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“Financial Policymaking after Crises: Public *vs.* Private Interests” by Saka, Ji and De Grauwe

Discussion Thomas Lambert – 2021 FBF-SAFE-SRB Conference

In a nutshell

First evidence that the lack of political accountability undermines the financial policymaking following crises

- Ambituous paper
- Important questions and findings
- Impressive battery of robustness tests (100 pages!)
- Highly recommended!

Political accountability in democracies

1. Periodic elections are the main instrument through which voters can hold politicians accountable

2. Appropriate checks and balances are another (complementary) instrument, which create a conflict of interest between the executive and the legislature (Persson, Roland and Tabellini QJE 1997)

- The paper is about #1 not #2

Executive term limits

- Term limits reduce voters' ability to hold politicians accountable for their policy choices. Yes.

- But term limits…
- … can also reduce the value of holding office, in turn improving the selection of politicians (Smart and Sturm JPubE 2013)
- … are very popular
- … are widely used (but almost exclusively in presidential systems)

- The paper is about the "dark side" of term limits

Term-limited politicians

- After holding office, politicians may indeed join the private financial sector

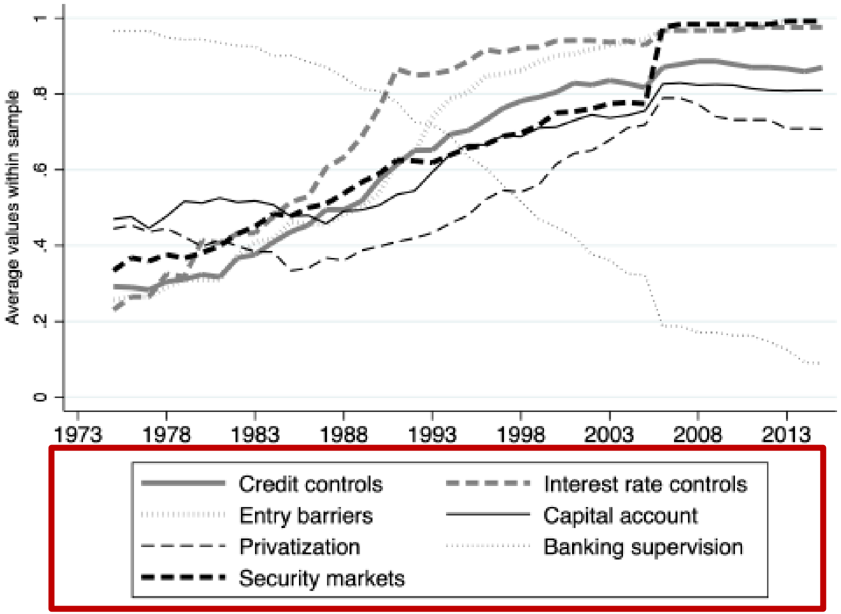
- They may also:
  - Retire or be too old/ill (e.g. Mitterrand and Chirac in France)
  - Go back to the academia (e.g. De Grauwe ☺)
  - Take part in some state councils and honorary committees
  - Become central banker
  - Etc. etc.

Deregulation *vs.* regulation

Two key assumptions of the paper:

1. Society prefers financial liberalization (public interest)
2. Financial industry prefers financial repression (private interest)

If assumptions are reversed → findings instead support the views of Dagher (2018) and Chwieroth and Walter (2019)



How about central banks?

- Leading role of central banks in shaping financial policy in the aftermath of crises
  - Revolving door of central bankers (Mishra and Reshef JMCB 2018)

- More generally, central bank independence (CBI) creates an environment where the interests of the financial industry and policymakers become aligned

- Indeed even in the absence of fiscal or monetary policy:
  - If households and firms can easily borrow, then their consumption and investment levels can increase (Rajan 2010)
  - Therefore, fostering the growth of the financial industry through deregulation becomes a politically desirable option (Aklin and Kern AJPS 2020)

All my best!

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