

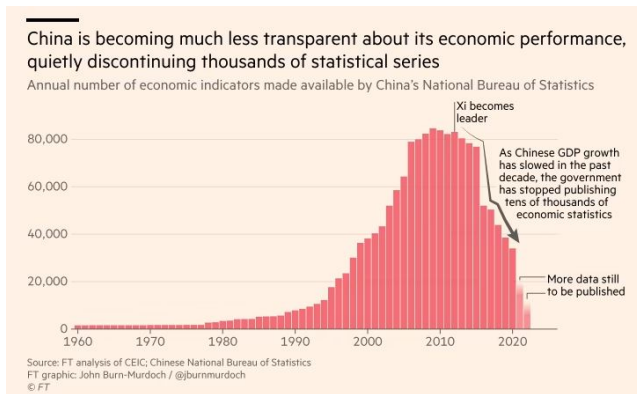
# Democratic Backsliding & Financial Data Transparency

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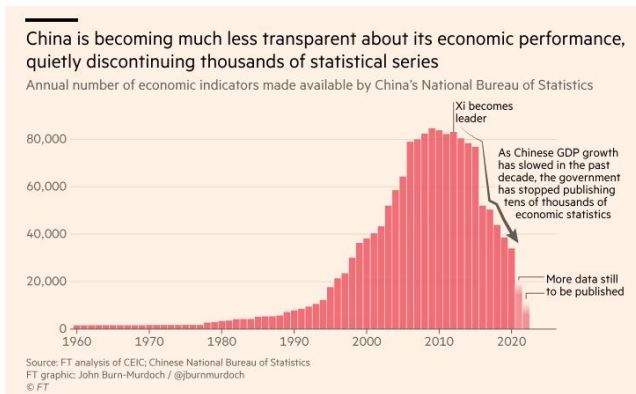
September 3, 2024

# Motivation: more autocratic → less data release?



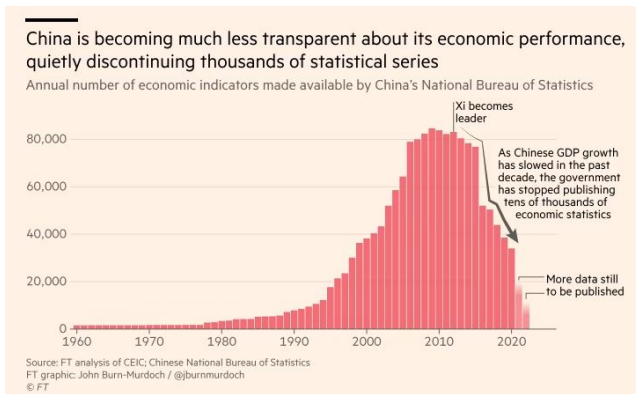
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- Financial information is a **public good**.

- ↳ indiscriminately benefits public/investors (↔ insider information)

- ↳ an autocratizing leader is less incentivized to provide such public goods (can be or previously motivated)

- Financial information is the basis of **accountability**

- ↳ enables society to punish underperforming governments. <sup>18</sup>

- ↳ autocratizing leaders tend to hide info (Lijer and Tseuwan 2004)

- Expectation*: An autocratizing government has a lower level of financial information transparency than a non-autocratizing one does.

- Things to consider: 1) diminishing marginal return (*why care if you're already quite autocratic?*) 2) post-2007 context

- 👉 **Hypothesis**: An autocratizing government has a **lower level of financial information transparency** than a non-autocratizing one does when the level of democracy is low during the post-GFC.

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# Model Specification and Data Source

$$FDT_{it} = \beta_1 Polyarchy_{it-1} + \beta_2 Autocratization_{i[t-5:t]} + \\ \beta_3 Polyarchy_{it-1} \times Autocratization_{i[t-5:t]} + \\ FE(country, year, region) + X_{it} + \epsilon_{it},$$

- FDT: **updated** Financial Data Transparency (Copelovitch, Gandrul & Hallerberg. 2018)
- autocratization: Vdem's ERT dataset
- Polyarchy: Vdem's EDI
- X: Past IMF SB program; GDP growth; GDPpc; autocratic and democratic durations

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# Update FDT data (1)

- The GFD data that the IRT-based method is based on.
- technical, not-so-easy to infer (i.e., private info, if not reported)
- 32 countries (1990-2012) → up to 162 countries (1980-2021)

GFDD ID	indicator name	last updated
GFDD.DI.01	Private credit by deposit money banks to GDP (%)	2022-09-23
GFDD.DI.03	Nonbank financial institutions' assets to GDP (%)	2022-09-23
GFDD.DI.04	Deposit money bank assets to deposit money bank assets and central bank assets (%)	2022-09-23
GFDD.DI.05	Liquid liabilities to GDP (%)	2022-09-23
GFDD.DI.06	Central bank assets to GDP (%)	2022-09-23
GFDD.DI.07	Mutual fund assets to GDP (%)	2022-09-23
GFDD.DI.08	Financial system deposits to GDP (%)	2022-09-23
GFDD.DI.11	Insurance company assets to GDP (%)	2022-09-23
GFDD.DI.14	Domestic credit to private sector (% of GDP)	2022-09-23
GFDD.EI.02	Bank lending-deposit spread	2022-09-23
GFDD.EI.08	Credit to government and state-owned enterprises to GDP (%)	2022-09-23
GFDD.OI.02	Bank deposits to GDP (%)	2022-09-23
GFDD.SI.04	Bank credit to bank deposits (%)	2022-09-23

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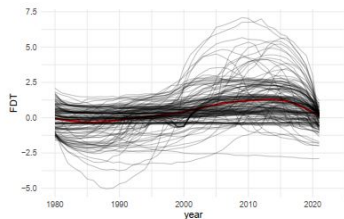


Figure: New FDT data

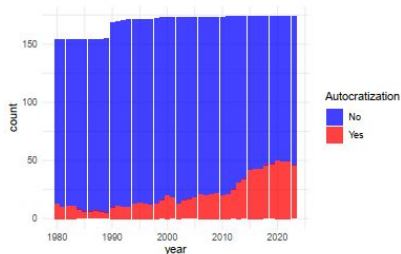


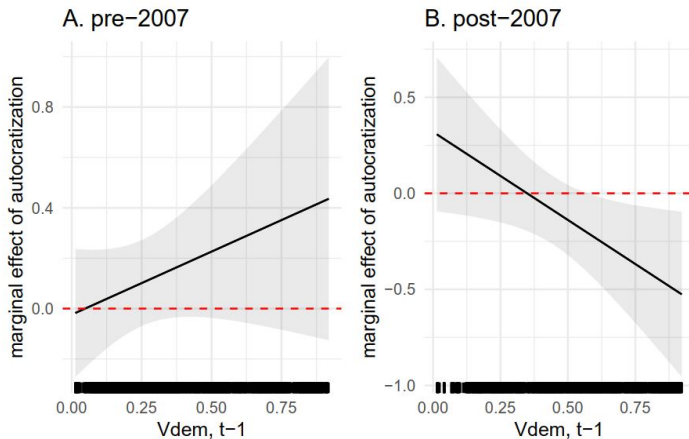
Figure: Autocratization Trend

# Baseline and Benchmark Estimates

	Full	-2006	2007-	No CV	Trend
Polyarchy <sub>t-1</sub> × Auto.	-0.035 (0.386)	0.500 (0.407)	-0.917** (0.422)	-0.906** (0.386)	-0.909** (0.420)
Autocratization <sub>[t-5,t]</sub>	0.095 (0.183)	-0.024 (0.134)	0.320 (0.210)	0.467** (0.195)	0.315 (0.209)
polyarchy <sub>t-1</sub>	-0.324 (0.544)	-0.493* (0.279)	0.114 (0.649)	0.396 (0.494)	0.116 (0.646)
Num.Obs.	6104	3718	2386	2485	2386
R <sup>2</sup>	0.651	0.778	0.844	0.839	0.844
R <sup>2</sup> Within	0.039	0.052	0.041	0.009	0.332
country FE	✓	✓	✓	✓	✓
year FE	✓	✓	✓	✓	
region FE	✓	✓	✓	✓	✓

\* 0.1, \*\* 0.05

# Marginal Effects





# Discussion & Conclusion

- Autocratizing leaders tend to hide sensitive financial info in the post-GFC era.
- A simple public good framework goes a long way.
- Autocratization is bad, not just because it threatens democracy, but also because it under-delivers.
- Temporal variations (post-2007, in particular) matter much.
- Going forward:
  - Study on the FDI data, securing competing power (at least 10 yrs over 5 years)
  - Study on the impact of the 2007-2009 crisis
  - Alternative autocratization/hoarding measures

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- Going forward:
  - The only way the IMF data is credible is if the average (at least 10) has over 5 years
  - The only credible measure is the one that is not subject to manipulation
  - Alternative: autocratization/hoarding measure

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- Going forward:

• The public good framework is a good starting point for understanding the relationship between autocratization and financial data. It suggests that autocratization is bad for the public good, and that financial data is a key indicator of the public good. The framework also suggests that the relationship between autocratization and financial data is complex and dynamic, and that it may vary over time and across countries.

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- Going forward:
  - tidy up the FDT dataset: securing computing power (at least 80 hrs over 8 cores)
  - find a way to make the data more accessible
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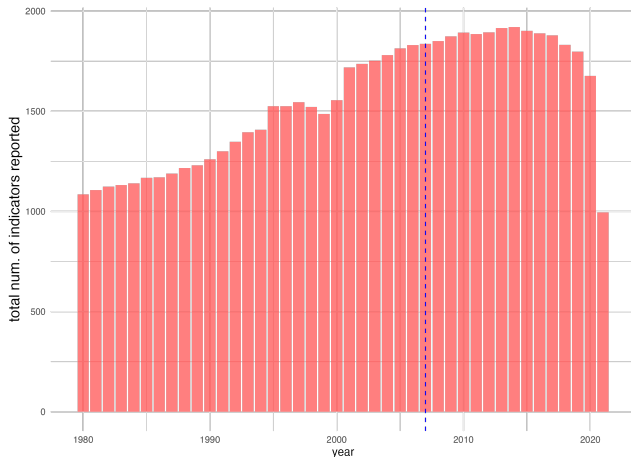


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- But wasn't it because of the Pandemic?
- The Pandemic might have drastically pulled the trend down in 2020, but the downward trend started **well before 2020**.

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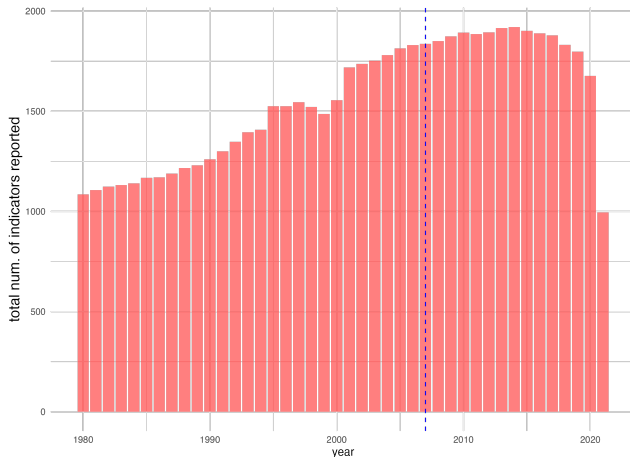
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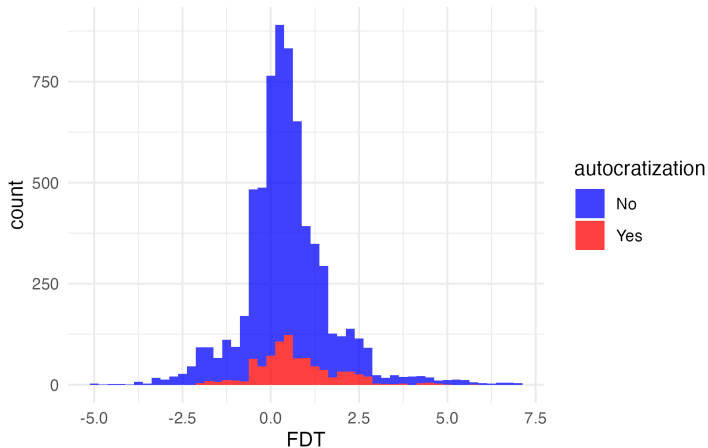
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## Appendix 2: Does FDT explain autocratization?



## Appendix 3: How well do old and new FDTs converge?

