

# Political economics of bailouts

called also rescue and restructuring (R&R) subsidies

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*(The views expressed are those of the author and do not necessarily reflect those of DG COMP or the European Commission)*

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# Large heterogeneity in bailout policies across countries

Country	No of cases	Country	No of cases	Country	No of cases
Austria	6	Germany	26	Netherlands	2
Belgium	4	Greece	1	Portugal	5
Denmark	0	Italy	16	Spain	10
France	12	Ireland	0	Sweden	0
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Determinants considered: institutions, politics and economics.

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## Electoral rules

- Targeted fiscal policy decisions in countries with majoritarian electoral system, broad redistribution programs in proportional electoral system (Persson and Tabellini 2000, Lizzeri and Persico 2001, Milesi-Ferretti et al 2002).

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## Bankruptcy law

- The scope of creditor protection affects creditors' incentives to help insolvent firms (La Porta and de Silanes 1998)



- Ideology of government  
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- Veto players  
In coalition governments, the number of parties and the ideological distance among them determine policy outcomes (Tsebelis 2002)

# The data

## Bailouts

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## Politics

- Parties - Governments - Legislatures (Cusack and Fuchs 2002), rich data on ideology, government party composition and its support in parliaments.

# Results - Institutions

Probit estimation with clustered standard errors, year fixed-effects

Variable	Model 1		Model 2	
	Par. estimate	St. error	Par. estimate	St. error
Executives-Parties Dimension	0.481***	0.125	0.286*	0.159
Federal-Unitary Dimension	0.716***	0.128	0.831***	0.112
Creditor rights	0.139	0.245	0.178	0.237
Year of elections	-0.330	0.419		
Year before elections	0.162	0.348		
MAJ year of elections			1.109	0.904
MAJ year before elections			1.129**	0.454
MIXED year of elections			-0.281	0.397
MIXED year before elections			-0.216	0.542
PROP year of elections			-0.990	0.624
PROP year before elections			-0.025	0.437
Unemployment rate	-0.006	0.068	-0.021	0.068
Real GDP growth	0.116	0.105	0.078	0.101
log Population	-0.241	0.150	-0.237*	0.127
log GDP per capita	0.055	0.628	-0.748	0.855
N/correctly predicted	117/90		117/97	
Pseudo R2	0.3135		0.3512	



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Model 2: perfect prediction out of sample

# Results - Politics

Probit estimation with clustered standard errors, country and year fixed-effects

Variable	Model 1	Model 2	Model 3
Gov. seats	0.115*** (0.039)	0.115*** (0.038)	0.137** (0.056)
Gov. vote share	-0.077 (0.051)	-0.074 (0.053)	-0.101 (0.069)
Ideology	0.209 (0.340)	0.731 (0.947)	0.204 (0.351)
Coalition	-2.328** (1.087)	-2.248* (1.184)	-0.440 (2.822)
Ideology*Unemployment		-0.052 (0.095)	
Coalition*Unemployment			-0.154 (0.210)
Unemployment rate	-0.191 (0.146)	-0.211* (0.128)	-0.133 (0.163)
Real GDP growth	0.107 (0.153)	0.125 (0.155)	0.121 (0.152)
ln Population	-18.080 (10.992)	-18.698* (11.233)	-19.731* (11.837)
ln GDP per capita	-13.379* (7.896)	-13.692* (8.047)	-12.818 (7.833)
N/correctly predicted	116/97	116/94	116/100
Pseudo R2	0.4339	0.4358	0.4376

# Summing up

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- bailouts more likely in federal countries
- politically strong governments more likely to bail out

*There is a close relationship  
between the set of economic phenomena (...)  
and the set of institutional phenomena (...):  
the latter largely explains the former one.*

Janos Kornai  
The Economics of Shortage