CHICAGO JOURNALS

20 December 2016

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

Stephen B. Kaplan and Kaj Thomsson | AUTHOR INFO AND AFFILIATIONS

Publication: The Journal of Politics • Volume 79, Number 2 • **DOI**: https://doi.org/10.1086/688441

SUPPLEMENTAL MATERIAL GET ACCESS

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.

Get full access to this article

View all available purchase options and get full access to this article.

GET ACCESS

ALREADY A SUBSCRIBER? SIGN IN AS AN INDIVIDUAL OR VIA YOUR INSTITUTION

Supplementary Material

Appendix

View full text | Download PDF

THE UNIVERSITY OF CHICAGO PRESS JOURNALS

The University of Chicago Press Books

Chicago Distribution Center

The University of Chicago

Diversity and Inclusion at UChicago

Journals Division accessibility

UChicago accessibility

Open access at Chicago

Permissions

Statement of Publication Ethics

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.