

# A Tale of Two Crises

## Asian Financial Crisis & the responses to the Pandemic

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# Questions

- Do governments learn from past crises?
- Do political institutions play a role?
- Empirical query: Any group of countries that experienced two crises within a reasonable time frame?
- 🇯🇵 Asian Financial Crisis (1997-8) ➡ fiscal attempts to get out of recession
- 🇺🇸 Pandemic-induced economic crisis (2020-2022)
  - ➡ stimulus packages to keep the economy afloat
- Asia as an unlikely place for **fiscal learning** to occur
  - ➡ high public debt/ deficits
  - ➡ pay on their spending particularly while in IMF programs
  - ➡ they look as though they are inherently fiscally prudent

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- Asia as an unlikely place for **fiscal learning** to occur
  - ➡ "Asian paradox": rapid growth, high savings, low government spending
  - ➡ low government spending, particularly when in IMF programs
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  - ➡ governments struggled to keep the economy afloat
- Asia as an unlikely place for **fiscal learning** to occur
  - ➡ Asia is a continental region with a long history of political and economic fragmentation
  - ➡ Different political systems and institutions with different political goals
  - ➡ Different policies though they are inherently locally prudent

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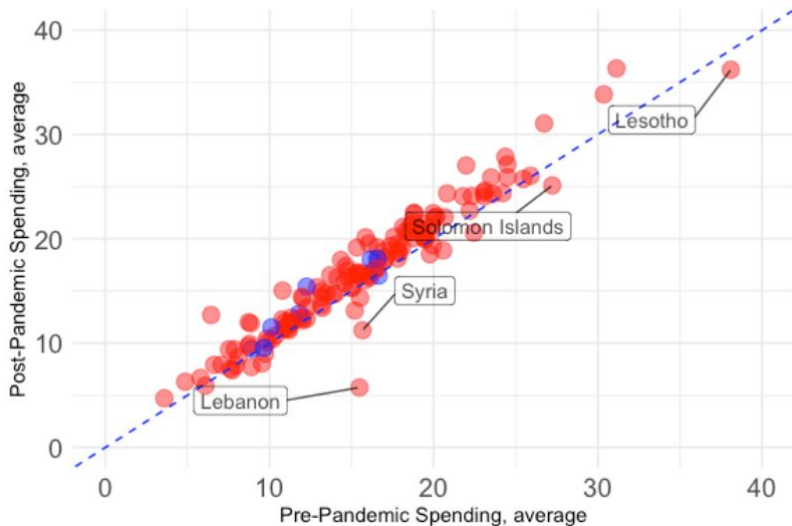
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# Motivation: differences in the pandemic spending



# Quantitative Context: Cross-sectional Analysis

*In general, competition ➡ more spending in crisis?*

	Baseline	Benchmark	Vertical	Turnover	Vote Share
competition <sup>pre</sup>	8.218** (4.015)	8.087** (3.492)	3.147*** (1.008)	4.106** (1.577)	0.089* (0.052)
spending <sup>pre</sup>	1.195*** (0.089)	1.181*** (0.088)	1.025*** (0.055)	1.057*** (0.053)	1.047*** (0.089)
competition <sup>pre</sup> × spending <sup>pre</sup>	-0.530** (0.241)	-0.519** (0.214)	-0.192*** (0.059)	-0.290*** (0.099)	-0.007* (0.004)
Num.Obs.	144	144	144	142	97
R <sup>2</sup>	0.907	0.910	0.914	0.918	0.910
controls		✓	✓	✓	✓
region FE	✓	✓	✓	✓	✓

'Competition' for baseline and benchmark: EDI (v2x\_polyarchy) of Vdem.

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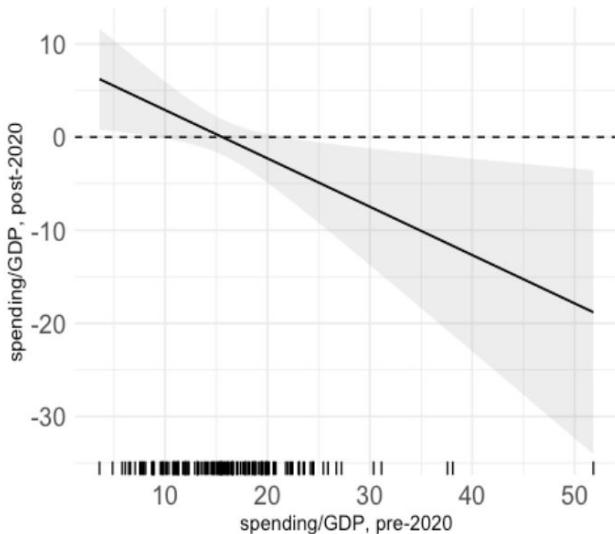
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## Marginal Effect: **diminishing** marginal returns?



# Argument: where AFC hurt, more Pandemic spending

- We try to explain why some AFC-affected countries reacted to the pandemic with **more expansionary** spending policies than others.
- The **recovery** experience from AFC affects the economic responses to the pandemic.
- The political circumstances play a (conditioning) role
  - In general, more political competition  $\rightarrow$  more expansionary reaction
  - In particular, AFC resulting in political development creates a positive impact on the expansionary reaction

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# Qualitative Case Study of AFC Countries

	AFC damage	political change	competitiveness	post-crisis spending	pandemic spending
S. Korea	heavy	yes	high	↑	↑
Thailand	heavy	yes	high	↑	↑
Philippines	heavy	yes	high	↑	↑
Indonesia	heavy	yes	medium	-	-
Malaysia	medium	no	low	-	-
Vietnam	light	no	low	↗	-
China	light	no	low	-	-
Singapore	light	no	low	-	-

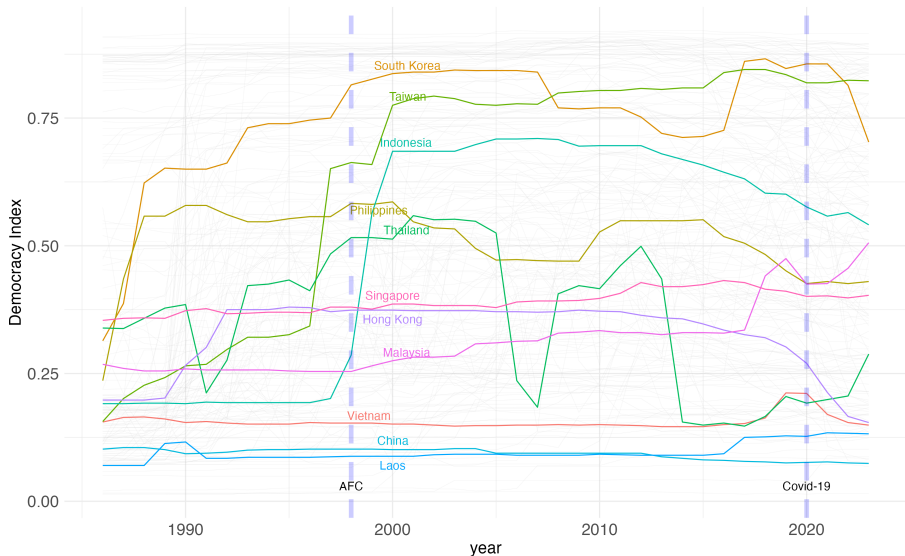
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# Democracy Trajectories of AFC states (Vdem)





# Spending Levels of AFC states

Figure 5. Government Spending / GDP (%) between the two crises. Source: WDI



# Implications

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