

# 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 (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 (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 (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

# 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 <sup>2</sup>	0.651	0.748	0.273	0.284
R <sup>2</sup> 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 <sup>2</sup>	0.651	0.748	0.273	0.284
R <sup>2</sup> Within	0.001	0.002	0.100	0.003
controls	✓	✓	✓	✓
country FE	✓	✓	✓	✓
year FE	✓	✓	✓	✓

# So why **no** result?



image credit: DalleE3

- Because CBI is too important even for an autocratizing leader to mess with?
- But they under-deliver in other policy areas (e.g., public health)
- CBI not politically salient/visible
- The data deserves a closer look.

# So why **no** result?



image credit: DalleE3

- Because CBI is too important even for an autocratizing leader to mess with?
- But they under-deliver in other policy areas (e.g., public health)
- CBI not politically salient/visible
- The data deserves a closer look.

# So why **no** result?



image credit: DalleE3

- Because CBI is too important even for an autocratizing leader to mess with?
- But they under-deliver in other policy areas (e.g., public health)
- CBI not politically salient/visible
- The data deserves a closer look.



# So why **no** result?

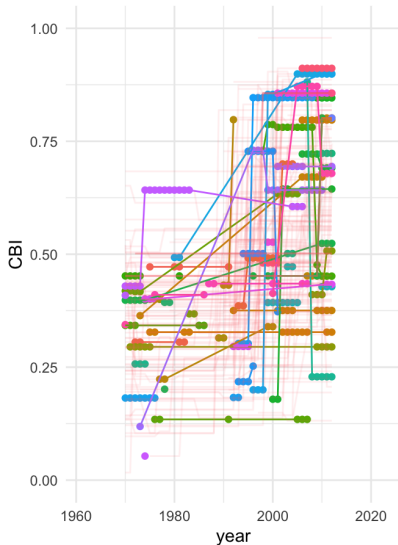


image credit: DalleE3

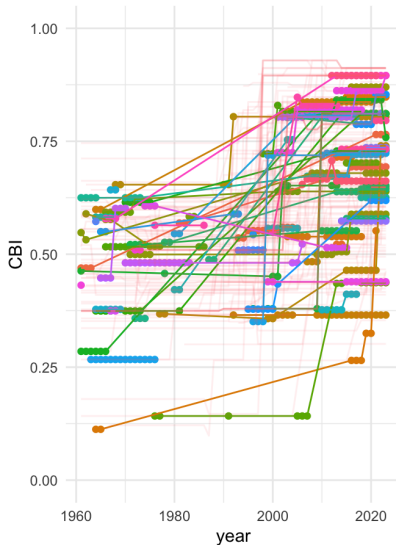
- Because CBI is too important even for an autocratizing leader to mess with?
- But they under-deliver in other policy areas (e.g., public health)
- CBI not politically salient/visible
- The data deserves a closer look.

# CBI Trends (autocratization cases are colored)

A. Garriga CBI data



B. Romelli CBI data

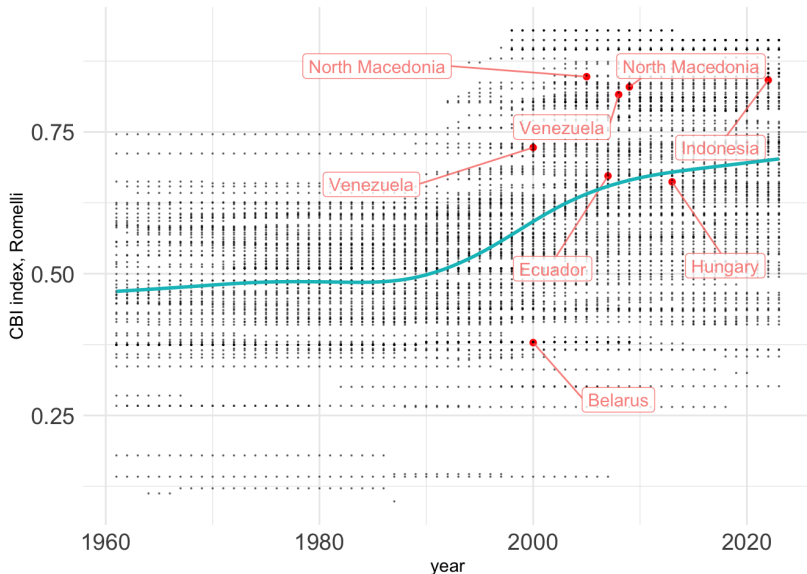


# Autocratizing Cases where CBI decreased

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 to be discussed.

# A clue: the **Eve of CBI decrease during 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 asymmetric, meaning that while autocratization reduces CBI, the reverse is not true.
    - ★ The degree of autocratization may be needed for autocratization to undermine CBI.

- ▶ **Implications:**

- ★ Autocratization doesn't always threaten CBI, especially in the short run.
    - ★ Institutions can reduce autocratization even as threatening regimes.

- **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*.  
There is no clear evidence of a causal link.
    - ★ The empirical conclusions may be limited by *autocratization* and *democratic decline*.

- ▶ **Implications:**

- ★ Autocratization may lead to a *weakening* of CBI.
    - ★ Implications for *democratic resilience* may be *significant*.

- **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 is not a global phenomenon and is not inevitable.

- ★ Implications can include resistance from an underlying state.

- **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 is not a necessary condition for undermining CBI.
  - ★ Implications for democratic resilience may be challenging to gauge.



- **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:**

► 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.

- **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.
  - ★ Insurgent central banks may be rare.

- **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.

- **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.

- **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.