



The Political Economy of Sovereign Debt: Global Finance and Electoral Cycles

Stephen B. Kaplan and Kaj Thomsson

[≡ More](#)

Abstract

Political economy theory expects politicians to use budget deficits to engineer an election-timed boom, known as the political business cycle. We challenge and contextualize this view by incorporating the financial constraints faced by governments into an electoral framework. We argue theoretically that the extent of ownership dispersion among creditors has important effects for governments' policy autonomy. Specifically, we contend that when highly indebted governments become more reliant on international bond markets—as opposed to traditional bank lending—politicians alter the way they respond to domestic constituents. In an econometric test of 16 Latin American countries, from 1961 to 2011, we show that financial decentralization breeds austerity. More specifically, we find that politicians exhibit more fiscal discipline when they fund a greater share of their spending through decentralized bond markets. Furthermore, we find this disciplining effect to be particularly strong during election periods.

[View full text](#) | [Download PDF](#)

[Accessibility](#)

[Open access at Chicago](#)

[Permissions](#)

[Statement of Publication Ethics](#)

[Diversity and Inclusion at the University of Chicago](#)

[Contact us](#)

[Terms and Conditions](#)

[Privacy Notice](#)

[Media and advertising requests](#)



© 2025 The University of Chicago and other publishing partners. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.