

Fiscal Rule Stretching in the European Union

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Abstract

Elected governments have incentives to stretch accounting rules. Doing so improves the government's appearance to cost-conscious voters and important international institutions, especially in the European Union where there are externally imposed budget limits. We expect rule stretching to be especially prevalent during periods of financial market stress and crisis given these events' large costs and that policy responses are often not obviously classifiable as being inside or outside of the government sector. To test these propositions, we examine debt data revisions made by the European statistical agency–Eurostat. We find that debt figures are more likely to be revised upwards for countries facing European Union budget enforcement and years close to national elections, especially when elections are unscheduled. Financial market stress increases the magnitude of the election effects. Our research underlines the importance of having a vigilant and politically independent government statistical agency to ensure reliable government finance statistics.

Keywords: fiscal policy, European Union, financial crisis, electoral budget cycles, Eurostat

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