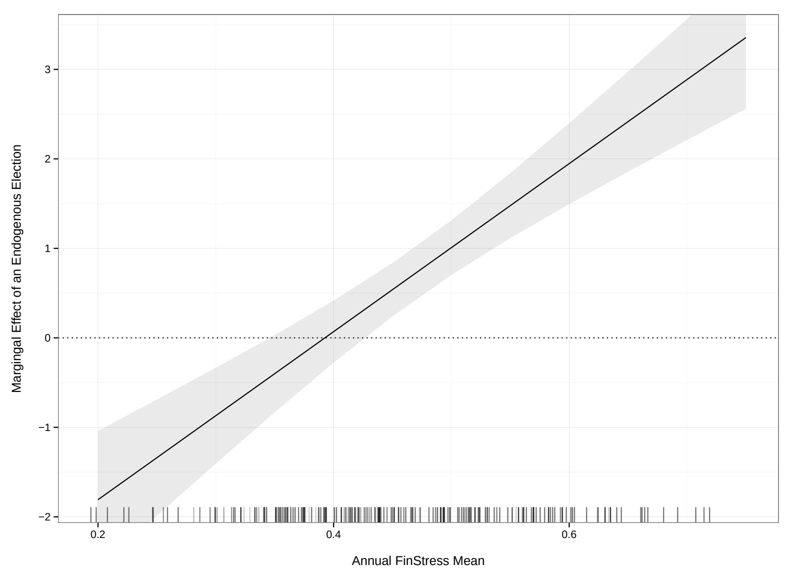


Figure: Predicted **Debt** Revisions in Four Years After Publication for Years with Different Election Types/Non-election Years

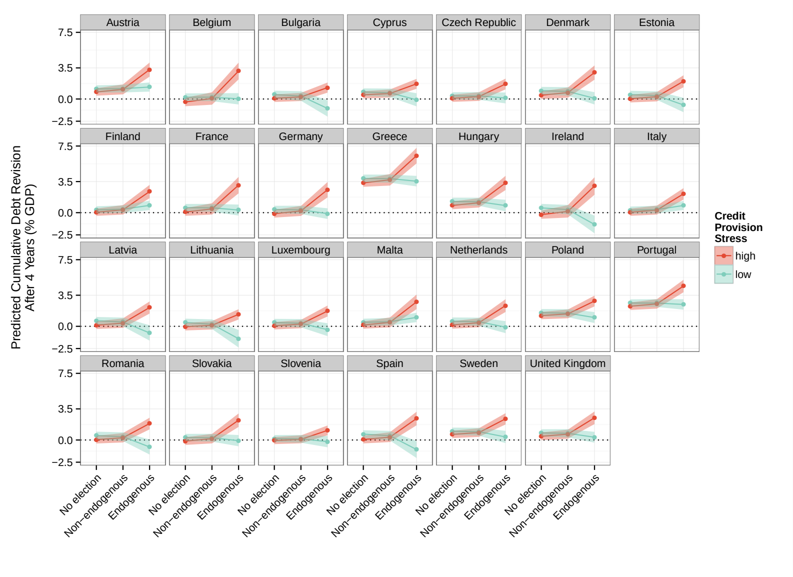
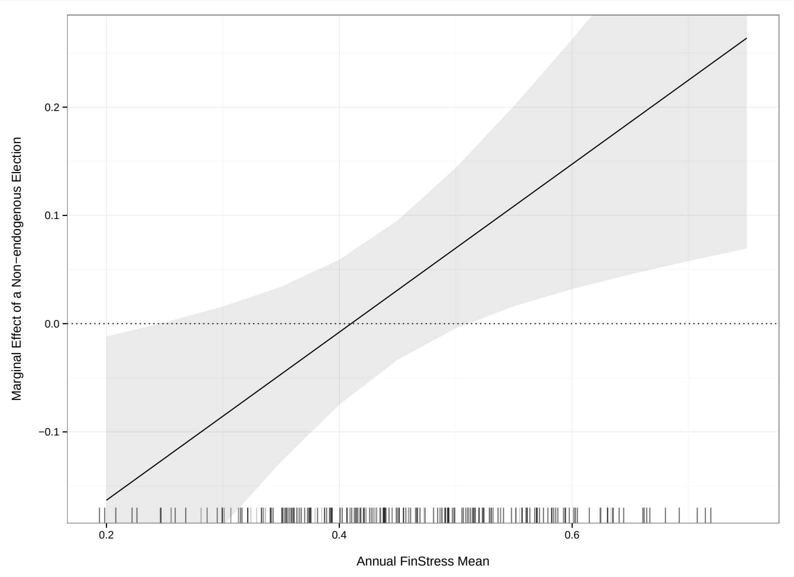


Figure: Marginal Effect of a Non-Endogenous Election at Various Levels of Financial Market Stress on **Deficit** Revisions



CONCLUSION/STILL TO DO

Omitted variables?:

- independence of national accounting agency.
- SGP enforcement actions (not just eurozone membership)
- Others?

Model choice: normal linear regression with many 0s?