

Curious Case of Central Bank Independence **Stability** during Autocratization

Byunghwan Son
George Mason University
bson3@gmu.edu

September, 2024

Politicians and CBI: any regularities here?



Argument

- Few studies on the effect of autocratization on CBI
- Democracy & CBI: democratic accountability (Lührmann et al. 2020)
 - ▶ Horizontal accountability (checks and balances)
 - ▶ Diagonal accountability (surveillance)
 - ▶ Vertical accountability (public good provision)
- Declines in these areas (autocratization) are expected to be closely associated with compromised CBI.
- Let's test it.
 - ▶ two de jure (Garriga 2016 and Romelli 2021): institutional changes (a la Cuckierman 1992) → wide coverage
 - ▶ two de facto (Gavin and Manger 2023 and Binder 2021): actual pressures on CBI (text analysis) → narrow coverage

Argument

- Few studies on the effect of autocratization on CBI
- Democracy & CBI: democratic accountability (Lührmann et al. 2020)
 - ▶ Horizontal accountability (checks and balances)
 - ▶ Diagonal accountability (surveillance)
 - ▶ Vertical accountability (public good provision)
- Declines in these areas (autocratization) are expected to be closely associated with compromised CBI.
- Let's test it.
 - ▶ two de jure (Garriga 2016 and Romelli 2021): institutional changes (à la Cuckierman 1992) → wide coverage
 - ▶ two de facto (Gavin and Manger 2023 and Binder 2021): actual pressures on CBI (text analysis) → narrow coverage

Argument

- Few studies on the effect of autocratization on CBI
- Democracy & CBI: democratic accountability (Lührmann et al. 2020)
 - ▶ Horizontal accountability (checks and balances)
 - ▶ Diagonal accountability (surveillance)
 - ▶ Vertical accountability (public good provision)
- Declines in these areas (autocratization) are expected to be closely associated with compromised CBI.
- Let's test it.
 - ▶ two de jure (Garriga 2016 and Romelli 2021): institutional changes (a la Cuckierman 1992) → wide coverage
 - ▶ two de facto (Gavin and Manger 2023 and Binder 2021): actual pressures on CBI (text analysis) → narrow coverage

Argument

- Few studies on the effect of autocratization on CBI
- Democracy & CBI: democratic accountability (Lührmann et al. 2020)
 - ▶ Horizontal accountability (checks and balances)
 - ▶ Diagonal accountability (surveillance)
 - ▶ Vertical accountability (public good provision)
- Declines in these areas (autocratization) are expected to be closely associated with compromised CBI.
- Let's test it.
 - ▶ two de jure (Garriga 2016 and Romelli 2021): institutional changes (a la Cuckierman 1992) → wide coverage
 - ▶ two de facto (Gavin and Manger 2023 and Binder 2021): actual pressures on CBI (text analysis) → narrow coverage

Argument

- Few studies on the effect of autocratization on CBI
- Democracy & CBI: democratic accountability (Lührmann et al. 2020)
 - ▶ Horizontal accountability (checks and balances)
 - ▶ Diagonal accountability (surveillance)
 - ▶ Vertical accountability (public good provision)
- Declines in these areas (autocratization) are expected to be closely associated with compromised CBI.
- Let's test it.
 - ▶ two de jure (Garriga 2016 and Romelli 2021): institutional changes (à la Cuckierman 1992) → wide coverage
 - ▶ two de facto (Gavin and Manger 2023 and Binder 2021): actual pressures on CBI (text analysis) → narrow coverage

Argument

- Few studies on the effect of autocratization on CBI
- Democracy & CBI: democratic accountability (Lührmann et al. 2020)
 - ▶ Horizontal accountability (checks and balances)
 - ▶ Diagonal accountability (surveillance)
 - ▶ Vertical accountability (public good provision)
- Declines in these areas (autocratization) are expected to be closely associated with compromised CBI.
- Let's test it.
 - ▶ two de jure (Garriga 2016 and Romelli 2021): institutional changes (a la Cuckierman 1992) → wide coverage
 - ▶ two de facto (Gavin and Manger 2023 and Binder 2021): actual pressures on CBI (text analysis) → narrow coverage

Argument

- Few studies on the effect of autocratization on CBI
- Democracy & CBI: democratic accountability (Lührmann et al. 2020)
 - ▶ Horizontal accountability (checks and balances)
 - ▶ Diagonal accountability (surveillance)
 - ▶ Vertical accountability (public good provision)
- Declines in these areas (autocratization) are expected to be closely associated with compromised CBI.
- Let's test it.
 - ▶ two de jure (Garriga 2016 and Romelli 2021): institutional changes (a la Cuckierman 1992) → wide coverage
 - ▶ two de facto (Gavin and Manger 2023 and Binder 2021): actual pressures on CBI (text analysis) → narrow coverage

Argument

- Few studies on the effect of autocratization on CBI
- Democracy & CBI: democratic accountability (Lührmann et al. 2020)
 - ▶ Horizontal accountability (checks and balances)
 - ▶ Diagonal accountability (surveillance)
 - ▶ Vertical accountability (public good provision)
- Declines in these areas (autocratization) are expected to be closely associated with compromised CBI.
- Let's test it.
 - ▶ two de jure (Garriga 2016 and Romelli 2021): institutional changes (a la Cuckierman 1992) → wide coverage
 - ▶ two de facto (Gavin and Manger 2023 and Binder 2021): actual pressures on CBI (text analysis) → narrow coverage

Argument

- Few studies on the effect of autocratization on CBI
- Democracy & CBI: democratic accountability (Lührmann et al. 2020)
 - ▶ Horizontal accountability (checks and balances)
 - ▶ Diagonal accountability (surveillance)
 - ▶ Vertical accountability (public good provision)
- Declines in these areas (autocratization) are expected to be closely associated with compromised CBI.
- Let's test it.
 - ▶ two de jure (Garriga 2016 and Romelli 2021): institutional changes (a la Cuckierman 1992) → wide coverage
 - ▶ two de facto (Gavin and Manger 2023 and Binder 2021): actual pressures on CBI (text analysis) → narrow coverage

Panel Regressions

$$CBI_{it} = \beta_1 \text{Autocratization}_{it} + FE(\text{country}, \text{year}) + \epsilon_{it}$$

	de jure		de facto	
	(1)	(2)	(3)	(4)
	Garriga data	Romelli data	Gavin data	Binder data
autocratization	0.015 (0.020)	0.014 (0.010)	-0.226 (0.178)	0.008 (0.273)
Num.Obs.	5744	7160	1680	1702
R ²	0.651	0.748	0.273	0.284
R ² Within	0.001	0.002	0.100	0.003
controls	✓	✓	✓	✓
country FE	✓	✓	✓	✓
year FE	✓	✓	✓	✓

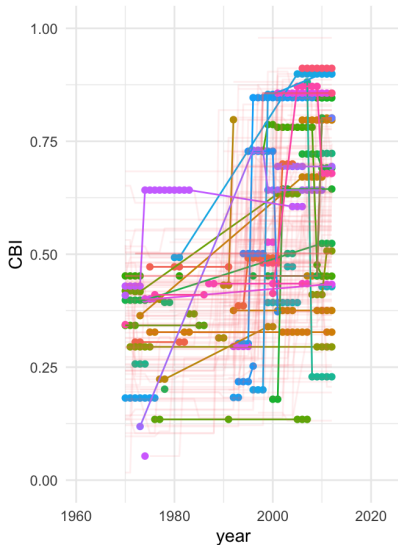
Panel Regressions

$$CBI_{it} = \beta_1 \text{Autocratization}_{it} + FE(\text{country}, \text{year}) + \epsilon_{it}$$

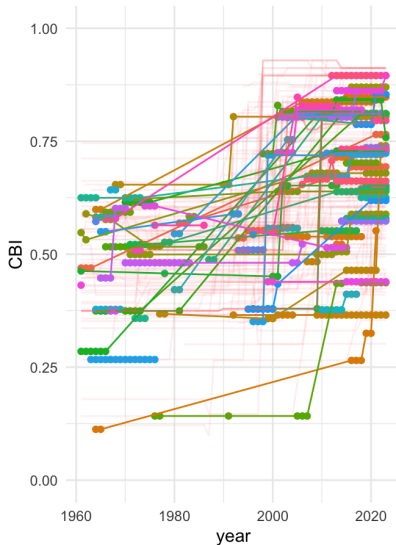
	de jure		de facto	
	(1)	(2)	(3)	(4)
	Garriga data	Romelli data	Gavin data	Binder data
autocratization	0.015 (0.020)	0.014 (0.010)	-0.226 (0.178)	0.008 (0.273)
Num.Obs.	5744	7160	1680	1702
R ²	0.651	0.748	0.273	0.284
R ² Within	0.001	0.002	0.100	0.003
controls	✓	✓	✓	✓
country FE	✓	✓	✓	✓
year FE	✓	✓	✓	✓

CBI Trends (autocratization cases are colored)

A. Garriga CBI data



B. Romelli CBI data

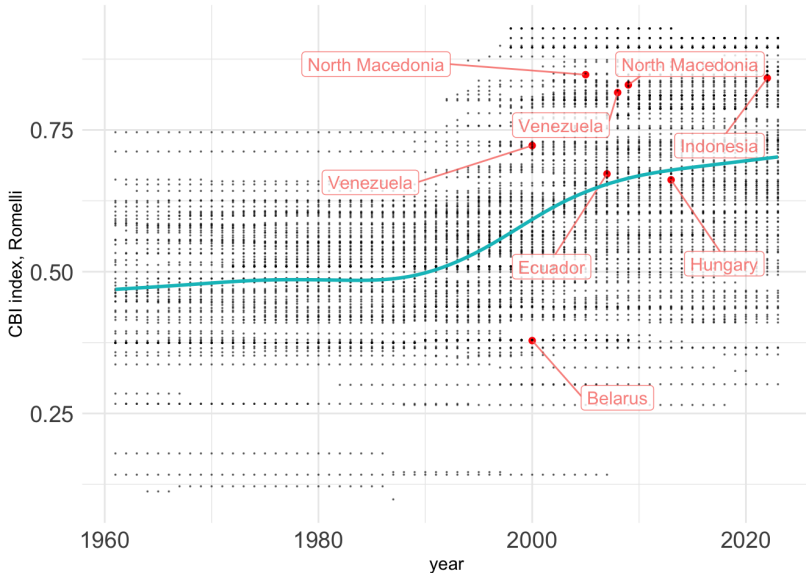


Autocratizing Cases where CBI decreased

Garriga		Romelli	
Philippines	1972	South Korea	1962
Venezuela	2001	Venezuela	2002
Venezuela	2009	Indonesia	1961
Venezuela	2010	Indonesia	2023
Cambodia	1975	Cuba	1961
Nicaragua	2010	North Macedonia	2006
Ecuador	2008	Hungary	2013
Belarus	2001		
Madagascar	1999		
North Macedonia	2010		

- 'Obvious' cases (pre-1975) are not discussed.

The **Eve** of CBI decrease in autocratization



- **Autocratization and Central Bank Independence (CBI)**

- ▶ **Empirical Expectation:** Does democratic decline threaten CBI?
 - ★ the literature seems to suggest 'yes.'
- ▶ **The Findings:**
 - ★ The relationship between autocratization and CBI is extremely tenuous.
 - ★ Most countries maintain stable CBI levels.
 - ★ Uncommon conditions may be needed for autocratization to undermine CBI.
- ▶ **Implications:**
 - ★ Autocratization doesn't always reshape core economic institutions.
 - ★ Institutions can exhibit resilience even in challenging times.