

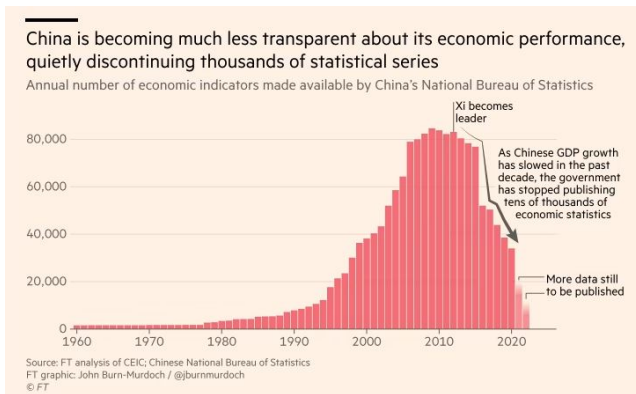
Democratic Backsliding & Financial Data Transparency

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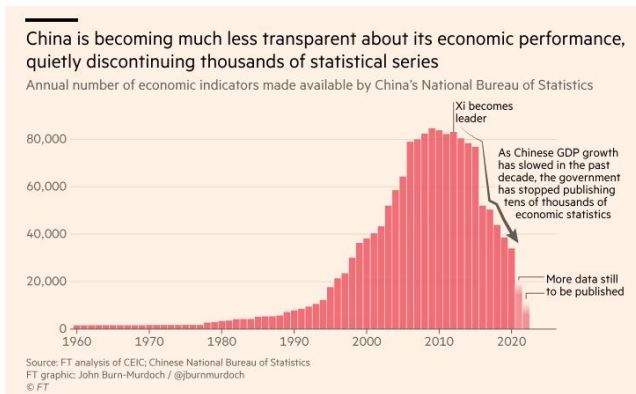
September 2, 2024

Motivation: more autocratic → less data release?



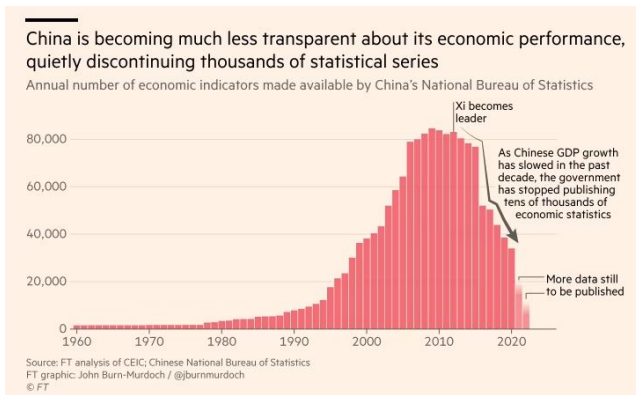
- Not an isolated story
- Argentina; Turkey; UK; Hungary

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Why? Two not mutually exclusive, possible answers

- 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. ¹⁸

- ↳ Autocratizing leaders tend to hide info (Lardev and Tuckman 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 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 \rightsquigarrow **updated** Financial Data Transparency (Copelovitch, Gandrul & Hallerberg. 2018)
- autocratization \rightsquigarrow Vdem's ERT dataset
- Polyarchy \rightsquigarrow Vdem's EDI

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Update FDT data (1)

- Data the IRT-based method is based on.
- technical, not-so-easy to infer
- 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
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Update FDT data (2): cursory support?

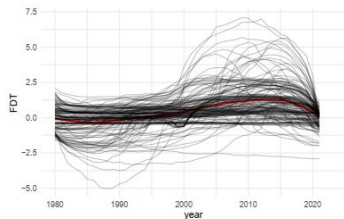


Figure: New FDT data

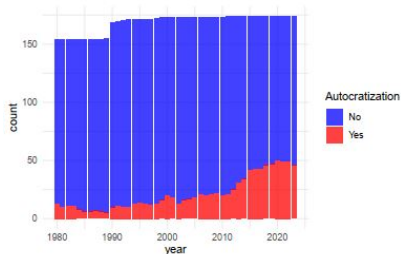


Figure: Autocratization Trend

Baseline and Benchmark Estimates

	Full	-2006	2007-	No CV	Trend
Polyarchy _{t-1} × Auto.	-0.035 (0.386)	0.500 (0.407)	-0.917** (0.422)	-0.906** (0.386)	-0.909** (0.420)
Autocratization _[t-5,t]	0.095 (0.183)	-0.024 (0.134)	0.320 (0.210)	0.467** (0.195)	0.315 (0.209)
polyarchy _{t-1}	-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 ²	0.651	0.778	0.844	0.839	0.844
R ² Within	0.039	0.052	0.041	0.009	0.332
country FE	✓	✓	✓	✓	✓
year FE	✓	✓	✓	✓	
region FE	✓	✓	✓	✓	✓

* 0.1, ** 0.05

Marginal Effects

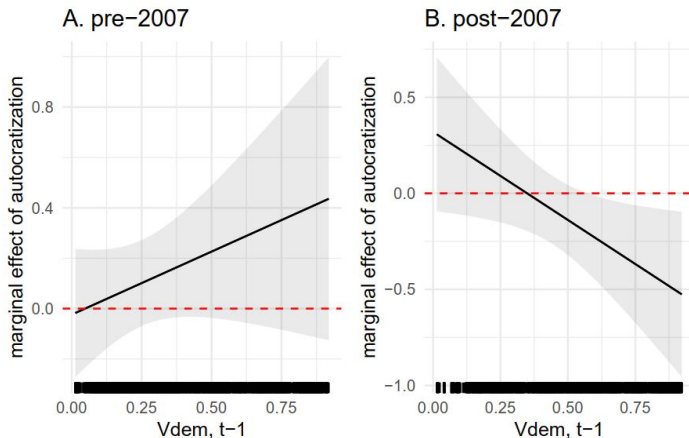


Figure: The Effect of Autocratization with 95% confidence intervals. Based on Model 3 of Table 1.

Robustness check

	(1) Democratization	(2) Interaction	(3) PCSE
autocratization	-0.034* (0.019)	-0.024* (0.012)	-0.039** (0.018)
democratization	0.015 (0.019)		
transparency _{t-1}	0.983** (0.007)	0.985** (0.006)	
autoc × transp		-0.072* (0.040)	
country-FE	✓	✓	✓
year-FE	✓	✓	✓
trend	✓	✓	✓

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.
- Going forward:
 - Improving the FDI datasets: providing computing power (at least 20 hrs for each country)
 - more timely checks
 - Alternative corruption/behavioral measures

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- Going forward:
 - Improve the FDI database, including more control on the quality of data
 - More energy checks
 - Alternative sources of information for better measures

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- Going forward:
 - tidy up the FDT dataset: securing computing power (at least 80 hrs over 8 cores)
 - more energy checks
 - investigate the relationship between the two

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 - 2 more sanity checks
 - 3 Alternative autocratization/backsliding measures

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