

The Political Origins of Private Credit Explaining the Wile E. Coyote Moment

Michaël Aklin

New York University

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Motivation

- Private debt increases risk of financial crisis
 - ▶ Fisher's debt-deflation
 - ▶ Minsky's 'Ponzi finance'
 - ▶ Private Debt → Crisis
 - ▶ ? → Private Debt → Crisis

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 - ▶ ? \rightarrow **Private Debt** \rightarrow Crisis
- **How can we explain variation in private debt?**

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- Role of **information** and **transparency**
- Role of **economic shocks**

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- “*why (do) politicians, regulators, and, indeed, voters not take steps to reduce their economy’s vulnerability (to debt)“?* (Reinhart and Rogoff 2011, 1695)
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- Role of **economic shocks**

Governments **condition** the effect of economic shocks

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- Hypothesis: **Given a macro shock, private debt will grow more in countries with opaque governments**

Research Design

- Euro as an external macroeconomic shock

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- Dependent variable: Private debt (% of GDP)

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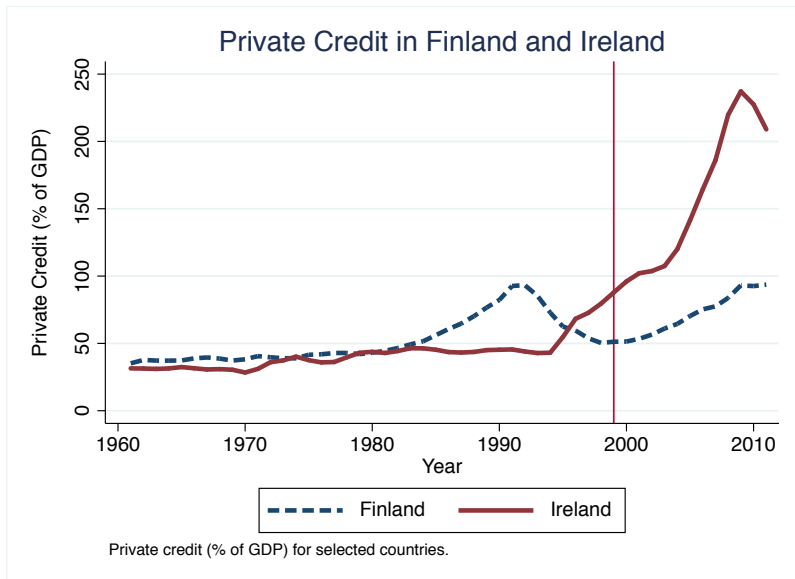
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$$\begin{aligned}
 \text{Private Credit (\% of GDP)}_{i,t} = & \beta_0 + \beta_1 \text{Euro}_{i,t} + \beta_2 \text{Transp}_{i,t} \\
 & + \beta_3 (\text{Euro} * \text{Transp})_{i,t} \\
 & + \gamma' \mathbf{X}_{i,t} + \phi_i + \psi_t + \varepsilon_{i,t}
 \end{aligned}
 \tag{1}$$

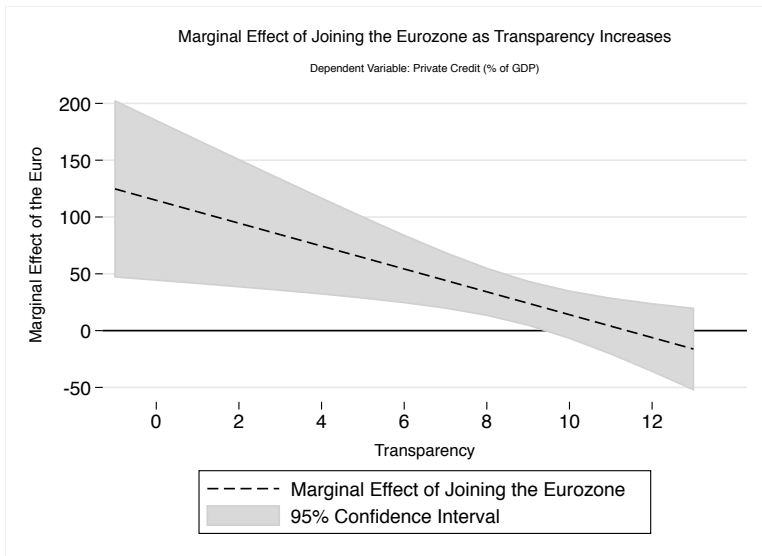
Control for: Country and year FE; income; growth; trade; FDI inflows; service + agricultural sectors; institutions [Summary stats](#)



Dependent Variable: Private Credit per GDP

	(1)	(2)	(3)	(4)	(5)
Euro Member	126.98*** (37.71)	114.67*** (35.84)	172.90*** (55.49)	137.11* (67.86)	134.71** (64.02)
Euro * Transparency	-11.38*** (4.05)	-10.07*** (3.83)	-16.47*** (5.59)	-14.34* (6.96)	-13.36* (6.58)
All Controls			✓	✓	✓
Country FE	✓	✓	✓	✓	✓
Year FE		✓	✓	✓	✓
Notes				OECD	OECD & Post-1990
N	3051	3051	2547	593	419

Shock increases debt more in opaque countries



Dependent Variables: Consumption and Savings

	CONSUMPTION		SAVINGS	
Euro	4442.53*** (1152.60)	4196.08*** (1439.89)	-23.69*** (7.19)	-12.82* (7.59)
Euro * Transparency	-231.98* (119.11)	-240.70* (139.68)	2.41*** (0.77)	1.26 (0.77)
All Controls		✓		✓
Country FE	✓	✓	✓	✓
Year FE	✓	✓	✓	✓
N	2834	2437	3164	2716

The new debt goes into more consumption

Full Table

- Effect of shock on private debt is magnified under low information
- Effect of shock varies 0-50% depending on opacity

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- Effect of shock varies 0-50% depending on opacity
- Robust results [List](#)
- Creates incentives for governments to lie.
Constraints?
 - ▶ Judicial system [Figure](#)
 - ▶ Media?

THANK YOU

Table 1: Summary statistics

	mean	sd	min	max	count
Private Credit (% of GDP)	42.12	42.38	0	262	3051
Euro Member	0.03	0.17	0	1	3051
Transparency Index (HRV)	2.90	2.78	-2	13	3051
Euro Member * Transparency	0.24	1.41	0	11	3051
Income (log)	7.81	1.65	5	11	3051
GDP Growth (%)	3.59	4.39	-33	34	3051
Trade (% of GDP)	72.93	46.97	6	444	3004
Service Sector (% of GDP)	52.00	12.60	17	79	2784
Agricultural Sector (% of GDP)	18.00	14.86	0	80	2788
FDI Inflows (log)	19.61	2.77	2	27	2802

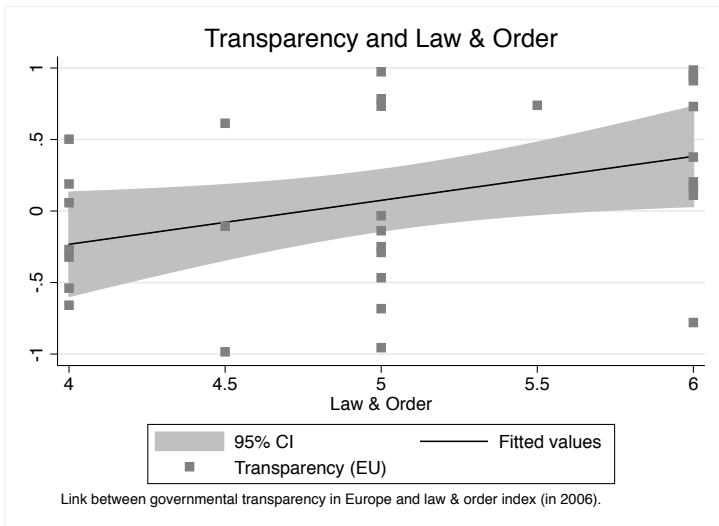
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Table 3: Causal Mechanisms

	Consumption		Saving Rates	
	(1) Model	(2) Model	(3) Model	(4) Model
Euro Member	4442.53*** (1152.60)	4196.08*** (1439.89)	-23.69*** (7.19)	-12.82* (7.59)
Transparency Index (HRV)	70.24 (61.15)	75.48 (68.52)	-0.81*** (0.22)	-0.09 (0.23)
Euro Member * Transparency	-231.98* (119.11)	-240.70* (139.68)	2.41*** (0.77)	1.26 (0.77)
Income (log)	2250.59*** (703.50)	3132.27*** (755.43)	2.87 (4.27)	3.58 (3.42)
GDP Growth (%)	-26.88*** (8.01)	-23.64*** (7.83)	0.33*** (0.08)	0.27*** (0.08)
Trade (% of GDP)		-2.71 (4.54)		0.03 (0.02)
Service Sector (% of GDP)		63.49** (25.99)		-0.38*** (0.11)
Agricultural Sector (% of GDP)		131.92*** (33.40)		-0.06 (0.19)
FDI Inflows (log)		-29.39 (27.69)		0.15 (0.22)
Constant	-12553.17** (5699.59)	-24541.68*** (6594.19)	-1.26 (34.53)	7.96 (23.45)
Country FE	✓	✓	✓	✓
Year FE	✓	✓	✓	✓
Observations	2834	2437	3164	2716
R^2	0.43	0.49	0.12	0.16
$\hat{\sigma}$	1135.13	1069.84	6.72	6.35
# Countries	120	112	119	115

Robust (Huber-White) standard errors.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

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Robustness

- Other dependent variable (bank debt only; M2)
- Convergence (euro · income)
- Quality of institutions + democracies
- Lagged independent variables
- Without outliers (Belgium and Greece)
- Eurozone countries (year trend)
- Clustered standard errors

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Table A10: All Institutions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Model	Model	Model	Model	Model	Model	Model
Euro Member	169.20*** (56.45)	159.01*** (54.42)	254.32*** (84.50)	79.37*** (19.35)	190.99** (89.83)	244.53*** (81.92)	190.19** (87.64)
Transparency Index (HRV)	-0.36 (0.98)	-0.71 (1.33)	-1.48 (1.63)	-0.18 (0.30)	-6.92** (2.49)	-2.40 (1.62)	-7.74*** (2.65)
Euro Member * Transparency	-10.63** (4.15)	-9.98** (4.02)	-17.24*** (6.11)	-4.43*** (1.21)	-14.70** (7.10)	-16.41*** (6.09)	-13.82* (7.01)
Income (log)	38.66*** (6.77)	27.13*** (5.66)	30.47*** (6.68)	11.33*** (4.04)	21.61 (32.93)	26.82*** (6.96)	30.89 (48.41)
GDP Growth (%)	-0.79*** (0.13)	-0.76*** (0.14)	-0.71*** (0.15)	-0.24*** (0.03)	-1.52** (0.58)	-0.63*** (0.14)	-1.62** (0.74)
Bureaucracy (t-1)	0.22 (1.42)	0.52 (1.49)	1.08 (1.43)	0.63 (0.47)	10.85 (6.50)	1.38 (1.45)	12.35 (7.30)
Bureaucracy (t-1) * Euro	-24.84** (10.87)	-22.33* (11.32)	-14.89 (9.42)	-8.34*** (2.73)	-17.96* (9.39)	-16.77* (8.87)	-19.79* (9.87)
Corruption (t-1)	-0.40 (1.20)	0.52 (1.28)	0.92 (1.20)	-0.38 (0.30)	2.46 (2.32)	0.01 (0.96)	2.54 (2.17)
Corruption (t-1) * Euro	3.45 (5.50)	2.44 (5.46)	-0.30 (6.71)	0.53 (1.00)	-2.56 (5.02)	0.77 (5.84)	-2.59 (4.38)
Law & Order (t-1)	2.06** (1.01)	1.91 (1.17)	2.65** (1.12)	1.21*** (0.31)	-2.70 (2.50)	2.02** (0.92)	-2.76 (2.88)
Law & Order (t-1) * Euro	5.15 (5.24)	4.82 (4.95)	-3.56 (5.18)	-2.04 (1.51)	5.07 (5.62)	-2.59 (4.61)	5.66 (5.25)

