Debts Without Deficits: Decomposing and Explaining the Growth of European Debt in Light of the Financial Crisis

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Prospective Abstract for a special issue of the *Journal of European Public Policy* entitled "Political Budgeting Across Europe":

In theory, higher government deficit spending leads to larger deficits. However, recent research (von Hagen and Wolff 2006, Alt et al. 2014) has shown that, especially in European Union member states facing the budgetary strictures of the Stability and Growth Pact, deficit spending is often not closely related to debt accumulation. Governments use "fiscal gimmickry"--such as creative accounting, favourable rule interpretations, or even cheating--to hide spending. This can later show up in deficit figures or may be discovered by statistical authorities--such as Eurostat--leading to budget statistic revisions (De Castro et al. 2013). Our paper makes a number of further contributions to this literature. First, previous work has largely only examined the aggregate outcome of fiscal gimmickry, not the policy choices that governments use to create it. Using a novel dataset that builds on data from Eurostat and the International Monetary Fund on the composition of government statistic revisions, we examine *how* governments manipulate figures, not just that they do. Second, previous work has almost exclusively examined behaviour in 'normal times', but not during financial crises. Financial crises create additional opportunities to use fiscal gimmickry, and they may also increase incentives to do so. We compare the composition of such behaviour between crisis and normal periods. Third, we consider the role of the main supranational statistical agency, Eurostat. We argue that it became increasingly assertive during the financial crisis and constricted many previous tools that governments had used to keep spending off the books. Fourth, paying attention to the composition of fiscal revisions allows us to study behaviour under international assistance programs. Much like Abbot et al. (2015) found that sub-national government spending goes up when they receive intergovernmental transfers, government debts increase when financial crisis assistance programs are announced by international organisations. Looking at the composition of these increases, we find that they exceed crisis-related costs, creating what we characterize as a "snowball effect." Governments use international bailouts as an opportunity to reveal previously hidden debt from non-crisis related activities.