

## Political Accountability During Crises: Evidence from 40 Years of Financial Policies

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# Political Accountability During Crises: Evidence from 40 Years of Financial Policies

## Abstract

We show that politicians facing a binding term limit are more likely to engage in financial de-liberalisation than those facing re-election, but only in the wake of a financial crisis. In particular, they implement policies that tend to favour incumbent financial institutions over the general population, such as increasing barriers to entry in the banking sector. We rationalise this behaviour with a theory of political accountability in which crises generate two opposite effects: they increase the salience of financial policies to voters but also create a window of opportunity for politicians captured by the financial industry to push potentially harmful reforms. In line with the implications of our model, we show that revolving doors between the government and the financial sector play a key role in encouraging bank-friendly policies after crises.

JEL-Codes: D720, D780, G010, P110, P160.

Keywords: financial crises, political accountability, democracies, term-limits, special-interest groups.

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“*Never let a good crisis go to waste.*” (Winston Churchill, 1940s)

## 1. Introduction

Financial crises are an endemic feature of market economies. Banking, currency, and sovereign debt crises have occurred in almost all countries throughout history (Reinhart and Rogoff, 2009). The negative effects of these crises on national economies are generally severe, leading to collapses of the banking system, recessions, and increases in government debt. These dire repercussions often lead governments to intervene and reform the financial system. However, whether the new financial policies they introduce favour the general population or financial institutions remains an open question.

It is a priori unclear whether financial crises make politicians more likely to act in the interest of voters. On the one hand, financial crises put financial regulation in the spotlight. This increases the salience of financial reforms in the public eye and hence voters become more likely to hold politicians accountable for ill-designed policies. On the other hand, financial crises increase legislative activity and raise opportunities for interest groups to push reforms that favour the financial sector.<sup>1</sup> The effect of financial crises therefore depends crucially on whether politicians can be held accountable through the prospect of re-election.

In this paper, we show that politicians facing a binding term limit are more likely to pass policies that favour financial institutions in the aftermath of financial crises compared to politicians facing re-election. Moreover, we find that financial crises themselves significantly alter the differences in policy choices between term-limited politicians and those up for re-election. We rationalise these findings in a theoretical framework incorporating two opposing forces that materialise in the aftermath of financial crises: an increase in the salience of financial policies to voters and the emergence of a window of opportunity for legislators. We provide evidence suggesting that politicians in their final term may give policy favours to the banking sector during such difficult times in return for jobs in the financial sector.

Using a novel dataset covering financial policies and crises in 88 democratic countries between 1973 and 2015, we first document that politicians facing a binding term limit are more likely to engage in financial de-liberalisation in the wake of a financial crisis than those facing re-election. We exploit within-country variation in the timing of *binding* term limits to show that, while both term-limited and non-term-limited politicians reverse the process of financial liberalisation in the wake of financial crises, term-limited politicians do so to a

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<sup>1</sup>The idea that regulatory policymaking could be captured by private interest groups goes back to the seminal pieces by Stigler (1971), Krueger (1974), or Peltzman (1976) and has been shown to be important in the case of the financial sector by Mian, Sufi, and Trebbi (2010) or Igan and Mishra (2014).

much larger extent.

Next, we investigate the interaction between crises and re-election prospects in different policy domains. Focusing on banking sector policies, we find that term-limited politicians enact relatively more policies that favour financial institutions over the general public in the wake of financial crises. Relative to politicians facing re-election, term-limited politicians are more likely to increase barriers to entry in the banking sector, bail out troubled banks and relax bank supervision.<sup>2,3</sup>

These results suggest that post-crisis policy making in the financial sector can be influenced by the dynamics of electoral accountability. We propose a simple model of political accountability in times of crises to rationalise these results. We consider an adverse selection problem in which voters do not know whether politicians are aligned with their interests or captured by the financial industry. Voters observe imperfectly whether politicians enact policies in their favour and decide whether to re-elect them. Captured politicians value being elected but also expect private benefits from the financial industry if they push policies that favour that industry. In the absence of crises, elections discipline the behaviour of captured politicians: as long as the benefits from holding office are large enough, they mimic the behaviour of aligned politicians and pass financial reforms beneficial to voters. Crises generate two opposite effects. On the one hand, they increase the salience of financial policies to voters, which makes them more likely to learn whether a politician passed a beneficial reform. This induces captured politicians to pass more reforms in the interest of the public. On the other hand, they create a window of opportunity for captured politicians to push potentially harmful reforms. Depending on which of the two effects dominates, crises can amplify the accountability effect of elections and increase the differences in behaviour between politicians in their final term and those up for re-election.

The model is consistent with the result that financial crises affect the behaviour of both term-limited and non-term-limited politicians. A standard model of electoral accountability could explain why the increase in salience generated by financial crises leads to larger differences between term-limited politicians and those up for re-elections as we observe. However, it cannot explain why term-limited politicians behave differently in times of crises than in

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<sup>2</sup>Though the effect on supervision is not statistically significant.

<sup>3</sup>Entry barriers are associated with rent extraction (Friedman, 1970; Goddard, Liu, Molyneux, and Wilson, 2011) and thus benefit banks at the expense of consumers. Similarly, bailouts benefit banks while the general public has mixed views on them. Though Chwiero and Walter (2019) argue that some level of bank bailouts is demanded by voters during times of crises, Faccio, Masulis, and McConnell (2006) show that private incentives could lead to excessive bailouts that can exacerbate the moral hazard problem in the banking sector (Dam and Koetter, 2012), consistent with surveys indicating opposition to taxpayer funded bailouts (Pew Research Center, 2010; Reuters / Ipsos, 2023). We discuss additional evidence to support our classification of policies favoured by the banking sector at the expense of voters in Section 4.3.

normal times.

We present evidence that the reforms enacted by term-limited politicians can be driven by the prospect of receiving personal benefits from the financial industry. First, we show that the post-crisis effect of term limits on policies favouring the domestic banking sector are stronger in countries where revolving doors are more common. Secondly, using a hand-collected dataset on post-government careers of more than 500 individual policymakers (finance ministers and central bank governors) in 32 countries, we show that the political allies of term-limited leaders who served in the aftermath of a financial crisis are more likely to pursue a career in the private financial sector after leaving government. Finally, we confirm that the policies pushed by term-limited politicians do not bring any additional benefits to the general population. Using a global bank-level dataset from Bankscope, we show that bank stability and performance do not meaningfully differ after crises when these politicians are in power.

The paper proceeds as follows. The next section surveys the existing literature and places our contribution. Section 3 describes the construction of the dataset, while Section 4 details our methodology and presents the main results. In Section 5, we describe our theoretical framework and the mechanisms. Section 6 concludes the paper.

## 2. Existing literature

**Term limits and political accountability** A large literature has explored the link between term-limits and policy making. In a seminal contribution, [Besley and Case \(1995\)](#) find that gubernatorial term limits have a negative impact on the tax-raising performance of US governors after natural disasters. [Besley and Case \(2003\)](#) then showed that term-limited governors in the middle of the twentieth century taxed and spent more than governors who were eligible for re-election but that this effect has disappeared over time. [Alt, Bueno de Mesquita, and Rose \(2011\)](#) show that economic growth is lower when term-limited governors are in office while [Ferraz and Finan \(2011\)](#) show both that term-limited mayors in Brazil are more corrupt and that the effects of term limits are stronger in places where incumbents face lower chances of being punished. Among cross-country studies like ours, [Johnson and Crain \(2004\)](#) find that the size of government has expanded more rapidly in countries with one-term limits than in countries with two-term limits while [Conconi, Sahuguet, and Zanardi \(2014\)](#) show that international conflicts become more likely when political leaders in democracies face a binding term limit. More recently, [Klašnja and Titiunik \(2017\)](#) show that the use of term-limits may lead to an incumbency curse when the politicians have weak attachments to their parties and their pursuit of private agendas damages the party reputation in the

upcoming elections, while [Lopes da Fonseca \(2020\)](#) uses exogenous variations in mayoral term-limits to show that term-limited politicians pursue more conservative fiscal policies in Portugal. We contribute to this literature by exploring the interaction between crises and term-limits. Crises (economic or otherwise) can have a number of effects on policy making as politicians are forced to act quickly and decisively while being put under the spotlight. How these effects interact with term-limits remains an open question which we seek to answer in this paper.

**Policymaking in times of crises** A large literature exists on the nexus between crises and structural reforms. Following the seminal paper of [Drazen and Grilli \(1993\)](#), this literature has argued that, in societies with conflicting interests, vested interest groups become more powerful over time, but that their influence is weakened by crises and emergencies. As a result, crises allow governments to undertake necessary reforms. This crisis-begets-reforms hypothesis has been tested empirically in a number of contributions (see e.g. [Nelson, 1990](#); [Krueger, 1993](#); [Williamson, 1994](#)). They have generally shown that crises trigger reforms that lead to liberalisation and stronger influences of market forces.<sup>4</sup> Within this literature, a strand specifically explores the link between crises and financial liberalisation. [Abiad and Mody \(2005\)](#) show that financial crises may drive policy changes, though not always in the same direction. While balance-of-payment crises are likely to induce more liberalisation, banking crises act in the opposite way, encouraging reversals in the liberalisation process. [Pepinsky \(2012\)](#) shows that developing countries de-liberalise in response to currency crises by closing their capital accounts. [Mian, Sufi, and Trebbi \(2014\)](#) argue that financial liberalisation experiences a deadlock and tends to reverse in most post-crisis episodes. [Gokmen, Nannicini, Onorato, and Papageorgiou \(2021\)](#) find that democracies neither open nor close their economy in the aftermath of financial crises. This literature has therefore provided mixed answers on whether crises lead to financial liberalisation. Our contribution is to show that political institutions, and in particular the existence of term-limits, matter for the relationship between crises and financial liberalisation.

**Politics and finance** Lastly, our work is related to the literature on the political economy of finance.<sup>5</sup> The most closely related strand in this literature examines how legislative processes can be influenced by corporate or constituent interests, mostly focusing on the US setting ([Hall and Wayman, 1990](#); [Stratmann, 1998; 2002](#); [Mian, Sufi, and Trebbi, 2013](#);

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<sup>4</sup>These include crises such as high inflation, fiscal stress and growth crises, see [Bruno and Easterly \(1996\)](#), [Lora \(1998\)](#), [Perotti \(1999\)](#), [Drazen and Easterly \(2001\)](#), [Pitlik and Wirth \(2003\)](#) and [Alesina, Ardagna, and Trebbi \(2006\)](#).

<sup>5</sup>See reviews by [Pagano and Volpin, 2001](#) and [Lambert and Volpin, 2018](#).

Igan and Mishra, 2014). In particular, several papers investigate the relationship between private interest groups and financial deregulation (Kroszner and Strahan, 1999; Rajan and Zingales, 2003; Chari and Gupta, 2008; Mian et al., 2010; Papadimitri, Pasiouras, Pescetto, and Wohlschlegel, 2021). Closely related to our analysis, Mian et al. (2010) examine congressional voting on two key pieces of legislation in the immediate aftermath of the US mortgage crisis and illustrate how policymakers’ behaviour is linked to both their constituents’ preferences and the pressure from special interest groups through campaign contributions. In this paper, we confirm that a lack of accountability can push policy makers to favour the interests of financial institutions over those of the general public and that the effect is stronger in contexts where interest groups can engage in quid pro quo such as revolving doors. We complement this literature by exploring how private interests may influence post-crisis financial policymaking when electoral accountability is impaired due to binding term limits.

### 3. Data

**Financial regulation.** The original cross-country dataset on financial reforms was constructed by Abiad, Detragiache and Tressel (2010; henceforth, ADT).<sup>6</sup> ADT assesses seven dimensions of financial policy in 91 countries over the years 1973 to 2005. Specifically, it includes three indices directly related to the domestic banking sector (bank entry barriers, bank privatisation, and bank supervision), two indices for the lending/borrowing relationships between financial and real sectors (credit controls and interest rate controls), one index on international capital account controls and one on the regulation of security markets. Each of these variables is constructed through a set of standardised questions for which responses can be coded discretely and then aggregated to represent the extent of liberalisation in each reform area. They take values between 0 and 1, with higher values implying more liberalisation.<sup>7</sup> Table B1 contains the specific questions used for each policy index in Abiad et al. (2010).

Because these indices have not been updated by the original authors beyond 2005, we further use the data compiled by Denk and Gomes (2017) (henceforth, DG) who have extended the original ADT dataset until 2015 for a subset of countries while also covering a few additional ones. These authors follow the same methodological approach for the years from

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<sup>6</sup>These authors in turn build on the earlier and smaller set of observations compiled by Abiad and Mody (2005). Some of the recent studies employing this dataset include Mendoza, Quadrini, and Rios-Rull (2009), Prati, Onorato, and Papageorgiou (2013) and Giuliano, Mishra, and Spilimbergo (2013).

<sup>7</sup>In the original dataset, a positive increase in banking supervision implies more government intervention, and thus less liberalisation. For this reason, we use the banking supervision index in the reversed form (1-x) in our estimations to make sure that our sign interpretations are consistent across different indices.



2006 to 2015 and keep the original coding rules when aggregating responses to individual questions.<sup>8</sup> Their data also stretch six more years back in time to the 2000-5 period for which the original ADT series already exist and they confirm that their scores are comparable to the ones obtained in the original dataset.<sup>9</sup> Table B2 contains the specific questions used for each policy index in Denk and Gomes (2017). As a result, DG is composed of seven financial reform indices for the years from 2000 to 2015 for 43 countries (38 of these were among the 91 countries covered by the ADT dataset and five new countries were added by DG).<sup>10</sup>

For our analysis, we first take the full panel created by DG and then merge it with the remaining country-time-series from ADT. Hence, we obtain an unbalanced panel consisting of 96 countries over the period from 1973 to 2015. To our knowledge, this is the first study analyzing this combined dataset of financial policies.

**Term limits and political controls.** For the political variables, we use the Database of Political Institutions (DPI) which was originally created by Beck, Clarke, Groff, Keefer, and Walsh (2001) and later updated by Cruz, Keefer, and Scartascini (2020). We use the DPI index of electoral competitiveness for executive leader in order to focus on the country-year observations that can be categorised as “democratic”.<sup>11</sup> As a result, we end up with 88 countries in the baseline sample.

The main variable we obtain from DPI is *TermLimit*, which captures whether a country’s political leader in a specific year is facing a binding term limit or can be re-elected at the end of their current term (the variable is called “REELECT” in the DPI dataset). The variable *TermLimit<sub>it</sub>* takes the value 1 if the executive leader (either the president or the prime minister) of country *i* has a binding term limit in year *t*, and 0 if not. We say that there is a binding term limit in year *t*, if the leader in place during that year is serving in the last term allowed by the country’s electoral rules. It is important to note that the *TermLimit* dummy is time-varying. It is thus not perfectly correlated with other political characteristics of a country and not absorbed by country fixed effects. For instance, in a country with a two-term system the politician can be re-elected when serving her first term, but not in the second term. The variable would take a value of 1 if year *t* falls during the politician’s second term, but a value of 0 if year *t* falls during the politician’s first term. In countries with no

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<sup>8</sup>The two datasets differ in some dimensions: the index on capital account restrictions in DG is based on the index built by Chinn and Ito (2006) and one sub-question in the credit controls section is dropped by these authors. In the next section, we describe how we control for the possible biases that may arise due to these differences between the two datasets.

<sup>9</sup>For the few cases in which there is little divergence, they keep their own scores for consistency.

<sup>10</sup>These new countries are Iceland, Luxembourg, Saudi Arabia, Slovakia and Slovenia and are observed only for the years from 2000 to 2015.

<sup>11</sup>The DPI defines a country as a democracy if its executive has a value equal to or higher than six in a given year (Cruz et al., 2020).

limits on the number of terms, the variable is equal to 0 for all observations.<sup>12</sup>

We obtain additional variables from DPI to use as controls: *Right* and *Left* are dummies for the leader’s ideological position (with *Center* as omitted category); *Presidential* and *Parliamentary* are indicator variables for the country’s system of governance (with *Assembly-elected President* as omitted category); *OfficeYears* count the number of years the leader has been in office; *YearsLeft* are the number of years left in the leader’s current term; *HerfGov* is the Herfindahl index – the sum of the squared seat shares of all parties in the government; *GovFrac* is the probability that two deputies picked at random from among the government parties will be of different parties; *GovShare* is the fraction of seats held by the government; and finally *Checks* represents the number of distinct bodies that can act as a veto player in the country’s democratic process. Summary statistics for these variables are reported in Tables 1 and B3 (in Appendix).

**Financial crises.** To date financial crises, we use a widely-used dataset from the IMF (Laeven and Valencia, 2013) which has been more recently updated by the original authors (Laeven and Valencia, 2018). This dataset includes the starting dates for three different types of financial crises: banking, currency, and sovereign debt crises. The coverage in this dataset is larger compared to alternative datasets (such as Reinhart and Rogoff, 2011) and contains 165 countries between the years 1970 and 2017. In the data, crises are represented by a dummy variable which takes a value of 1 in the initial year of the crisis and 0 for any other years. We are therefore unable to trace the duration of a crisis based on the IMF dataset. As explained below, we instead use this dataset to construct an event study setting by focusing on the periods immediately following the initial year of a crisis. After merging the financial crises dataset with the reform dataset, we end up with 73 banking, 81 currency and 19 sovereign debt crises in the sample.

**Revolving doors.** To explore the revolving doors between government and financial industry, we employ a dataset constructed by Wirsching (2018) that includes information on 534 top government officials (i.e., finance ministers or central bank governors) in 32 democratic countries between the years 1973 and 2005. The dependent dummy variable (i.e., *Post-government finance career*) measures whether or not the corresponding individual pursued a career as either president, chairman, member of the board or adviser of a private financial institution in their country after leaving politics.

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<sup>12</sup>Countries with no term limits at all may be systematically different than those with term limits. We show below that our results are robust to dropping countries with no term limits.

**Financial stability.** Finally, we employ a global bank-level dataset from Bankscope that covers the years from 1999 to 2014 in up to 123 countries to measure bank stability and performance.<sup>13</sup> We construct measures of distance to default by computing the z-scores for each bank. This score captures how much equity and income buffer each bank has relative to the volatility of its past income flows.<sup>14</sup> We complement these measures with various measures of bank profitability and performance (such as return and provision ratios).

Table 1 presents the summary statistics for each financial policy domain as well as the overall financial liberalisation variable, which is the simple average of the former.<sup>15</sup> The table shows that there has been at least one country that was not liberalised at all (0) and at least one that was fully liberalised (1) at some point within our sample period for each reform area. This confirms that the questions used to measure liberalisation capture a realistic range of policies. Instead, the aggregate index of financial reform never hits 0 or 1, implying that there are no country in our sample that receives only 0s or only 1s simultaneously in each dimension. On average, liberalisation seems to have been highest in interest rate controls, followed by entry barriers and security markets. Privatisation is the least liberalised area on average with significant state presence in domestic banking sectors.

We plot the average values over time for each financial policy domain in Figure 1. All of these series show an inclination towards less government intervention over time, except in the area of banking supervision where the regulations have become more restrictive. Since the early 2000s, financial liberalisation seems to have come to a halt and after the Global Financial Crisis in 2007-08, some of these areas (such as privatisation) have even faced an interventionary stance from the policymakers. In Figure 2, we plot the average financial liberalisation index for selected countries from our sample covering three major regions (Americas, Europe, and Asia) and a mix of developed and developing countries. The figure shows that the overall increase in financial liberalisation masks a range of heterogeneous country trends with significant variation over time.<sup>16</sup>

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<sup>13</sup>See Silva (2019) for the cleaning and construction of the baseline bank-year panel from the raw Bankscope dataset.

<sup>14</sup>See, for example, Laeven and Levine (2009). More formally, we compute the following for each bank and year:  $\frac{(Income_t + Equity_t)}{Assets_t}$  divided by the standard deviation of return on assets over the past four years, that is  $\sigma_{ROA, t-1, t-4}$ . As we have a relatively short time span in our sample, we use the previous four years as the window over which to compute the volatility. We present alternative windows of three and five years to show that our results are not sensitive to window size, despite the fact that longer durations reduce our sample size.

<sup>15</sup>Table 1 is constructed only with the observations that remain after merging the reform database with information on financial crises. Less than 25% of the full reform dataset is dropped after the merging process. See Table B3 for the summary statistics of additional political variables.

<sup>16</sup>The figure also shows that the index only captures reforms that are sufficiently important and can be constrained by upper or lower bounds. For instance, the lack of variation in the USA following the 2008

## 4. Empirical strategy and results

### 4.1. Empirical strategy

We are interested in the impact of financial crises on the process of financial liberalisation, and how this impact differs between term-limited politicians and those up for re-election. To answer this question, we regress the degree of financial liberalisation in a given country and a given year on a variable which captures whether this country-year observation falls in the 5-year period following a financial crisis, a variable that captures whether the country's leader during that country-year observation faces a binding term limit, and the interaction of these two variables.

Given that both the crisis variable and the term limit variable are time-varying and can influence each other, we cannot take a causal interpretation of the parameters of interest. To reduce endogeneity concerns, and increase our confidence that the effects we identify are driven by the combination of crises and term limits, rather than by country-specific or time-specific characteristics, we use both country and year fixed effects. Finally, to reduce these concerns even further, we introduce a range of additional fixed effects and controls.

First, we control non-parametrically for the pace of the liberalisation process specific to each country by including country-specific time trends in our estimations. This is crucial as the comparison of crisis experiences across countries with different reform speeds may lead to a bias in our estimates, especially if crises are not randomly distributed across varying levels of liberalisation. As shown in Figure 2, the liberalisation trends over time can vary by country and be driven by country-specific characteristics over time. If we did not control for country-specific time trends, our estimates could therefore capture these idiosyncrasies rather than the effect of term limits and crises. Second, following [Giuliano et al. \(2013\)](#), we include interacted fixed-effects between reform domains and countries/years to help to absorb any implicit bias that may exist due to the combination of two datasets produced by different researchers.

We start by estimating the following baseline model:

$$FL_{i,t,r} = \beta_1 \times Crisis_{i,t} \times TLimit_{i,t} + \beta_2 \times Crisis_{i,t} + \beta_3 \times TLimit_{i,t} + \sum_i \delta_i \times d_t + \mu_i + \alpha_t + \lambda_r + \varepsilon_{i,t,r} \quad (1)$$

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crisis reflects both the fact that bailouts (through TARP) were not large enough to push the proportion of state-owned asset above 10%, which is necessary to push the index below 1, while the supervision index was already at its maximum and therefore not affected by additional supervisory measures. These constraints make our analysis more conservative as they limit the variation in the dependent variable thus making null results relatively more likely.

where  $i$  represents country,  $t$  year and  $r$  specific reform (ie., policy) index.  $\delta_i$  is a dummy for each country and  $d_t$  is a linear time trend. In the baseline estimation, we include the basic set of fixed effects at the country ( $\mu_i$ ), year ( $\alpha_t$ ) and reform ( $\lambda_r$ ) levels and saturate the specification in subsequent estimations. *Crisis* is a binary dummy variable turning on in the first 5 years after any crisis in the sample including the starting year itself. Importantly, we abstain from controlling for any country-level economic or financial variables in our estimations as these variables themselves might be strongly influenced by financial crises and could thus be categorised as “bad controls”.

In addition, we interact our *Crisis* dummy with the *TLimit* variable, which is a dummy taking a value of 1 for the country-year observations where the political leader is in the midst of their last legally-allowed term of office and thus cannot run for the next election. We also include the variable *TLimit* without the interaction in order to see if financial liberalisation is different between policymakers with and without binding term-limits outside crisis periods.

The effect of a crisis on financial policymaking when policymakers face no binding term limits is captured by  $\beta_2$ , whereas the effect of a crisis (relative to no crisis) on a political leader facing a binding term limit is measured by:  $(\beta_1 + \beta_2 + \beta_3) - (\beta_3) = \beta_1 + \beta_2$ . The *differential* effect of binding term-limits on post-crises policy making (relative to outside of crises) is therefore the difference between these two cases:  $\beta_1 + \beta_2 - \beta_2 = \beta_1$ .

#### 4.2. *Governments in their final term engage in more financial de-liberalisation*

Table 2 estimates Equation 1 and shows that policy reversals are substantially larger after financial crises for term-limited political leaders than those up for re-election. The coefficient on the interaction *Crisis*  $\times$  *TLimit* captures the differential change in behaviour following a crisis for policymakers who face a term limit relative to those up for re-election, that is coefficient  $\beta_1$  in Equation 1. Each subsequent column in Table 2 saturates the model with additional fixed effects.

The main takeaway from Table 2 is that de-liberalisation after financial crises is approximately *three times larger* when a term-limited policymaker is in power than when a politician is up for re-election. While financial crises make *both* term-limited policy makers and those up for re-election more likely to engage in financial de-liberalisation, term-limited policy makers are much more likely to do so. Given an average value of the index of liberalisation of 0.66 (Table 1), this implies that one crisis reduces liberalisation by about 3% for a politician up for re-election, but by over 9% for a politician facing term-limits, or about half of the standard deviation of the index over time and across countries.

The table also shows that the coefficient estimates on *TLimit* is positive and not sta-

tistically significant. This implies that, outside of crises, term-limited policymakers are not generally more prone to de-liberalise the financial sector than those up for re-election. Instead, the differential behaviour occurs specifically *after* financial crises.

#### 4.2.1. Timeline of policy interventions: term-limited vs unlimited policymakers

The pace of financial de-liberalisation following financial crises is of interest in its own right. To analyse it, we adjust our specification and zoom into the 9-year period surrounding a crisis to estimate the following regression:

$$FL_{i,t,r} = \beta_\tau \times Crisis_{i,t+\tau} \times TLimit_{i,t} + \eta \times TLimit_{i,t} + \gamma_\tau \times Crisis_{i,t+\tau} + \sum_i \delta_i \times d_t + \mu_i + \alpha_t + \lambda_r + \varepsilon_{i,t,r} \quad (2)$$

where the crisis dummy captures the effect of being  $\tau$  years away from the start of the crisis ( $Crisis_{i,t+\tau}$ ). We employ a rolling definition of this variable for which  $\tau$  corresponds to the years before and after a crisis.

In Figure 3, we plot the estimated coefficients  $\beta_\tau$  and  $\gamma_\tau$  from Equation 2 for values of  $\tau$  ranging from  $-4$  to  $+4$ .<sup>17</sup> The estimates of the  $\beta_\tau$  capture the differential behaviour of term-limited leaders relative to those up for re-election. The plot highlights that the differential effect of a crisis on term-limited politicians' policy choices only appears *after* a financial crisis and not before. Moreover, leaders in their final term of office are not actively changing financial policies at the outset of crises, but significantly reduce financial liberalisation up to three to four years after the start of the crisis.

#### 4.2.2. Robustness

We conduct a number of robustness tests to rule out possible confounders.

**Do political characteristics matter?** The characteristics of politicians facing binding term limits and serving after crises and the characteristics of countries in which binding term limits are possible and crises occur can both correlate with the choice of policies. To reduce omitted variable concerns, we control for all relevant aspects of political heterogeneity both as baseline parameters (Table B4) and in interaction with the crisis variables (Table B5).

First, there may be a concern that leaders facing binding term-limits in the aftermath of a crisis are different than leaders who do not face these circumstances. The effect we

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<sup>17</sup>By including  $\tau$  up to 4 years, we are able to fully dissect the *Crisis* variable in Equation 1 which is specified over the 5-year post-crisis period including the start year itself.

observe might therefore be driven by these individual differences rather than by the effect of term limits after crises. For instance, term-limited politicians could be more experienced than those up for re-election since they are likely to have already survived a re-election in the past (Ferraz and Finan, 2011). To address this, we control for the number of years that the executive has been in the office, both in the baseline and in an interaction with our crisis dummies. The results are very similar in these alternative specifications. Similarly, elections are likely to select more capable leaders. Since leaders facing term limits have in most cases survived a previous re-election, these leaders might have a higher intrinsic ability. Hence, the difference between the policy choices of lame-duck politicians and those up for re-election could be due to the difference in skills at handling the crisis rather than to political accountability. In order to check for this, we use the vote share of the government party as a proxy for the leader’s ability to handle the financial crisis.<sup>18</sup> We control for this variable both in the baseline and interacted with our crisis dummy and confirm that our findings remain unaffected.

Second, there may be a concern that these leaders encounter a different political environment than leaders not facing binding term-limits or not facing crises. To address this concern, we control for various time-varying characteristics of the political environment, ranging from the political ideology of the executive to the fractionalisation of their government.<sup>19</sup> None of these additional controls lead to a noticeable change in our main findings. The coefficients on right-wing ideology of the executive leader and on the country having a presidential system are the only ones that are consistently significant. This allows us to benchmark our main coefficient of interest: the “additional” effect of a term limit on post-crisis policymaking is 30 per cent larger than the baseline effect of a political leader having right-wing (compared to a more centrist) ideology.

Finally, and most importantly, we control for whether the country has a parliamentary or presidential system. Since countries with presidential systems are more likely to impose a term limit on their presidents, our estimates of  $\beta_1$  in Equation 1 might be confounded in the absence of political controls if presidential democracies are more effective in reacting to a crisis.<sup>20</sup> Our results keep the same sign and magnitude and remain statistically significant

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<sup>18</sup>Vote share is a good proxy for ability whenever leaders’ capability and election performance are correlated. Since the underlying concern is that more capable leaders might be more likely to be re-elected (and thus become term-limited) these two variables should indeed be correlated. If our control variable, government vote share, was not a good proxy for leaders’ skills, then the identification concern itself would become irrelevant.

<sup>19</sup>See the [Data](#) section for the definitions of these variables. We abstain from controlling for any country-level economic or financial variables in our estimations as these variables themselves might be strongly influenced by financial crises and could be categorised as “bad controls”.

<sup>20</sup>Note that the presidential dummy is different from the *TLimit* variable. Although most presidential systems have term limits, the latter only applies to the second (or possibly third) term and almost never to



once we include these additional variables. To further attenuate concerns that countries with term limits are structurally different from countries without term limits, We drop the countries whose leaders have never experienced term limits during our sample period and re-estimate Equation 1 for this sub-sample. Tables B6 and B7 in the Appendix reports the results on this sub-sample without and with additional controls. We naturally end up with a smaller set of countries,<sup>21</sup> but the effect of the interaction between term limits and crises actually becomes stronger in this subsample, suggesting that the countries who never had any term limits tend to bias our baseline results downward.

**Can extreme ideological shifts after crises play a role?** Recent literature has emphasised the importance of the rise in extreme politics in the aftermath of financial crises (Funke, Schularick, and Trebesch, 2016; Doerr, Gissler, Peydró, and Voth, 2020; Gyöngyösi and Verner, 2020). If the public discontent with crises leads ideologically more extreme parties to come to power, this may explain the interventionary policy stance we report in this paper. Although our previous analyses control for the right and left-wing ideology of the executive leader, these variables fail to take into account the *intensity* of the ideology. In order to mitigate this concern, we first extract all the party names reported in DPI that corresponds to each country-year observation in our sample.<sup>22</sup> We then add separate dummies in our main specifications for those country-year observations when a particular party was in executive power. In other words, we estimate a within-party specification in order to make sure that the effect of an extreme party coming to power in the aftermath of a crisis is automatically absorbed by these party dummies. Tables B8 and B9 in the Appendix re-estimate Tables 2 and B5 by including these party fixed-effects. Tables B10 and B11 do the same but only for the subsample of countries with the term limit experience during our sample period. Our findings remain qualitatively the same and thus are unlikely to be explained by the rise in extreme politics after crises.

#### 4.3. *Governments in their final terms pass more policies in favour of financial institutions*

The results from Section 4.2 reveal that term limits have important effects on financial de-liberalisation, but only in the wake of financial crises. This suggests that financial crises

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the first term.

<sup>21</sup>These countries are Argentina, Azerbaijan, Belarus, Bolivia, Brazil, Colombia, Costa Rica, Algeria, Ecuador, Estonia, Georgia, Ghana, Guatemala, Indonesia, Kenya, Kyrgyz Republic, Korea, Sri Lanka, Mexico, Philippines, Poland, Portugal, Paraguay, Russia, Senegal, El Salvador, Tunisia, Tanzania, Uruguay, United States and South Africa.

<sup>22</sup>Our sample contains more than 250 different political parties.



affect the electoral accountability mechanism of elections. However, financial liberalisation is a broad umbrella covering a range of policies with different winners and losers. Therefore, it is important to zoom into the specific domains of financial liberalisation to understand what drives the interaction between crises and electoral accountability.

We focus on three policy domains where it is relatively easier to differentiate between the direction preferred by the general public and that preferred by financial institutions. Specifically, we restrict attention to bank entry barriers, bank supervision, and bank privatisation.<sup>23</sup> Higher entry barriers are favoured by incumbent banks who stand to lose from the entry of competitors.<sup>24</sup> Instead, since higher entry barriers reduce market competition, they can lead to higher prices and lower service quality at the detriment of the broader population.<sup>25</sup> Bank supervision is generally unwelcome by banks. For example, the Consumer Financial Protection Bureau (CFPB) introduced in the US by the Dodd-Frank Act has faced regular opposition and lawsuits from the financial industry (Wilmarth Jr, 2011; Block-Lieb, 2012). However, supervision is viewed favourably by consumers since lack of supervision can increase systemic risk in the financial system and reduce the level of consumer protection. Indeed, surveys show that voters are supportive of financial supervision: 82% of American voters favour the CFPB while only 8% oppose it (Center for Responsible Lending, 2023), and 76% of UK voters “agree that the Government should regulate the sales, advertising and marketing activities of financial services firms” (Devlin, 2006). These proportions are roughly the same across political parties suggesting that financial supervision is favoured across the political spectrum. Finally, while nationalisation might not be welcome by the banking industry under normal circumstances, it translates into government bailouts (in the form of equity injections) for troubled banks after financial crises. This implies that interventions in this domain is likely to be supported by the financial industry in our context.<sup>26</sup>

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<sup>23</sup>For completeness, we show the results across all seven policy domains in Table B12.

<sup>24</sup>For example, the UK bank RBS indicated in written evidence submitted to the UK Parliament in response to proposed reduction in barriers to entry that “The number of players may have decreased since the period before the financial crisis, and therefore arguably competition, but it is important to draw a distinction between effective competition and that which is based on business models which carry significant risks to financial stability. [...] We believe that post crisis there remains an adequate level of competition and choice in the banking sector.” (House of Commons Treasury Committee, 2011).

<sup>25</sup>For example, the Financial Conduct Authority in the UK notes that “Lowering barriers to entry is effective and has a positive impact on entry, and delivered benefits to consumers. We have seen, for example, new entrants with significantly better offerings on specific products.” (Baker, Finlayson, Mittendorf, and Raghavan, 2018). The consumer association *Which?* also noted in Written Evidence submitted to Parliament that “Consumers have seen a real impact from changes to the competitive landscape, with worsening product terms whilst banks themselves have seen increasing margins. [...] Significant entry barriers [...] remain which seriously fetter the prospects for effective competition.” (House of Commons Treasury Committee, 2011).

<sup>26</sup>See for example [https://www.mlive.com/news/kalamazoo/2009/01/next\\_head\\_of\\_american\\_bankers.html](https://www.mlive.com/news/kalamazoo/2009/01/next_head_of_american_bankers.html). Evidence also shows that bailouts are used strategically by politicians in order to generate

Voters' support for bailouts is less clear. On the one hand, voters are unlikely to welcome bailouts as they put taxpayers' money at risk, fail to punish bankers for overly risky behaviour, and because the funds could be used for more socially beneficial investments. On the other, voters seem to support government intervention while a crisis unfolds. Surveys conducted at the start of the great financial crisis in September 2008 showed that 57% of voters were in favour of bailouts (Pew Research Center, 2008). However, two years later, 46% of American voters reported that they would be less likely to vote for a candidate who supported major loans for banks during the crisis against only 13% who stated this would make them more likely to support a candidate (Pew Research Center, 2010). More recent surveys suggest that respondents are generally less supportive of bailouts, with 51% opposing them and 85% reporting that taxpayers should not have to foot the bill.<sup>27</sup>

Table 3 estimates a specification similar to Equation 1 but with policies in each domain as a separate independent variable instead of a combined index. As for Table 2, the main coefficient of interest is the coefficient on the interaction between *Crisis* and *TLimit* ( $\beta_1$  in Equation 1). The main take-away from this table is that the de-liberalisation policies chosen by term-limited politicians in the aftermath of crises tend to favour financial institutions over voters. The contrast in policy stance between the two types of policymakers is starkest in the domain of bank entry barriers. The actions of politicians in this domain allow incumbent banks to extract rents by discouraging new entry into the financial industry. Term-limited leaders are also more active than those up for re-election in the wake of financial crises in the domain of privatisation. While both types of politicians nationalise banks at higher rates after financial crises, term-limited leaders do so significantly more than those up for re-election, suggesting their policies might go beyond the optimal bailout strategies that would normally be favoured by the median voter. Finally, despite the relevant coefficient being imprecisely estimated, the interaction of crises with term-limited politicians in Column (3) points towards lower bank supervision under term-limited politicians, which would also be aligned with the interests of incumbent banks.<sup>28</sup>

We conclude that financial crises affect the relationship between term limits and financial policies differently across policy domains. In policy areas where we can separate the interests of the domestic banking sector from those of the public, we find that term-limited politicians

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private rents (see Brown and Dinc, 2005; Faccio et al., 2006; Duchin and Sosyura, 2012).

<sup>27</sup>The other policy domains in our data have less clear conflicts of interests between voters and the financial industry. Credit and interest rate controls can be used to favour one industry over another and are therefore not necessarily supported consistently by lobby groups. Instead, reforms to develop and open security markets are likely to benefit both voters and the financial industry. For completeness, we present the results for these domains in Table B12.

<sup>28</sup>Note that a positive change in bank supervision in our setting indicates more liberalisation, thus less bank supervision.

are relatively more likely to enact policies that tend to favour financial institutions than politicians up for re-election.

## 5. Mechanism

### 5.1. *A model of political accountability in times of crises*

We present a simple model of term-limits in times of crises. Our model expands the one in Besley (2006) by shedding light on the possible effects of crises on electoral accountability. This model allows us to interpret our empirical findings on post-crisis financial policy making.

We consider a model with a pool of politicians and a representative voter. There are two types of politicians. ‘Aligned’ politicians, denoted  $\tau = a$ , prefer financial policies that are aligned with the voter’s interest, while ‘captured’ politicians, denoted  $\tau = c$ , prefer policies that are aligned with the interest of financial institutions. The type of the politician is not observable to the voter. Let  $\pi$  be the probability that a politician is ‘aligned’ with the voter and  $(1 - \pi)$  the probability that she is ‘captured’ by financial institutions.

There are two time periods,  $t \in \{1, 2\}$ . In each period, the elected politician makes a single policy decision, denoted by  $e_t \in \{0, 1\}$ . Whether the policy decision is in the interest of the voter depends on a state of the world  $s_t \in \{0, 1\}$ , which is observed by the incumbent politician. At the end of the first period, the voter observes the policy decision  $e_t$  but only observes the state  $s_t$  with probability  $\rho_t$ , where  $\rho_t$  can take two values  $\rho_t \in \{\rho_C, \rho_N\}$ . Otherwise, the voter believes the state is  $s_t = 0$  with probability  $\frac{1}{2}$ . The voter updates her beliefs about the type of the incumbent given the information and chooses whether to re-elect her or to elect a challenger randomly drawn from the pool.

The voters receive a payoff  $u_V = V$  if  $e_t = s_t$  and  $u_V = 0$  otherwise. An elected politician gets a payoff  $E$  from holding office. This payoff can be considered as pure “ego rents” plus wages and any other material benefits from holding office. In addition, an aligned politician receives a payoff  $V$  from choosing the voter’s preferred policy  $e_t = s_t$ . Instead, the captured politician gets an additional payoff  $r_t$  when choosing the policy not corresponding to the state,  $e_t \neq s_t$ . This private benefit corresponds to a reward for giving special treatment to interest groups representing financial institutions.<sup>29</sup> We assume that this private reward,  $r_t$ , follows a distribution whose cumulative distribution function is  $G(\cdot)$ , with mean  $\mu$  and finite support  $[0, R]$ . In addition, the politicians need to pay a cost  $\kappa_t$  for pushing a policy that does not match the state,  $e_t \neq s_t$  through the legislative process. This captures the idea

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<sup>29</sup>In our model, the interest of voters and those of financial institutions are therefore always misaligned. However, the interpretation need not be so stark. An alternative interpretation is that the state  $s$  captures how a certain policy is *relatively* more favourable to voters than financial institutions.

that policy makers make decisions collectively with other legislators who themselves might have different preferences or a different agenda, and do not benefit from the private rewards. Finally, the politicians discount the future with a discount factor  $\beta < 1$ . The politician's per-period payoff is therefore:

$$u_a = \begin{cases} E + V & \text{if } e_t = s_t \\ E - \kappa_t & \text{if } e_t \neq s_t \end{cases} \quad u_c = \begin{cases} E & \text{if } e_t = s_t \\ E + r_t - \kappa_t & \text{if } e_t \neq s_t \end{cases}$$

The main innovation in our model is to introduce two, possibly conflicting, effects of crises. On the one hand, financial crises increase the salience of financial policies and make voters more likely to learn whether politicians choose policies in their favour or not. We therefore assume that the probability of learning the state  $s$  is higher after a crisis than when no crisis occurs:  $\rho_C > \rho_N$ . We call this the *salience effect* of crises. On the other hand, crises also generate momentum to legislate on financial regulations and create opportunities for politicians to push reforms that are not necessarily in the interest of voters. We assume that the cost of pushing a bad policy  $e_t \neq s_t$  through the legislative process is lower after a crisis than when no crisis occurs:  $\kappa_C < \kappa_N$ . We call this the *window of opportunity effect* of crises. We formally derive the equilibrium of the model in Appendix A and describe the main implications in the next subsection.

## 5.2. Model implications

In equilibrium, the aligned type always chooses the policy aligned with the voter's interest in both periods. Instead, the captured politician chooses the aligned policy in the second period only if the private reward is above the cost of pushing the policy through the legislature:  $r_2 > \kappa_2$  and chooses the aligned policy in the first period only if the private reward from the financial sector net of the cost of pushing a bad policy ( $r_1 - \kappa_1$ ) is sufficiently low relative to the expected benefits of re-election, which we denote  $W_2$  and depend on both the probability that a crisis occurs in the second period and the distribution of the private reward,  $r_2$  in the second period. Given this equilibrium, we can derive the probability of an aligned policy for a politician up for re-election:

$$\mathbb{P}(e_1 = s_1) = \pi + (1 - \pi)G(W_2 + \kappa_1),$$

and that for a politician in her final term:

$$\mathbb{P}(e_2 = s_2) = \pi + (1 - \pi)G(\kappa_2),$$

We can therefore compare the probability that a policy aligned with the interests of voters is enacted when a term-limited politician is in office and when a politician up for re-election is in office, and compare these differences in times of crises (when  $\rho_t = \rho_C$  and  $\kappa_t = \kappa_C$ ) and in normal times (when  $\rho_t = \rho_N$  and  $\kappa_t = \kappa_N$ ). Let  $\Delta_2 = \mathbb{P}(e_1 \neq s_1 \mid \rho_C, \kappa_C) - \mathbb{P}(e_1 \neq s_1 \mid \rho_N, \kappa_N)$  denote the effect of a crisis on a politician up for re-election.

**Proposition 1.** *There exists a threshold  $\bar{C}$  such that the effect of a crisis on liberalisation policies for a politician up for re-election,  $\Delta_2$  is negative if  $(\rho_C - \rho_N) - (\kappa_N - \kappa_C) \geq \bar{C}$  and positive otherwise.*

Now let  $\Delta_1 = [\mathbb{P}(e_2 \neq s_2 \mid \rho_C, \kappa_C) - \mathbb{P}(e_2 \neq s_2 \mid \rho_N, \kappa_N)] - \Delta_2$  denote the effect of a crisis on the policy choice of a term-limited politician relative to one up for re-election. Finally, let  $\Delta_3 = \mathbb{P}(e_2 \neq s_2 \mid \rho_N, \kappa_N) - \mathbb{P}(e_1 \neq s_1 \mid \rho_N, \kappa_N)$  the effect of term-limits outside crises.

**Proposition 2.** *The effect of a crisis on liberalisation policies for a term-limited politician relative to a politician up for re-election is weakly negative,  $\Delta_1 \leq 0$ , and weakly larger in magnitude than the effect of term-limits outside crises:  $|\Delta_1| \geq |\Delta_3|$ .*

**Connection with empirical results.** These comparisons are consistent with the coefficient estimates from Table 3. The coefficient on the interaction *Crisis*  $\times$  *TLimit* in that table gives the estimate of  $\beta_1$  in Equation 1 which is either significantly negative or not-significant. In the model, this corresponds to  $\Delta_1$  which Proposition 2 shows is weakly negative. The coefficient on *Crisis* gives the estimate of  $\beta_2$  in Equation 1 and is not significantly different than zero for any of the policies. This effect corresponds to  $\Delta_2$  in the model. Proposition 1 shows that a null effect can be the result of the two opposite forces (increased salience and increased window of opportunity) since this quantity can be greater or less than zero depending on the relative magnitude of  $\rho_C - \rho_N$  vs.  $\kappa_N - \kappa_C$ . Finally, the coefficient on *TLimit* in Table 3 estimates  $\beta_3$  in Equation 1 and  $\Delta_3$  in the model. In line with Proposition 2, this effect is always smaller than  $\Delta_1$  and never statistically significant.

This model can therefore rationalise our results on barriers to entry and privatisation, and is consistent with the null results on supervision. The size of the coefficients also allows us to say something more informal about whether the effect of  $\rho_C - \rho_N$  (the *salience* effect) dominates the effect of  $\kappa_N - \kappa_C$  (the *window of opportunity* effect) in different policy domains.<sup>30</sup> These suggest that passing reforms about entry barriers does become easier during crises but also becomes more salient to the public and the salience and window of opportunity effects cancel each other out. Instead, crises do not seem to increase voters' awareness of bailouts by enough and the salience effect is outweighed by the 'window of

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<sup>30</sup>We assume that the parameters  $\rho$  and  $\kappa$  are policy domain-specific.

opportunity’ effect in this domain. Finally, crises do not seem to significantly increase voters’ awareness of supervision. The effect on supervision is consistent with findings from a survey carried out by the Financial Service Authority (FSA) in the UK in 2009, which showed that, while the FSA was more frequently mentioned in the news during the great financial crisis, awareness of the FSA or of financial regulation among consumers did not increase (Financial Services Authority, 2009).<sup>31</sup> While the examples discussed in Section 4.3 suggest that citizens do care about financial supervision when told specifically about it, they are not widely aware of its functioning or changes to it. In other words, while banking supervision might be important to voters it might not be salient. This could explain the absence of significant effect of crises on financial supervision.

### 5.3. *Evidence of revolving door incentives*

The results presented in Sections 4.2 and 4.3 are consistent with the interpretation that term-limited leaders are more likely to choose policies that favour the financial sector over the general public than leaders up for re-election and that crises amplify this difference in behaviour. We present additional evidence that supports this interpretation.

In our model, the difference in behaviour is driven by an underlying incentive for some politicians to choose policies in the interest of financial institutions. In the absence of such incentives, politicians would not have a preference for acting in the interest of financial institutions and neither re-election prospects nor financial crises should affect the propensity of politicians to favour financial institutions. If our interpretation is correct, we should therefore see a larger effect of financial crises and term limits when politicians have stronger incentives to favour the financial sector.

A large literature has shown that the prospect of future career opportunities in the private sector incentivises policymakers to pass policies in favour of the firms that can hire them (see e.g. Blanes i Vidal, Draca, and Fons-Rosen (2012), Bertrand, Bombardini, and Trebbi (2014), LaPira and Thomas (2014), McCrain (2018), or Shepherd and You (2020)). We should therefore expect the effects we measure in Table 3 to be stronger when this type of quid pro quo behaviour is more likely.

We show two pieces of evidence in support of this relationship. First, we show that the effects of term limits and financial crises that we measured in Section 4.3 are stronger in countries where revolving doors are more frequent. Second, we show that policymakers who serve under a term-limited leader in the aftermath of a crisis are more likely to pursue a career in the financial sector than those who served under a leader up for re-election.

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<sup>31</sup>Van der Cruysen, De Haan, Jansen, and Mosch (2013) also find that Dutch consumers are often poorly informed about the responsibilities and intricate details of financial regulation.

### 5.3.1. *Heterogeneity by frequency of revolving doors*

To assess the heterogeneity of the effects we estimate with respect to the frequency of revolving doors, we use a dataset compiled by [Braun and Raddatz \(2010\)](#). The authors rank a large cross-section of countries based on the frequency of the directors in their banks who used to be high-ranking politicians in the past. Figure [B1](#) maps the intensity of this revolving door phenomenon across the globe. The measure is only available for the year 2006 so we use it to classify countries into low and high frequency of revolving doors based on whether the frequency is above or below the median in the sample (see Figure [B2](#)).<sup>32</sup> Under the assumption that the availability of revolving doors in a given country captures the general propensity of the financial industry to reward politicians, this measure captures the incentives of policymakers to act in the interest of the financial industry. We should therefore expect that the difference in behaviour between term-limited policymakers and those up for re-election in the aftermath of crises is amplified in countries where revolving doors are more common.

Table [4](#) presents the results from re-estimating Equation [1](#) after dividing our sample into two equal sub-samples of countries depending on the frequency of revolving doors in each country. We restrict attention to the three policy domains with clear conflicts of interest which we analysed in Section [4.3](#). In line with our expectations, the coefficient on the interaction between term-limits and financial crisis for entry barriers and privatisation is larger in countries with high revolving doors. Term-limited leaders liberalise bank supervision in countries with high revolving doors but not in those with low revolving doors (though both estimates are statistically insignificant). In the final columns of both panels in Table [4](#), we estimate the same specification as in Table [2](#) by pooling all three policy domains.<sup>33</sup> Term-limited political leaders in countries where revolving doors are common are almost three times more likely to pass reforms that favour financial institutions in the aftermath of financial crises than those in countries with fewer revolving doors.<sup>34</sup>

These results are therefore consistent with our interpretation that the difference in behaviour between term-limited leaders and those up for re-election is driven by a desire to act in the interest of financial institutions when not facing heightened scrutiny from voters.

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<sup>32</sup>The measure is more precise for countries whose bank coverage is more widespread in the Bankscope dataset, which makes it a noisy measure for the country-level frequency of revolving doors.

<sup>33</sup>For this estimation, we multiply the supervision domain by a minus to make it in line with our expected direction of private interests.

<sup>34</sup>The difference between the estimates reported in the final columns across two subsamples is statistically significant at conventional levels.



### 5.3.2. Policymakers' financial careers

While we cannot trace the careers of each individual term-limited leader in our sample, we show that high-ranking decision makers (finance ministers and central bank governors) serving at the same time as those term-limited leaders are more likely to pursue careers in the financial sector upon leaving politics. Importantly, this relationship holds only when the relevant decision maker served under a term-limited leader *after a financial crisis*.

We use a dataset constructed by [Wirsching \(2018\)](#) that includes information on 534 top government officials decisive in financial policymaking in 32 democratic countries between the years 1973 and 2005. The data contains the name of each government official, their past position in the government (finance minister or central bank governor), the time period during which they served and whether or not they were employed by the *private* financial industry (as president, member of the board of directors, or advisor including supervisory boards) after they left their government posts. This definition excludes careers pursued in state-run financial institutions and hence mitigates the concern that the transition from government to financial industry might be mechanically driven by the nationalisation of the banking sector after crises. We estimate the following model of financial careers at the individual government official level:

$$\begin{aligned} PostGov'tFinanceCareer_j = & \beta_1 \times TLimit_j \times Crisis_j \\ & + \beta_2 \times Crisis_j + \beta_3 \times TLimit_j + \mu_i + \gamma_p + \kappa_e + \omega_x + \psi_n + \varepsilon_j \end{aligned} \quad (3)$$

where  $j$  represents the individual,  $i$  their country of service,  $p$  their position (finance minister or central banker),  $e$  the decade in which they entered the governmental position,  $x$  the decade in which they exited the governmental position and  $n$  the number of years they served in government (i.e., tenure). The dependent variable, *PostGov'tFinanceCareer*, is a dummy measuring whether or not the corresponding individual pursued a career as either a president, member of the board or advisor of a private financial institution in their country after leaving politics. *TLimit* and *Crisis* are dummy variables respectively turning on if the individual served under a term-limited political leader and if they served in the first 5 years after a crisis.<sup>35</sup>

While the coefficients capture conditional correlations, rather than the causal effect of serving under a term-limited leader, we mitigate obvious omitted variable concerns by sat-

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<sup>35</sup>Note that the *TLimit* variable captures whether the political leader under which individual  $i$  serves is term-limited, not whether individual  $i$  herself is term-limited. Unlike the *TLimit* and *Crisis* variable in specification 1, the variables here are not time-varying and take value 1 if the individual *ever* served under a term-limited leader or during a crisis.



urating the model with a range of fixed-effects. We include country fixed effects ( $\mu_i$ ) as finance careers might be more common in some countries than others, position fixed effects ( $\gamma_p$ ), as finance ministers or central bankers in general might be more or less likely to end up in finance, fixed effects for the decade of entry ( $\kappa_e$ ) and exit ( $\omega_x$ ) of the official in order to take into account generational effects, and tenure length fixed effects ( $\psi_n$ ), in order to control for previous government expertise.

Table 5 shows a positive relationship between serving under a term-limited leader in the aftermath of a crisis and pursuing a financial career after leaving the government across all specifications. The effects do not change significantly as the model is saturated with varying fixed-effects indicating that the relationship is not driven by country or policymaker-specific characteristics. Focusing on the most conservative estimate in Column (4), we conclude that there is at least a 30% higher chance of pursuing a financial career after leaving government if the official served under a term-limited leader than one up for re-election in the aftermath of a crisis. This effect is large in magnitude and equal to more than 75% of the unconditional mean of the dependent variable (see Table 1).<sup>36</sup>

These findings further support the view that term-limited leaders choose policies that favour financial institutions because they, or policymakers close to them, get rewarded for these choices. In line with our theoretical conjecture, this occurs exclusively for those allies of the term-limited leaders who were in power in the aftermath of a financial crisis.

#### 5.4. *Effect of final terms governments on financial stability*

While our results so far suggest that term-limited politicians tend to pass policies in favour of financial institutions after crises, they do more so in countries where revolving-door are common, and their allies obtain positions in private banks after leaving their government posts, one could argue that the interests of financial institutions and those of the public are not necessarily misaligned. Moreover, it is also possible that the policies chosen by term-limited leaders in the aftermath of crises are actually needed to address the crisis and restore financial stability. If this were the case, one would expect a better post-crisis performance in banking sectors of those countries that faced a financial crisis when a term-leader was at the helm. Contrary to this logic, we show that these additional policies pursued by the term-limited leaders do *not* translate into higher financial stability or better bank performance after crises.

Table 6 reports the results of estimating a specification similar to Equation 1 over a

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<sup>36</sup>Due to the small number of countries in the sample (32), we abstain from clustering at the country-level. However in appendix, we show that our results are robust to clustering: Table B13 provides the version with country-level clustering and Table B14 with country x position level clustering (64 clusters).

balanced panel of banks with a range of dependent variables measuring riskiness and performance of the domestic banking sector. The first three columns show the effect of crises and term limits on the financial stability of banks. This is measured using different version of the z-score, which essentially measures the distance of a bank to bankruptcy.<sup>37</sup> Columns (4) and (5) show the effects on profitability as measured by returns on assets and equity. The last three columns show the effects on bank loan performance.

The main takeaway from this table is that, while crises predictably reduce financial stability and bank performance across all metrics, as captured by the large and significant coefficients on the crisis variable, term-limited leaders do *not* significantly improve financial stability. None of the coefficients on the term limit and crisis interaction are significant.

We can therefore conclude that the policies chosen by term-limited leaders are not chosen to improve financial stability or to create a better-performing banking sector in those countries.

## 6. Conclusion

In this paper, we study the determinants of financial policies and shed light on the interaction between financial crises and electoral accountability. Based on a novel panel dataset of 88 countries over the period from 1973 to 2015, we first present strong evidence showing that financial crises tend to encourage re-regulation in financial markets and that this effect is particularly strong for term-limited policy makers. However, the re-regulation carried out by these lame-duck policymakers tends to favour financial institutions over the general population. Term-limited policymakers are more likely to raise barriers to entry or bail banks out.

We propose a model of electoral accountability in times of crises to rationalise the facts that both term-limited policy makers and those up for re-election engage in more de-liberalisation, but that the term-limited ones push these policies further. We present some suggestive evidence that the motivations of term-limited leaders could be driven by the prospect of pursuing careers in the financial sector. The effects of term limit on post-crisis policies that we find are stronger in countries where such ‘revolving doors’ are more common, and the political allies of term-limited policy makers are more likely to pursue careers in the financial industry after serving in the government during financial crises. We also show that the additional policies chosen by term-limited leaders following crises do not improve financial stability or bank performance any more than those chosen by politicians

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<sup>37</sup>Our results without log transformation are qualitatively similar but we use the log transformation of the z-score in our baseline as it takes into account the non-linearity between crises and financial stability.

up for re-election. This is consistent with the idea that these politicians and their policies are not motivated by the interests of the general public.

Our findings reveal that the context in which policies are chosen can have important implications for the role of institutions designed to keep politicians accountable.

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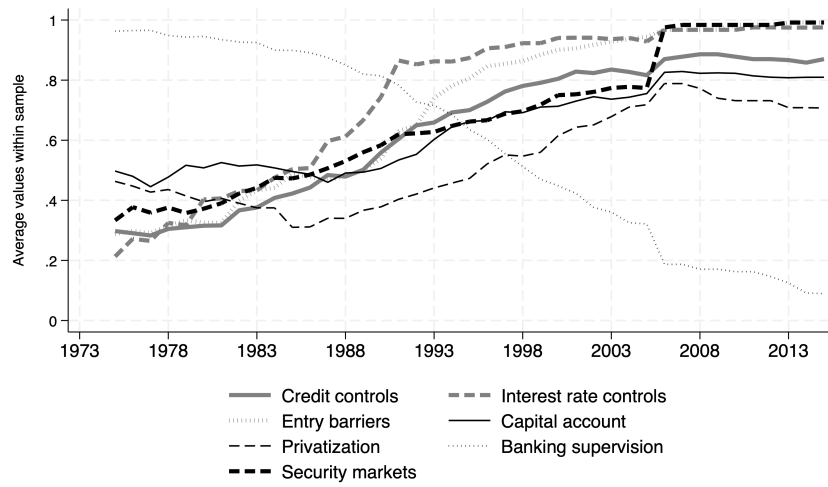


Fig. 1. **The evolution of financial policy domains within our sample period.** The figure illustrates the average value for each financial policy domain across all countries within our sample in each year. Policy database is obtained by merging two subsets of observations from [Abiad et al. \(2010\)](#) and [Denk and Gomes \(2017\)](#).

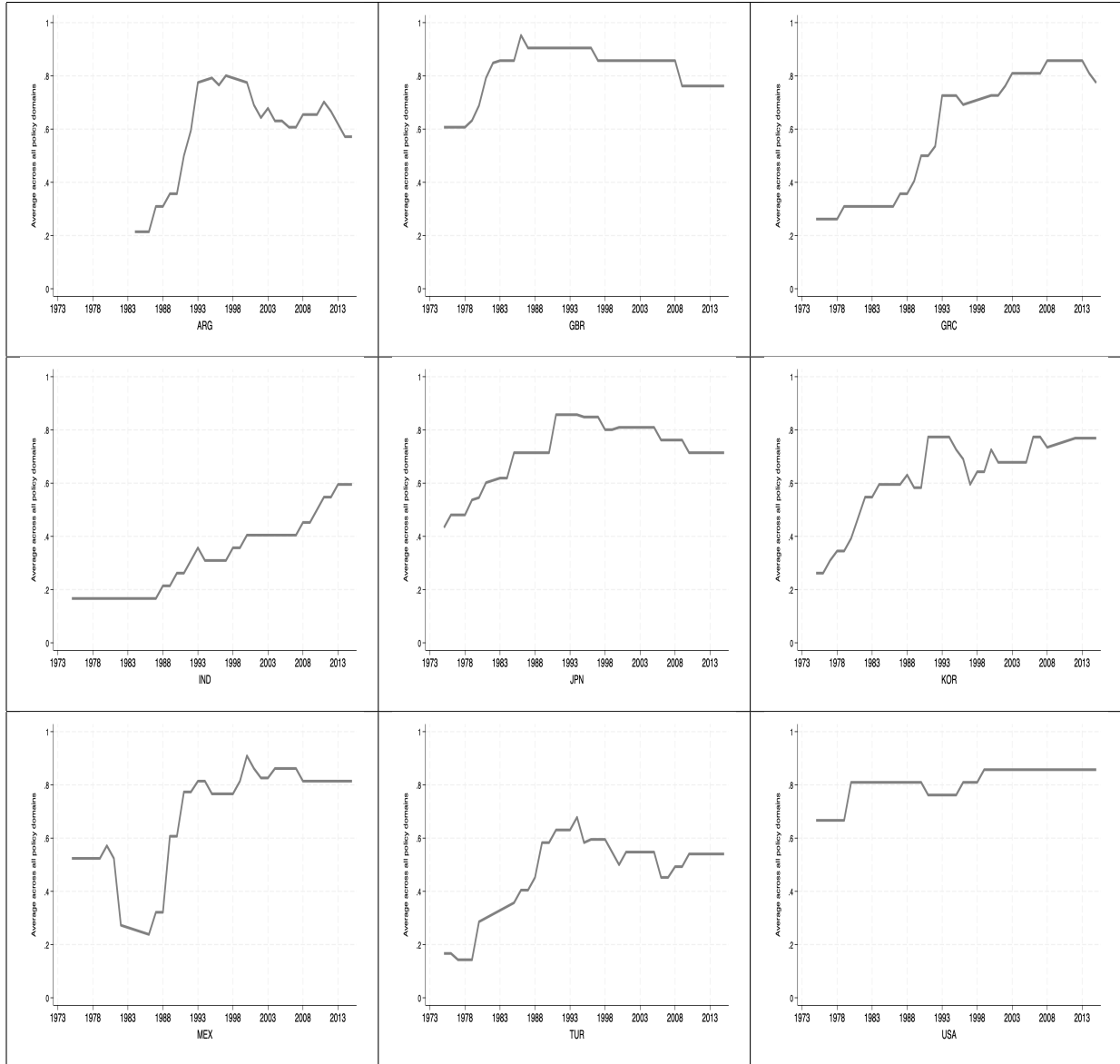


Fig. 2. **Evolution of average financial policy index for selected countries.** The figure illustrates the average value of the index for selected countries within our sample in each year. Policy database is obtained by merging two subsets of observations from [Abiad et al. \(2010\)](#) and [Denk and Gomes \(2017\)](#).

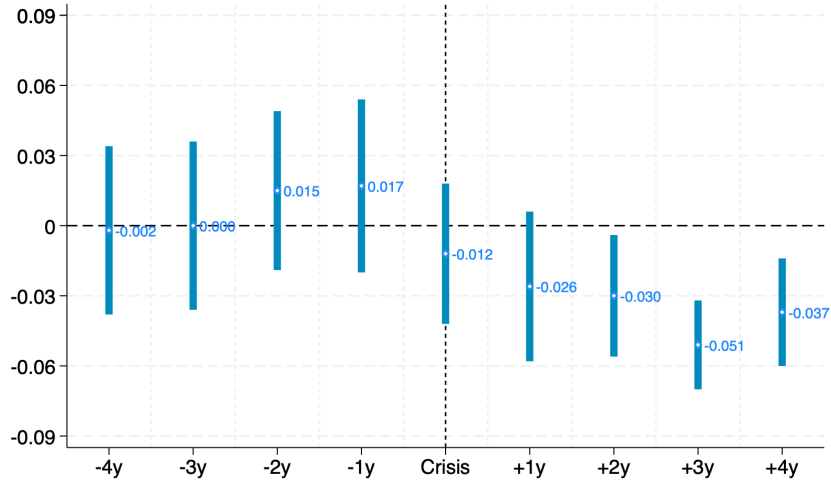


Fig. 3. **Timeline for the interaction coefficient between crisis and term-limits before and after a financial crisis.** The figure plots the estimates for  $\beta_\tau$  from the rolling specification in Equation 2. Policy database is obtained by merging two subsets of observations from [Abiad et al. \(2010\)](#) and [Denk and Gomes \(2017\)](#). Data on financial crises is obtained from [Laeven and Valencia \(2018\)](#). Political variables are obtained from [Cruz et al. \(2020\)](#). Robust standard errors are clustered at the country level and confidence intervals are at 90% significance level.

Variables	Mean	Median	Std. Dev.	Min	Max	Observations
Financial liberalisation (Average)	0.66	0.71	0.20	0.14	0.96	2,209
Credit controls	0.67	0.75	0.36	0.00	1.00	2,209
Interest rate controls	0.79	1.00	0.36	0.00	1.00	2,242
Entry barriers	0.74	1.00	0.35	0.00	1.00	2,242
International capital controls	0.65	0.70	0.35	0.00	1.00	2,242
Privatization	0.54	0.67	0.39	0.00	1.00	2,242
Banking supervision	0.57	0.67	0.37	0.00	1.00	2,242
Security markets	0.68	0.67	0.35	0.00	1.00	2,242
Financial crises (any crisis)	0.07	0.00	0.25	0.00	1.00	2,242
Banking crises	0.03	0.00	0.18	0.00	1.00	2,242
Sovereign debt crises	0.01	0.00	0.09	0.00	1.00	2,242
Currency crises	0.04	0.00	0.19	0.00	1.00	2,242
TermLimit	0.19	0.00	0.39	0.00	1.00	2,104
Post-government finance career	0.39	0.00	0.49	0.00	1.00	534
Log Z-score (3-year)	3.71	3.71	1.30	-5.78	6.92	12,366
Log Z-score (4-year)	3.48	3.52	1.19	-4.89	6.33	11,500
Log Z-score (5-year)	3.33	3.40	1.11	-5.15	5.98	10,618
Return on Asset	0.00	0.01	0.39	-46.36	0.44	14,434
Return on Equity	0.09	0.09	0.32	-23.00	11.39	14,425
Non-performing loans	0.03	0.02	0.05	0.00	0.87	14,488
Provision Op. Income Ratio	0.13	0.08	0.81	-83.03	26.00	14,196
Provision Asset Ratio	0.01	0.00	0.02	-0.11	1.17	14,488

Table 1: **Summary statistics for main variables.** The table outlines the summary statistics for variables related to financial policies and crises. Policy database is obtained by merging two subsets of observations from [Abiad et al. \(2010\)](#) and [Denk and Gomes \(2017\)](#). Dummies for the initial year of various types of financial crises are obtained from [Laeven and Valencia \(2018\)](#). Political variables are obtained from [Cruz et al. \(2020\)](#) and [Wirsching \(2018\)](#). Bank-level variables are derived from Bankscope.

Dep. Variable	(1)	(2)	(3)	(4)
	Financial Liberalisation Index			
$TLimit \times Crisis$	-0.042** [0.018]	-0.042** [0.018]	-0.042** [0.018]	-0.042** [0.018]
$Crisis$	-0.019* [0.010]	-0.019* [0.010]	-0.019* [0.010]	-0.019* [0.010]
$TLimit$	0.017 [0.013]	0.017 [0.013]	0.016 [0.013]	0.016 [0.013]
Observations	15,661	15,661	15,661	15,661
Adjusted R-squared	0.297	0.509	0.596	0.780
Country FE	Yes	Yes		
Reform FE	Yes			
Year FE	Yes		Yes	
CountryTime Trend	Yes	Yes	Yes	Yes
Reform x Year FE		Yes		Yes
Country x Reform FE			Yes	Yes

Table 2: **Baseline results.** Sample includes only democratic countries with an executive index of electoral competitiveness equal to or higher than six. Dependent variable, *Financial Liberalisation Index*, varies over countries, years and policy domains. *TLimit* is a dummy variable turning on for the country-year observations where the political leader is in the midst of their last legally-allowed term of office and thus cannot run for the next election. *Crisis* is a dummy variable turning on in the first 5 years after a financial crisis including the starting year itself. Robust standard errors are clustered at the country level and standard errors are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.

Dep. Var.	(1) Entry Barriers	(2) Privatisation	(3) Supervision
$TLimit \times Crisis$	-0.093** [0.044]	-0.084* [0.050]	0.025 [0.025]
$Crisis$	0.004 [0.017]	-0.037 [0.027]	-0.003 [0.017]
$TLimit$	0.024 [0.027]	0.040 [0.037]	0.019 [0.021]
Observations	2,104	2,104	2,104
Adjusted R-squared	0.860	0.835	0.873
Country FE	Yes	Yes	Yes
Reform FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
CountryTime Trend	Yes	Yes	Yes
All baseline controls	Yes	Yes	Yes

Table 3: **Baseline results for three separate policy domains.** Sample includes only democratic countries with an executive index of electoral competitiveness equal to or higher than six. Dependent variable is a financial policy domain varying over countries and years.  $TLimit$  is a dummy variable turning on for the country-year observations where the political leader is in the midst of their last legally-allowed term of office and thus cannot run for the next election.  $Crisis$  is a dummy variable turning on in the first 5 years after a financial crisis including the starting year itself. Robust standard errors are clustered at the country level and standard errors are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.

Panel A: High revolving door countries				
Dep. Var.	(1) Entry Barriers	(2) Privatisation	(3) Supervision	(4) Combined
$TLimit \times Crisis$	-0.113 [0.072]	-0.157* [0.084]	0.072 [0.045]	-0.114** [0.047]
$Crisis$	5.070 [4.672]	3.241 [7.929]	3.376 [7.178]	1.645 [4.198]
$TLimit$	0.061 [0.045]	0.105 [0.069]	-0.006 [0.032]	0.057 [0.035]
Observations	1,058	1,058	1,058	3,174
Adjusted R-squared	0.864	0.848	0.869	0.882
Country FE	Yes	Yes	Yes	Yes
Reform FE				Yes
Year FE	Yes	Yes	Yes	Yes
CountryTime Trend	Yes	Yes	Yes	Yes
All baseline + interacted controls	Yes	Yes	Yes	Yes
Panel B: Low revolving door countries				
Dep. Var.	(1) Entry Barriers	(2) Privatisation	(3) Supervision	(4) Combined
$TLimit \times Crisis$	-0.049 [0.057]	-0.069 [0.048]	0.003 [0.043]	-0.040 [0.026]
$Crisis$	-6.685 [5.062]	0.375 [5.827]	0.111 [3.860]	-2.141 [2.390]
$TLimit$	-0.017 [0.041]	0.050 [0.031]	0.015 [0.030]	0.006 [0.025]
Observations	1,029	1,029	1,029	3,087
Adjusted R-squared	0.863	0.840	0.886	0.881
Country FE	Yes	Yes	Yes	Yes
Reform FE				Yes
Year FE	Yes	Yes	Yes	Yes
CountryTime Trend	Yes	Yes	Yes	Yes
All baseline + interacted controls	Yes	Yes	Yes	Yes

Table 4: **Heterogeneity of baseline results by intensity of revolving door.** Sample includes only democratic countries with an executive index of electoral competitiveness equal to or higher than six. Dependent variable is a financial policy domain varying over countries and years.  $TLimit$  is a dummy variable turning on for the country-year observations where the political leader is in the midst of their last legally-allowed term of office and thus cannot run for the next election.  $Crisis$  is a dummy variable turning on in the first 5 years after a financial crisis including the starting year itself. Robust standard errors are clustered at the country level and standard errors are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.



Dependent Variable	(1)	(2)	(3)	(4)	(5)	(6)
	Post-government finance career					
$TLimit \times Crisis$	0.368*** [0.140]	0.318** [0.143]	0.312** [0.147]	0.303* [0.158]	0.328** [0.157]	0.328** [0.164]
$TLimit$	0.117 [0.096]	0.061 [0.129]	0.059 [0.128]	0.068 [0.132]	0.072 [0.134]	0.093 [0.138]
$Crisis$	0.007 [0.049]	0.070 [0.055]	0.051 [0.055]	-0.019 [0.058]	-0.031 [0.058]	-0.025 [0.060]
Observations	534	534	534	534	534	531
Adjusted R-squared	0.023	0.145	0.160	0.174	0.176	0.169
Country FE		Yes	Yes	Yes	Yes	Yes
Position FE			Yes	Yes	Yes	Yes
Entry Decade FE				Yes	Yes	Yes
Exit Decade FE					Yes	Yes
Tenure FE						Yes

Table 5: **Term limits, crises and post-government finance career.** The table summarises the estimation results of a linear probability model. Sample includes a cross-section of top government officials who served across 32 democratic countries between the years 1973 and 2005. The dependent dummy variable measures whether or not the corresponding individual pursued a career as president, chairman or member of the board of a private financial institution in their country after leaving politics.  $TLimit$  and  $Crisis$  are dummy variables respectively turning on if the individual served under a term-limited political leader and if they served in the first 5 years after a crisis. Robust standard errors are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.

Dep. Var.	(1) log Z-score 3-year	(2) log Z-score 4-year	(3) log Z-score 5-year	(4) Return on Asset	(5) Return on Equity	(6) Non-performing Loans	(7) Op. income Ratio	(8) Provision Asset Ratio
$TLimit \times Crisis$	-0.179 [0.145]	-0.044 [0.112]	0.134 [0.098]	0.013 [0.016]	-0.003 [0.031]	0.003 [0.007]	-0.100 [0.072]	0.002 [0.001]
$Crisis$	-0.417***	-0.385***	-0.338***	-0.004***	-0.073***	0.010***	0.167***	0.002**
$TLimit$	[0.114] 0.114 [0.074]	[0.097] 0.108 [0.091]	[0.074] 0.068 [0.091]	[0.001] -0.024 [0.029]	[0.014] -0.006 [0.013]	[0.004] -0.002 [0.004]	[0.042] 0.021 [0.059]	[0.001] -0.002** [0.001]
Observations	12,366	11,500	10,618	14,434	14,425	14,488	14,195	14,488
Adjusted R-squared	0.391	0.468	0.532	-0.001	0.079	0.509	0.024	0.130
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Table 6: **Term limits, crises and bank stability/performance.** Sample includes only democratic countries with an executive index of electoral competitiveness equal to or higher than six and only those banks that have observations in each year from 1999 to 2014.  $TLimit$  is a dummy variable turning on for the country-year observations where the political leader is in the midst of their last legally-allowed term of office and thus cannot run for the next election.  $Crisis$  is a dummy variable turning on in the first 5 years after a financial crisis including the starting year itself. Robust standard errors are clustered at the country level and standard errors are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.

# Online Appendix

POLITICAL ACCOUNTABILITY DURING CRISES:  
EVIDENCE FROM 40 YEARS OF FINANCIAL POLICIES

Orkun Saka

Yuemei Ji

Clement Minaudier

November 2024

## Appendix A - Proofs of results in the text

To solve the problem, the perfect Bayesian Nash equilibrium of this game requires that: (1) in every period each type of politician behaves optimally given the re-election rule of the voters, (2) voters use Bayes rule to update their beliefs about the type of politician and hence make their voting decision. We assume that, when indifferent, voters re-elect the politician.

In both periods, the aligned politician always chooses the policy that is in the interest of the voter. That is,  $e_t = s_t$ ,  $\forall t \in \{1, 2\}$ . We therefore focus on the captured politician.

**Second period.** In period 2, since the term limit is binding, the captured politician only cares about her own private interest, and chooses policy  $e_2 \neq s_2$  if the cost of doing so,  $\kappa_2$  is lower than the benefit  $r_2$ .

**Lemma 1.** *The captured politician chooses  $e_2 \neq s_2$  if  $r_2 \geq \kappa_2$  and  $e_2 = s_2$  otherwise. The probability of a captured politician choosing the aligned policy is therefore:  $\mathbb{P}(e_2 = s_2 \mid \tau = c) = G(\kappa_2)$ .*

**Voters' re-election rule.** Given the period 2 behaviour of both types of the politician, the voter prefers to re-elect the politician if he believes the politician is weakly more likely to be an aligned politician than a randomly-selected politician. If the voter does not observe the state (which happens with probability  $1 - \rho_1$ ), then he has no new information to update his beliefs, so  $\mathbb{P}(\tau = a \mid e_1, s = \emptyset) = \pi$ . If the voter observes the state (with probability  $\rho_1$ ), his belief depends on the equilibrium strategy of the politician in the first period.

If the captured politician's strategy is to choose the policy aligned with the voter's interest,  $e_1 = s_1$ , with probability 1, then the voter learns no new information as the equilibrium is pooling, so  $\mathbb{P}(\tau = a \mid e_1 = s_1) = \pi$ . Observing  $e_1 \neq s_1$  is off-equilibrium so the Bayesian equilibrium imposes no restriction on the beliefs. Therefore, in a pooling equilibrium, the voter always re-elects the politician when observing  $e_1 = s_1$ . The voter does not re-elect the politician following  $e_1 \neq s_1$  if her off-equilibrium beliefs are such that  $\mathbb{P}(\tau = a \mid e_1 \neq s_1) < \pi$ .

Instead, if the captured politician's strategy is to choose the policy misaligned with the voter's interest,  $e_1 \neq s_1$ , with some positive probability, then the voter learns that the politician is aligned when  $e_1 = s_1$  and captured when  $e_1 \neq s_1$ :  $\mathbb{P}(\tau = a \mid e_1 = s_1) = 1 > \pi$  and  $\mathbb{P}(\tau = a \mid e_1 \neq s_1) = 0 < \pi$ . Therefore, the voter re-elects the politician if and only if  $e_1 = s_1$ .

**First period.** In period 1, the captured politician faces the following trade-off: by choosing the policy aligned with voters, she mimics the aligned politician and gets re-elected but she

reduces her first period payoff. The captured politician therefore chooses the policy aligned with voters if her expected future payoff are large enough compared to her first period payoff of choosing the misaligned policy. Let  $W_2 = \beta[E + \mathbb{E}_{\kappa_2 \in \{\kappa_C, \kappa_N\}}[\mathbb{P}(r_2 \geq \kappa_2)(\mathbb{E}[r_2 \mid r_2 \geq \kappa_2] - \kappa_2)]]$  denote the expected second-period payoff of the captured politician, given Lemma 1.

**Lemma 2.** *There is an equilibrium in which the captured politician plays the following strategy:*

$$e_1 = \begin{cases} s_1 & \text{if } \rho_1 W_2 + \kappa_1 \geq r_1 \\ 1 - s_1 & \text{if } \rho_1 W_2 + \kappa_1 < r_1 \end{cases}$$

*In this equilibrium, the probability of a captured politician choosing the aligned policy in the first period is:*

$$\mathbb{P}(e_1 = s_1 \mid \tau = c) = G(\rho_1 W_2 + \kappa_1)$$

*Proof of Lemma 2.* Suppose that the captured politician plays the strategy described in Lemma 2. The voter then re-elects the politician if he observes  $s_1$  and  $s_1 = e_1$  or if he does not observe  $s_1$ .

Given Lemma 1, the captured politician's payoff from choosing  $e_1 \neq s_1$  is then:

$$u_c(e_1 \neq s_1) = E + r_1 - \kappa_1 + (1 - \rho_1)\beta[E + \mathbb{E}_{\kappa_2 \in \{\kappa_C, \kappa_N\}}[\mathbb{P}(r_2 \geq \kappa_2)(\mathbb{E}[r_2 \mid r_2 \geq \kappa_2] - \kappa_2) + \mathbb{P}(r_2 < \kappa_2) \times 0]]$$

The captured politician's payoff from choosing  $e_1 = s_1$  is instead:

$$u_c(e_1 = s_1) = E + \beta[E + \mathbb{E}_{\kappa_2 \in \{\kappa_C, \kappa_N\}}[\mathbb{P}(r_2 \geq \kappa_2)(\mathbb{E}[r_2 \mid r_2 \geq \kappa_2] - \kappa_2) + \mathbb{P}(r_2 < \kappa_2) \times 0]]$$

The politician therefore chooses  $e_1 = s_1$  if:

$$\begin{aligned} r_1 - \kappa_1 + (1 - \rho_1)\beta[E + \mathbb{E}_{\kappa_2 \in \{\kappa_C, \kappa_N\}}[\mathbb{P}(r_2 \geq \kappa_2)(\mathbb{E}[r_2 \mid r_2 \geq \kappa_2] - \kappa_2)]] \\ \leq \beta[E + \mathbb{E}_{\kappa_2 \in \{\kappa_C, \kappa_N\}}[\mathbb{P}(r_2 \geq \kappa_2)(\mathbb{E}[r_2 \mid r_2 \geq \kappa_2] - \kappa_2)]] \end{aligned}$$

Since  $W_2 = \beta[E + \mathbb{E}_{\kappa_2 \in \{\kappa_C, \kappa_N\}}[\mathbb{P}(r_2 \geq \kappa_2)(\mathbb{E}[r_2 \mid r_2 \geq \kappa_2] - \kappa_2)]]$ , the captured politician chooses  $e_1 = s_1$  if

$$r_1 - \kappa_1 + (1 - \rho_1)W_2 \leq W_2 \quad \Leftrightarrow \quad r_1 \leq \rho_1 W_2 + \kappa_1$$

We can then directly obtain the probability that the captured politician chooses the aligned policy in the first period as:

$$\mathbb{P}(e_1 = s_1 \mid \tau = c) = \mathbb{P}(r_1 \leq \rho_1 W_2 + \kappa_1) = G(\rho_1 W_2 + \kappa_1)$$

□

**Comparing probabilities of misaligned policies.** Given the equilibrium above, we can compute the probabilities of a randomly selected politician choosing a policy misaligned with the interest of voters in the first period (when facing re-election) compared to the second period (when facing a term limit) during a crisis and outside crises.

- For a term-limited politician,  $\mathbb{P}(e_2 \neq s_2 \mid \rho_2, \kappa_2) = (1 - \pi)G(\kappa_2)$ <sup>38</sup>
- For a politician up for re-election,  $\mathbb{P}(e_1 \neq s_1 \mid \rho_1, \kappa_1) = (1 - \pi)G(\rho_1 W_2 + \kappa_1)$

We can then compute the differences in policy choices that correspond to our empirical parameters of interest. The effect of a crisis on a politician up for re-election is:

$$\begin{aligned} \Delta_2 &= \mathbb{P}(e_1 \neq s_1 \mid \rho_C, \kappa_C) - \mathbb{P}(e_1 \neq s_1 \mid \rho_N, \kappa_N) \\ &= (1 - \pi)G(\rho_C W_2 + \kappa_C) - (1 - \pi)G(\rho_N W_2 + \kappa_N) \end{aligned}$$

The effect of a crisis on a term-limited politician relative to one up for re-election is:

$$\begin{aligned} \Delta_1 &= [\mathbb{P}(e_2 \neq s_2 \mid \rho_C, \kappa_C) - \mathbb{P}(e_1 \neq s_1 \mid \rho_C, \kappa_C)] - [\mathbb{P}(e_2 \neq s_2 \mid \rho_N, \kappa_N) - \mathbb{P}(e_1 \neq s_1 \mid \rho_N, \kappa_N)] \\ &= [(1 - \pi)G(\kappa_C)] - [(1 - \pi)G(\kappa_N)] - [(1 - \pi)(G(\rho_C W_2 + \kappa_C) - G(\rho_N W_2 + \kappa_N))] \\ &= (1 - \pi) [G(\kappa_C) - G(\rho_C W_2 + \kappa_C) + G(\kappa_N) - G(\rho_N W_2 + \kappa_N)] \end{aligned}$$

Finally, the effect of term-limits outside of a crisis is:

$$\Delta_3 = (1 - \pi)G(\kappa_N) - (1 - \pi)G(\rho_N W_2 + \kappa_N)$$

**Proofs of propositions.** We can now prove the two propositions in the text.

*Proof of Proposition 1.* The effect of a crisis on liberalisation policies for a politician up for

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<sup>38</sup>In principle, this expression could take into account the fact that a term-limited politician must have survived re-election, so instead of  $\pi$  as the probability of an aligned politician in the second period, we would have  $\mathbb{P}(\tau = a \mid \text{re-elected})$ . However, this would not change the main comparative statics of the model for most parameter configurations.

re-election is negative if

$$\Delta_2 = (1 - \pi)G(\rho_C W_2 + \kappa_C) - (1 - \pi)G(\rho_N W_2 + \kappa_N) \leq 0 \Leftrightarrow G(\rho_C W_2 + \kappa_C) \leq G(\rho_N W_2 + \kappa_N)$$

Let  $C_\rho = \rho_C - \rho_N$  and  $C_\kappa = \kappa_N - \kappa_C$  and  $\Gamma(\rho_C, \kappa_C, \rho_N, \kappa_N) = G(\rho_C W_2 + \kappa_C) - G(\rho_N W_2 + \kappa_N)$ . Finally, let  $C = C_\rho - C_\kappa$ . Notice that  $\Gamma(\rho_C, \kappa_C, \rho_N, \kappa_N)$  is increasing in  $C$  since its is increasing in  $C_\rho$  and decreasing in  $C_\kappa$ . Given that  $\rho_C \geq \rho_N$  and  $\kappa_C \leq \kappa_N$ ,  $C$  is minimised when  $\rho_N = \rho_C$  and  $\kappa_N = 1$ ,  $\kappa_C = 0$ . In this case,  $\Gamma(\rho_C, \kappa_C, \rho_N, \kappa_N) = G(\rho_C W_2 + 0) - G(\rho_C W_2 + 1) < 0$ . Instead,  $C$  is maximised when  $\rho_N = 0$ ,  $\rho_C = 1$  and  $\kappa_N = \kappa_C$ . In this case,  $\Gamma(\rho_C, \kappa_C, \rho_N, \kappa_N) = G(W_2 + \kappa_C) - G(0 + \kappa_C) > 0$ . Therefore, by applying the intermediate value theorem, we can conclude that there exists  $\bar{C}$  such that  $\Delta_2 \geq 0$  if and only if  $C \geq \bar{C}$ .  $\square$

*Proof of Proposition 2.* The effect of a crisis on liberalisation policies for a term-limited politician relative to a politician up for re-election is negative if:

$$\Delta_1 = (1 - \pi) [G(\kappa_C) - G(\rho_C W_2 + \kappa_C) + G(\kappa_N) - G(\rho_N W_2 + \kappa_N)] \leq 0$$

This holds since  $G(\kappa_C) - G(\rho_C W_2 + \kappa_C) \leq 0$  and  $G(\kappa_N) - G(\rho_N W_2 + \kappa_N) \leq 0$  for any  $\rho_C, \rho_N \geq 0$  and  $\kappa_C, \kappa_N \geq 0$ .

Second, note that, since  $\Delta_3 \leq 0$ ,

$$\begin{aligned} |\Delta_1| \geq |\Delta_3| &\Leftrightarrow \Delta_1 \leq \Delta_3 \\ &\Leftrightarrow (1 - \pi) [G(\kappa_C) - G(\rho_C W_2 + \kappa_C) + G(\kappa_N) - G(\rho_N W_2 + \kappa_N)] \\ &\leq (1 - \pi)G(\kappa_N) - (1 - \pi)G(\rho_N W_2 + \kappa_N) \end{aligned}$$

Which holds for any  $G(\kappa_C) - G(\rho_C W_2 + \kappa_C) \leq 0$ .  $\square$

## Appendix B - Appendix Tables & Figures



Name of the sub-index	Questions within the sub-index	Numerical value	Answer categories
(1) Credit controls	(1.a) Are reserve requirements restrictive?	0 1 2	(1.a.1) More than 20% (1.a.2) Between 10% and 20% (1.a.3) Less than 10%
	(1.b) Are there minimum amounts of credit that must be channeled to certain sectors?	0 1	(1.b.1) credit allocations determined by CB or mandatory allocations to certain sectors exist (1.b.2) no mandatory credit allocations to any sector
	(1.c) Are there any credits supplied to certain sectors at subsidized rates?	0 1	(1.c.1) banks have to supply credit at subsidized rates to certain sectors (1.c.2) no mandatory credit allocation or subsidized rates to any sector
	(1.d) Are there any aggregate credit ceilings?	0 1	(1.d.1) ceilings on credit expansions exist (1.d.2) no ceilings on credit expansion
(2) Interest rate controls	(2.a) Are deposit rates free?	0 1 2	(2.a.1) Set by gov't or subject to a binding constraint (2.a.2) Fluctuating within a set band (2.a.3) Freely floating
	(2.b) Are lending rates free?	0 1 2	(2.b.1) Set by gov't or subject to a binding constraint (2.b.2) Fluctuating within a set band (2.b.3) Freely floating
	(3.a) To what extent does the gov't allow foreign banks to enter into a domestic market?	0 1 2	(3.a.1) No entry allowed or tight restrictions in place (3.a.2) Allowed but no more than 50% equity to be held (3.a.3) Majority ownership allowed; or equal treatment for domestic and foreign banks; or no limit on foreign branching
(3) Entry Barriers	(3.b) Does the gov't allow the entry of new domestic banks?	0 1	(3.b.1) Not allowed or strictly regulated (3.b.2) Allowed
	(3.c) Are there restrictions on branching?	0 1	(3.c.1) Restrictions in place (3.c.2) No or light restrictions
	(3.d) Does the gov't allow banks to engage in a wide range of activities?	0 1	(3.d.1) Only banking activities allowed (3.d.2) Universal banking allowed
	(4.a) Is the exchange rate system unified?	0 1	(4.a.1) Special ex. rate regime for either capital or current account exists (4.a.2) Unified ex. rate system
(4) Capital account	(4.b) Does a country set restrictions on capital inflow?	0 1	(4.b.1) Restrictions exist on capital inflows (4.b.1) Bank are allowed to borrow from abroad freely and no tight restrictions on other capital inflows
	(4.c) Does a country set restrictions on capital outflow?	0 1	(4.c.1) Restrictions exist on capital outflows (4.c.2) Capital outflows are free or with minimal approval restrictions
	(5.a) What is the share of bank assets that are state-owned?	0 0.33 0.67	(5.a.1) State-owned bank assets more than 50% of total bank assets (5.a.2) State-owned bank assets between 50% and 25% of total bank assets (5.a.3) State-owned bank assets between 25% and 10% of total bank assets (5.a.4) State-owned bank assets less than 10% of total bank assets
(6) Banking supervision	(6.a) Has a country adopted a capital adequacy ratio based on the Basel standard?	0 1	(6.a.1) Basel CAR not implemented (always the case before 1993) (6.a.2) Basel CAR adopted or banks already abide by
	(6.b) Is the bank supervisor independent from executive's influence?	0 1 2	(6.b.1) No adequate framework for resolution and no legal independence from the executive (6.b.2) Either adequate framework for resolution or legal independence from the executive (6.b.3) Both adequate framework for resolution and legal independence from the executive
	(6.c) Does supervisor conduct effective on-site and off-site examinations?	0 1 2	(6.c.1) No legal framework and no examinations in practice (6.c.2) Legal framework and examinations exist but inefficient or ineffective (6.c.3) Effective and sophisticated examinations take place
	(6.d) Does supervisor cover all financial institutions without exception?	0 1	(6.d.2) Some are excluded (6.d.1) All included
(7) Security markets	(7.a) Has a country taken measures to develop securities markets?	0 1 2 3	(7.a.1) SM does not exist (7.a.2) SM starting to form with T-bill auctions and SM commission (7.a.3) Further measures taken to develop SM (7.a.4) Further measures to develop derivatives market or complete deregulation of stock exchanges
	(7.b) Is a country's equity market open to foreign investors?	0 1 2	(7.b.1) No foreign ownership allowed (7.b.2) Foreign ownership allowed but less than 50% max (7.b.3) Majority foreign ownership allowed

**Table B1: Details of the financial policy indices constructed by Abiad et al. (2010).** The table summarizes the construction of the seven financial policy indices. Each index is composed of several questions that in return have various numbers of categorical answers. Each answer corresponds to a numerical value where higher values represent more liberalization, except in the (6) banking supervision index which generally carries higher values for increasing levels of government intervention. For the details on how questions are aggregated to compose the financial policy indices, see the original paper.

Name of the sub-index	Questions within the sub-index	Numerical value	Answer categories
(1) Credit controls	(1.a) Are reserve requirements restrictive?	0 1 2	(1.a.1) More than 20% (1.a.2) Between 10% and 20% (1.a.3) Less than 10%
	(1.b) Are there minimum amounts of credit that must be channeled to certain sectors?	0 1	(1.b.1) credit allocations determined by CB or mandatory allocations to certain sectors exist (1.b.2) no mandatory credit allocations to any sector
	(1.c) Are there mandatory requirements on credit allocation at subsidized rates?	0 1	(1.c.1) banks have to supply credit at subsidized rates to certain sectors (1.c.2) no mandatory credit allocation or subsidized rates to any sector
(2) Interest rate controls	(2.a) To what extent does the government control deposit rates?	0 1 2	(2.a.1) Set by gov't (2.a.2) Subject to a ceiling or floor (2.a.3) Freely floating
	(2.b) To what extent does the government control lending rates?	0 1 2	(2.b.1) Set by gov't (2.b.2) Subject to a ceiling or floor (2.b.3) Freely floating
	(3.a) To what extent are foreign banks allowed to enter the domestic market?	0 1 2	(3.a.1) No entry allowed (3.a.2) Allowed but no more than 50% equity to be held (3.a.3) Majority ownership allowed; or equal treatment for domestic and foreign banks
(3) Entry Barriers	(3.b) Are new domestic banks allowed to enter the market?	0 1	(3.b.1) Not allowed or strictly regulated (3.b.2) Allowed
	(3.c) Are there restrictions on branching?	0 1	(3.c.1) Tight restrictions in place (3.c.2) No or few restrictions
	(3.d) Are banks allowed to become universal banks?	0 1	(3.d.1) Only banking activities allowed (3.d.2) Universal banking allowed
(4) Capital account	(4.a) Chinn and Ito (2006) index	0 - 1	Based on IMF's Annual Report on Exchange Arrangements and Exchange Restrictions
(5) Privatization	(5.a) What is the share of bank assets that are state-owned?	0 0.33 0.67	(5.a.1) State-owned bank assets more than 50% of total bank assets (5.a.2) State-owned bank assets between 50% and 25% of total bank assets (5.a.3) State-owned bank assets between 25% and 10% of total bank assets (5.a.4) State-owned bank assets less than 10% of total bank assets
	(6.a) Has a country adopted a capital adequacy ratio based on the latest Basel standard?	0 1	(6.a.1) Latest Basel CAR not adopted (6.a.2) Latest Basel CAR adopted
	(6.b) Is the bank supervisor independent from executive's influence?	0 1 2	(6.b.1) No adequate framework for resolution or no legal independence from the executive or frequent turnover of the supervisor (6.b.2) Either adequate framework for resolution or legal independence from the executive (6.b.3) Both adequate framework for resolution and legal independence from the executive
(6.c) Does the supervisor conduct on-site and off-site examinations?	(6.c.1) No legal framework and no examinations in practice	0	
	(6.c.2) Legal framework and examinations exist but inefficient or ineffective	1	
	(6.c.3) Effective and sophisticated examinations take place	2	
(6.d) Does the supervisory agency cover all financial institutions?	(6.d.1) Some are excluded	0	
	(6.d.2) All included	1	
(7) Security markets	(7.a) To what extent are securities markets developed?	0 1 2 3	(7.a.1) SM does not exist (7.a.2) SM starting to form with T-bill auctions and SM commission (7.a.3) Further measures taken to develop SM (7.a.4) Further measures to develop derivatives market or complete deregulation of stock exchanges
	(7.b) Is a country's equity market open to foreign investors?	0 1 2	(7.b.1) No foreign ownership allowed (7.b.2) Foreign ownership allowed but less than 50% max (7.b.3) Majority foreign ownership allowed

**Table B2: Details of the financial policy indices constructed by by Denk and Gomes (2017).** The table summarizes the construction of the seven financial policy indices. Each index is composed of several questions that in return have various numbers of categorical answers. Each answer corresponds to a numerical value where higher values represent more liberalization, except in the (6) banking supervision index which generally carries higher values for increasing levels of government intervention. For the details on how questions are aggregated to compose the Financial policy indices, see the original paper.

Variables	Mean	Median	Std. Dev.	Min	Max	Observations
Right	0.37	0.00	0.48	0.00	1.00	2,104
Left	0.34	0.00	0.47	0.00	1.00	2,104
Presidential	0.39	0.00	0.49	0.00	1.00	2,104
Parliamentary	0.56	1.00	0.50	0.00	1.00	2,104
Office Years	4.69	3.00	4.66	1.00	35.00	2,104
YearsLeft	1.91	2.00	1.39	0.00	6.00	2,104
HerfGov	0.76	0.89	0.27	0.11	1.00	2,104
GovFrac	0.24	0.12	0.27	0.00	0.89	2,104
GovShare	0.58	0.55	0.16	0.11	1.00	2,104
Checks	3.77	4.00	1.70	1.00	18.00	2,104

Table B3: **Summary statistics for additional political variables.** The table outlines the summary statistics for the additional political variables related to financial reforms and crises. They are obtained from [Cruz et al. \(2020\)](#).

Dep. Variable	(1)	(2)	(3)	(4)
	Financial Liberalisation Index			
<i>TLimit</i> × <i>Crisis</i>	-0.035*	-0.035*	-0.035*	-0.035*
	[0.018]	[0.019]	[0.018]	[0.019]
<i>Crisis</i>	-0.022**	-0.022**	-0.022**	-0.022**
	[0.010]	[0.010]	[0.010]	[0.010]
<i>TLimit</i>	0.011	0.011	0.010	0.010
	[0.016]	[0.016]	[0.016]	[0.016]
Right	0.027**	0.027**	0.026**	0.026**
	[0.012]	[0.012]	[0.012]	[0.012]
Left	0.011	0.011	0.010	0.010
	[0.012]	[0.012]	[0.012]	[0.012]
Presidential	-0.054**	-0.054**	-0.054**	-0.054**
	[0.024]	[0.024]	[0.024]	[0.025]
Office Years	0.000	0.000	0.000	0.000
	[0.001]	[0.001]	[0.001]	[0.001]
Years Left	0.002	0.002	0.002	0.002
	[0.001]	[0.001]	[0.001]	[0.001]
HerfGov	0.542	0.549	0.543	0.548
	[1.275]	[1.285]	[1.273]	[1.284]
GovFrac	0.505	0.512	0.506	0.511
	[1.258]	[1.268]	[1.257]	[1.267]
GovShare	-0.004	-0.003	-0.003	-0.002
	[0.036]	[0.036]	[0.036]	[0.036]
Checks	-0.002	-0.002	-0.002	-0.002
	[0.003]	[0.003]	[0.003]	[0.003]
Observations	14,697	14,697	14,697	14,697
Adjusted R-squared	0.296	0.511	0.596	0.779
Clustering	Country	Country	Country	Country
Country FE	Yes	Yes		
Reform FE	Yes			
Year FE	Yes		Yes	
CountryTime Trend	Yes	Yes	Yes	Yes
Reform x Year FE		Yes		Yes
Country x Reform FE			Yes	Yes

Table B4: **Baseline results with political controls.** Sample includes only democratic countries with an executive index of electoral competitiveness equal to or higher than six. Dependent variable, *Financial Liberalisation Index*, varies over countries, years and policy domains. *TLimit* is a dummy variable turning on for the country-year observations where the political leader is in the midst of their last legally-allowed term of office and thus cannot run for the next election. *Crisis* is a dummy variable turning on in the first 5 years after a financial crisis including the starting year itself. Robust standard errors are clustered at the country level and standard errors are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.

Dep. Variable	(1)	(2)	(3)	(4)
	Financial Liberalisation Index			
<i>TLimit</i> × <i>Crisis</i>	-0.040*	-0.040*	-0.040*	-0.039*
	[0.022]	[0.022]	[0.022]	[0.022]
<i>Crisis</i>	-0.501	-0.522	-0.461	-0.486
	[2.065]	[2.079]	[2.074]	[2.088]
<i>TLimit</i>	0.012	0.012	0.011	0.011
	[0.016]	[0.016]	[0.016]	[0.016]
Right × <i>Crisis</i>	0.002	0.002	0.002	0.002
	[0.017]	[0.017]	[0.017]	[0.017]
Left × <i>Crisis</i>	0.003	0.003	0.004	0.004
	[0.019]	[0.019]	[0.019]	[0.019]
Presidential × <i>Crisis</i>	0.011	0.011	0.011	0.011
	[0.024]	[0.024]	[0.024]	[0.024]
Office Years × <i>Crisis</i>	-0.000	-0.000	-0.000	-0.000
	[0.002]	[0.002]	[0.002]	[0.002]
YearsLeft × <i>Crisis</i>	-0.002	-0.002	-0.002	-0.002
	[0.002]	[0.002]	[0.002]	[0.002]
HerfGov × <i>Crisis</i>	0.454	0.475	0.414	0.440
	[2.045]	[2.059]	[2.055]	[2.069]
GovFrac × <i>Crisis</i>	0.450	0.470	0.410	0.435
	[2.017]	[2.030]	[2.026]	[2.040]
GovShare × <i>Crisis</i>	0.032	0.031	0.031	0.030
	[0.056]	[0.056]	[0.055]	[0.056]
Checks × <i>Crisis</i>	0.002	0.002	0.002	0.002
	[0.005]	[0.005]	[0.005]	[0.005]
Observations	14,697	14,697	14,697	14,697
Adjusted R-squared	0.295	0.510	0.596	0.779
All baseline controls	Yes	Yes	Yes	Yes
Country FE	Yes	Yes		
Reform FE	Yes			
Year FE	Yes		Yes	
CountryTime Trend	Yes	Yes	Yes	Yes
Reform x Year FE		Yes		Yes
Country x Reform FE			Yes	Yes

Table B5: **Baseline results with interacted political controls.** Sample includes only democratic countries with an executive index of electoral competitiveness equal to or higher than six. Dependent variable, *Financial Liberalisation Index*, varies over countries, years and policy domains. *TLimit* is a dummy variable turning on for the country-year observations where the political leader is in the midst of their last legally-allowed term of office and thus cannot run for the next election. *Crisis* is a dummy variable turning on in the first 5 years after a financial crisis including the starting year itself. Robust standard errors are clustered at the country level and standard errors are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.

Dep. Variable	(1)	(2)	(3)	(4)
	Financial Liberalisation Index			
$TLimit \times Crisis$	-0.069*** [0.019]	-0.068*** [0.020]	-0.068*** [0.019]	-0.068*** [0.020]
$Crisis$	0.018 [0.012]	0.018 [0.012]	0.018 [0.012]	0.017 [0.012]
$TLimit$	0.031** [0.014]	0.031** [0.014]	0.030** [0.014]	0.030** [0.015]
Observations	5,108	5,108	5,108	5,108
Adjusted R-squared	0.288	0.504	0.628	0.792
Country FE	Yes	Yes		
Reform FE	Yes			
Year FE	Yes		Yes	
CountryTime Trend	Yes	Yes	Yes	Yes
Reform x Year FE		Yes		Yes
Country x Reform FE			Yes	Yes

Table B6: **Baseline results for countries with term limit rule.** Sample includes only democratic countries with an executive index of electoral competitiveness equal to or higher than six and in which the *TLimit* variable equals one at least for one year. Dependent variable, *Financial Liberalisation Index*, varies over countries, years and policy domains. *TLimit* is a dummy variable turning on for the country-year observations where the political leader is in the midst of their last legally-allowed term of office and thus cannot run for the next election. *Crisis* is a dummy variable turning on in the first 5 years after a financial crisis including the starting year itself. Robust standard errors are clustered at the country level and standard errors are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.

Dep. Variable	(1)	(2)	(3)	(4)
	Financial Liberalisation Index			
<i>TLimit</i> × <i>Crisis</i>	-0.039** [0.017]	-0.038** [0.017]	-0.038** [0.017]	-0.038** [0.017]
<i>Crisis</i>	-2.799 [2.077]	-2.832 [2.113]	-2.700 [2.116]	-2.739 [2.150]
<i>TLimit</i>	0.021 [0.019]	0.020 [0.019]	0.019 [0.019]	0.019 [0.019]
Right × <i>Crisis</i>	0.012 [0.023]	0.013 [0.023]	0.013 [0.022]	0.013 [0.023]
Left × <i>Crisis</i>	0.059* [0.029]	0.059* [0.030]	0.060** [0.029]	0.060* [0.030]
Presidential × <i>Crisis</i>	-0.041* [0.021]	-0.041* [0.022]	-0.040* [0.022]	-0.041* [0.022]
OfficeYears × <i>Crisis</i>	0.004** [0.002]	0.004** [0.002]	0.004** [0.002]	0.004** [0.002]
YearsLeft × <i>Crisis</i>	0.002 [0.004]	0.002 [0.004]	0.002 [0.004]	0.002 [0.004]
HerfGov × <i>Crisis</i>	2.677 [2.054]	2.709 [2.089]	2.577 [2.094]	2.616 [2.126]
GovFrac × <i>Crisis</i>	2.611 [2.014]	2.642 [2.049]	2.514 [2.052]	2.551 [2.084]
GovShare × <i>Crisis</i>	0.095 [0.066]	0.096 [0.067]	0.095 [0.066]	0.095 [0.067]
Checks × <i>Crisis</i>	0.020** [0.009]	0.020** [0.009]	0.020** [0.009]	0.020** [0.009]
Observations	4,815	4,815	4,815	4,815
Adjusted R-squared	0.296	0.519	0.631	0.796
All baseline controls	Yes	Yes	Yes	Yes
Country FE	Yes	Yes		
Reform FE	Yes			
Year FE	Yes		Yes	
CountryTime Trend	Yes	Yes	Yes	Yes
Reform x Year FE		Yes		Yes
Country x Reform FE			Yes	Yes

Table B7: **Baseline results with interacted political controls (for countries with term limit rule).** Sample includes only democratic countries with an executive index of electoral competitiveness equal to or higher than six and in which the *TLimit* variable equals one at least for one year. Dependent variable, *Financial Liberalisation Index*, varies over countries, years and policy domains. *TLimit* is a dummy variable turning on for the country-year observations where the political leader is in the midst of their last legally-allowed term of office and thus cannot run for the next election. *Crisis* is a dummy variable turning on in the first 5 years after a financial crisis including the starting year itself. Robust standard errors are clustered at the country level and standard errors are reported in brackets.

\*p<0.1, \*\*p<0.05, \*\*\*p<0.01.

Dep. Variable	(1)	(2)	(3)	(4)
	Financial Liberalisation Index			
<i>TLimit</i> × <i>Crisis</i>	-0.031** [0.015]	-0.031** [0.015]	-0.031** [0.015]	-0.031** [0.015]
<i>Crisis</i>	-0.017* [0.009]	-0.017* [0.009]	-0.017* [0.009]	-0.017* [0.009]
<i>TLimit</i>	0.007 [0.010]	0.007 [0.010]	0.006 [0.010]	0.006 [0.010]
Observations	15,570	15,570	15,570	15,570
Adjusted R-squared	0.291	0.505	0.598	0.783
Reform FE	Yes			
Year FE	Yes		Yes	
CountryTime Trend	Yes	Yes	Yes	Yes
Party FE	Yes	Yes	Yes	Yes
Reform x Year FE		Yes		Yes
Country x Reform FE			Yes	Yes

Table B8: **Baseline results with party fixed effects.** Sample includes only democratic countries with an executive index of electoral competitiveness equal to or higher than six. Dependent variable, *Financial Liberalisation Index*, varies over countries, years and policy domains. *TLimit* is a dummy variable turning on for the country-year observations where the political leader is in the midst of their last legally-allowed term of office and thus cannot run for the next election. *Crisis* is a dummy variable turning on in the first 5 years after a financial crisis including the starting year itself. Robust standard errors are clustered at the country level and standard errors are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.



Dep. Variable	(1)	(2)	(3)	(4)
	Financial Liberalisation Index			
<i>TLimit</i> × <i>Crisis</i>	-0.033** [0.016]	-0.033** [0.016]	-0.033** [0.016]	-0.033** [0.016]
<i>Crisis</i>	-2.500 [1.989]	-2.504 [2.004]	-2.480 [1.990]	-2.488 [2.006]
<i>TLimit</i>	0.006 [0.012]	0.006 [0.012]	0.005 [0.012]	0.005 [0.012]
Right × <i>Crisis</i>	-0.013 [0.017]	-0.013 [0.017]	-0.013 [0.017]	-0.013 [0.017]
Left × <i>Crisis</i>	-0.004 [0.017]	-0.005 [0.017]	-0.005 [0.017]	-0.005 [0.017]
Presidential × <i>Crisis</i>	0.016 [0.016]	0.015 [0.016]	0.015 [0.016]	0.015 [0.016]
OfficeYears × <i>Crisis</i>	-0.001 [0.001]	-0.001 [0.001]	-0.001 [0.001]	-0.001 [0.001]
YearsLeft × <i>Crisis</i>	-0.002 [0.003]	-0.002 [0.003]	-0.002 [0.003]	-0.002 [0.003]
HerfGov × <i>Crisis</i>	2.429 [1.966]	2.435 [1.982]	2.409 [1.968]	2.419 [1.983]
GovFrac × <i>Crisis</i>	2.335 [1.931]	2.339 [1.946]	2.315 [1.932]	2.324 [1.947]
GovShare × <i>Crisis</i>	0.054 [0.064]	0.052 [0.064]	0.053 [0.064]	0.051 [0.064]
Checks × <i>Crisis</i>	0.011** [0.004]	0.011** [0.004]	0.011** [0.004]	0.011** [0.004]
Observations	14,655	14,655	14,655	14,655
Adjusted R-squared	0.290	0.508	0.598	0.783
All baseline controls	Yes	Yes	Yes	Yes
Country FE	Yes	Yes		
Reform FE	Yes			
Year FE	Yes		Yes	
CountryTime Trend	Yes	Yes	Yes	Yes
Party FE	Yes	Yes	Yes	Yes
Reform x Year FE		Yes		Yes
Country x Reform FE			Yes	Yes

Table B9: **Baseline results with party fixed effects and interacted political controls.** Sample includes only democratic countries with an executive index of electoral competitiveness equal to or higher than six. Dependent variable, *Financial Liberalisation Index*, varies over countries, years and policy domains. *TLimit* is a dummy variable turning on for the country-year observations where the political leader is in the midst of their last legally-allowed term of office and thus cannot run for the next election. *Crisis* is a dummy variable turning on in the first 5 years after a financial crisis including the starting year itself. Robust standard errors are clustered at the country level and standard errors are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.

Dep. Variable	(1)	(2)	(3)	(4)
	Financial Liberalisation Index			
<i>TLimit</i> × <i>Crisis</i>	-0.055*** [0.012]	-0.055*** [0.013]	-0.055*** [0.012]	-0.055*** [0.013]
<i>Crisis</i>	0.013 [0.009]	0.013 [0.009]	0.013 [0.009]	0.013 [0.009]
<i>TLimit</i>	0.015 [0.010]	0.015 [0.011]	0.015 [0.010]	0.015 [0.011]
Observations	5,101	5,101	5,101	5,101
Adjusted R-squared	0.284	0.503	0.630	0.797
Country FE	Yes	Yes		
Reform FE	Yes			
Year FE	Yes		Yes	
CountryTime Trend	Yes	Yes	Yes	Yes
Party FE	Yes	Yes	Yes	Yes
Reform x Year FE		Yes		Yes
Country x Reform FE			Yes	Yes

Table B10: **Baseline results with party fixed effects (for countries with term limit rule)**. Sample includes only democratic countries with an executive index of electoral competitiveness equal to or higher than six and in which the *TLimit* variable equals one at least for one year. Dependent variable, *Financial Liberalisation Index*, varies over countries, years and policy domains. *TLimit* is a dummy variable turning on for the country-year observations where the political leader is in the midst of their last legally-allowed term of office and thus cannot run for the next election. *Crisis* is a dummy variable turning on in the first 5 years after a financial crisis including the starting year itself. Robust standard errors are clustered at the country level and standard errors are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.

Dep. Variable	(1)	(2)	(3)	(4)
	Financial Liberalisation Index			
<i>TLimit</i> × <i>Crisis</i>	-0.038*** [0.012]	-0.038*** [0.013]	-0.038*** [0.012]	-0.038*** [0.013]
<i>Crisis</i>	-4.577*** [1.616]	-4.563*** [1.657]	-4.512*** [1.608]	-4.517** [1.652]
<i>TLimit</i>	0.009 [0.015]	0.009 [0.015]	0.009 [0.015]	0.009 [0.015]
Right × <i>Crisis</i>	-0.007 [0.025]	-0.008 [0.025]	-0.008 [0.025]	-0.008 [0.025]
Left × <i>Crisis</i>	0.030 [0.025]	0.030 [0.025]	0.030 [0.025]	0.030 [0.025]
Presidential × <i>Crisis</i>	-0.032 [0.030]	-0.032 [0.030]	-0.032 [0.030]	-0.032 [0.030]
OfficeYears × <i>Crisis</i>	0.002* [0.001]	0.002* [0.001]	0.002* [0.001]	0.002* [0.001]
YearsLeft × <i>Crisis</i>	0.003 [0.004]	0.003 [0.004]	0.003 [0.004]	0.003 [0.004]
HerfGov × <i>Crisis</i>	4.520*** [1.584]	4.505*** [1.624]	4.454*** [1.576]	4.458*** [1.619]
GovFrac × <i>Crisis</i>	4.421*** [1.548]	4.406*** [1.587]	4.355*** [1.540]	4.360*** [1.582]
GovShare × <i>Crisis</i>	0.034 [0.065]	0.034 [0.067]	0.034 [0.065]	0.034 [0.067]
Checks × <i>Crisis</i>	0.015 [0.009]	0.015 [0.009]	0.015 [0.009]	0.015 [0.009]
Observations	4,815	4,815	4,815	4,815
Adjusted R-squared	0.290	0.517	0.631	0.799
All baseline controls	Yes	Yes	Yes	Yes
Country FE	Yes	Yes		
Reform FE	Yes			
Year FE	Yes		Yes	
CountryTime Trend	Yes	Yes	Yes	Yes
Party FE	Yes	Yes	Yes	Yes
Reform x Year FE		Yes		Yes
Country x Reform FE			Yes	Yes

Table B11: **Baseline results with interacted political controls and party fixed effects (for countries with term limit rule).** Sample includes only democratic countries with an executive index of electoral competitiveness equal to or higher than six and in which the *TLimit* variable equals one at least for one year. Dependent variable, *Financial Liberalisation Index*, varies over countries, years and policy domains. *TLimit* is a dummy variable turning on for the country-year observations where the political leader is in the midst of their last legally-allowed term of office and thus cannot run for the next election. *Crisis* is a dummy variable turning on in the first 5 years after a financial crisis including the starting year itself. Robust standard errors are clustered at the country level and standard errors are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Interest						
Dep. Va.r	Credit controls	rates controls	Entry barriers	Capital Account	Privati- sation	Super- vision	Security markets
<i>TLimit</i> × <i>Crisis</i>	-0.039 [0.042]	-0.034 [0.041]	-0.093** [0.044]	-0.025 [0.039]	-0.084* [0.050]	0.025 [0.025]	0.008 [0.029]
<i>Crisis</i>	-0.028 [0.021]	-0.009 [0.028]	0.004 [0.017]	-0.034 [0.024]	-0.037 [0.027]	-0.003 [0.017]	-0.049*** [0.018]
<i>TLimit</i>	0.029 [0.051]	0.027 [0.027]	0.024 [0.027]	-0.051* [0.029]	0.040 [0.037]	0.019 [0.021]	-0.021 [0.032]
Observations	2,073	2,104	2,104	2,104	2,104	2,104	2,104
Adjusted R-squared	0.839	0.774	0.860	0.817	0.835	0.873	0.894
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Reform FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
CountryTime Trend	Yes	Yes	Yes	Yes	Yes	Yes	Yes
All baseline controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Table B12: **Baseline results for seven separate policy domains.** Sample includes only democratic countries with an executive index of electoral competitiveness equal to or higher than six. Dependent variable is a financial policy domain varying over countries and years. *TLimit* is a dummy variable turning on for the country-year observations where the political leader is in the midst of their last legally-allowed term of office and thus cannot run for the next election. *Crisis* is a dummy variable turning on in the first 5 years after a financial crisis including the starting year itself. Robust standard errors are clustered at the country level and standard errors are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.

Dependent Variable	(1)	(2)	(3)	(4)	(5)	(6)
	Post-government finance career					
$TLimit \times Crisis$	0.368** [0.142]	0.318* [0.156]	0.312* [0.158]	0.303* [0.175]	0.328** [0.161]	0.328* [0.180]
$TLimit$	0.117 [0.086]	0.061 [0.083]	0.059 [0.087]	0.068 [0.073]	0.072 [0.077]	0.093 [0.083]
$Crisis$	0.007 [0.050]	0.070 [0.057]	0.051 [0.055]	-0.019 [0.051]	-0.031 [0.050]	-0.025 [0.055]
Observations	534	534	534	534	534	531
Adjusted R-squared	0.023	0.145	0.159	0.173	0.174	0.167
Country FE		Yes	Yes	Yes	Yes	Yes
Position FE			Yes	Yes	Yes	Yes
Entry Decade FE				Yes	Yes	Yes
Exit Decade FE					Yes	Yes
Tenure FE						Yes

Table B13: **Term limits, crises and post-government finance career – Country-level clustering.** The table summarises the estimation results of a linear probability model. Sample includes a cross-section of top government officials who served across 32 democratic countries between the years 1973 and 2005. The dependent dummy variable measures whether or not the corresponding individual pursued a career as president, chairman or member of the board of a private financial institution in their country after leaving politics.  $TLimit$  and  $Crisis$  are dummy variables respectively turning on if the individual served under a term-limited political leader and if they served in the first 5 years after a crisis. Robust standard errors clustered at country level are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.

Dependent Variable	(1)	(2)	(3)	(4)	(5)	(6)
	Post-government finance career					
$TLimit \times Crisis$	0.368*** [0.115]	0.318** [0.130]	0.312** [0.130]	0.303** [0.148]	0.328** [0.140]	0.328** [0.154]
$TLimit$	0.117 [0.075]	0.061 [0.086]	0.059 [0.088]	0.068 [0.096]	0.072 [0.097]	0.093 [0.098]
$Crisis$	0.007 [0.060]	0.070 [0.050]	0.051 [0.047]	-0.019 [0.049]	-0.031 [0.049]	-0.025 [0.052]
Observations	534	534	534	534	534	531
Adjusted R-squared	0.023	0.145	0.160	0.174	0.176	0.169
Country FE		Yes	Yes	Yes	Yes	Yes
Position FE			Yes	Yes	Yes	Yes
Entry Decade FE				Yes	Yes	Yes
Exit Decade FE					Yes	Yes
Tenure FE						Yes

Table B14: **Term limits, crises and post-government finance career – Country  $\times$  position-level clustering.** The table summarises the estimation results of a linear probability model. Sample includes a cross-section of top government officials who served across 32 democratic countries between the years 1973 and 2005. The dependent dummy variable measures whether or not the corresponding individual pursued a career as president, chairman or member of the board of a private financial institution in their country after leaving politics.  $TLimit$  and  $Crisis$  are dummy variables respectively turning on if the individual served under a term-limited political leader and if they served in the first 5 years after a crisis. Robust standard errors clustered at country  $\times$  position level are reported in brackets. \*p<0.1, \*\*p<0.05, \*\*\*p<0.01.

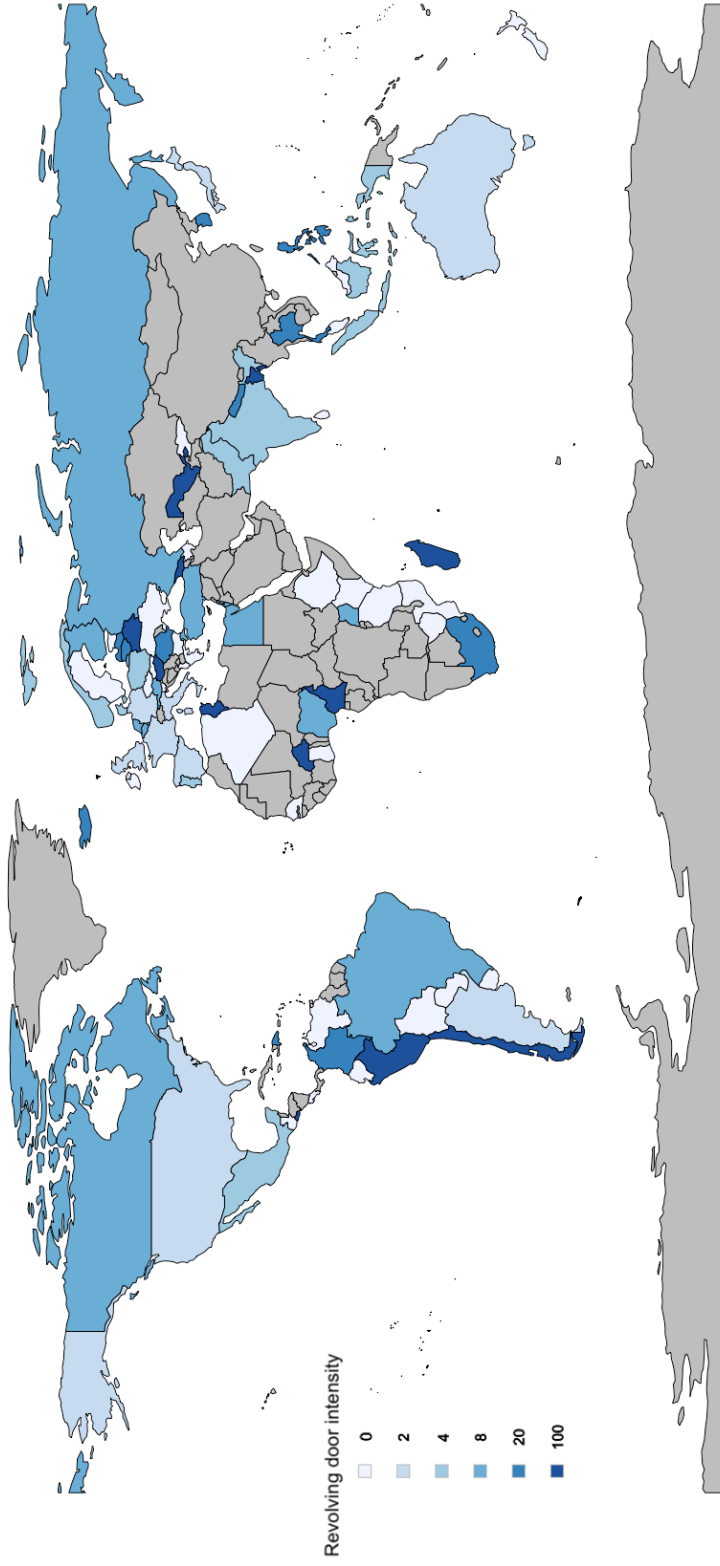


Fig. B1. **Revolving doors between financial and political institutions across the globe: Continuous version.** The figure maps each country depending on the fraction of its politically-connected banks which is the number of banks with at least one former politician on the board of directors divided by the number of banks for which there are data on board members in Bankscope as of year 2006. The measures are obtained from [Braun and Raddatz \(2010\)](#).

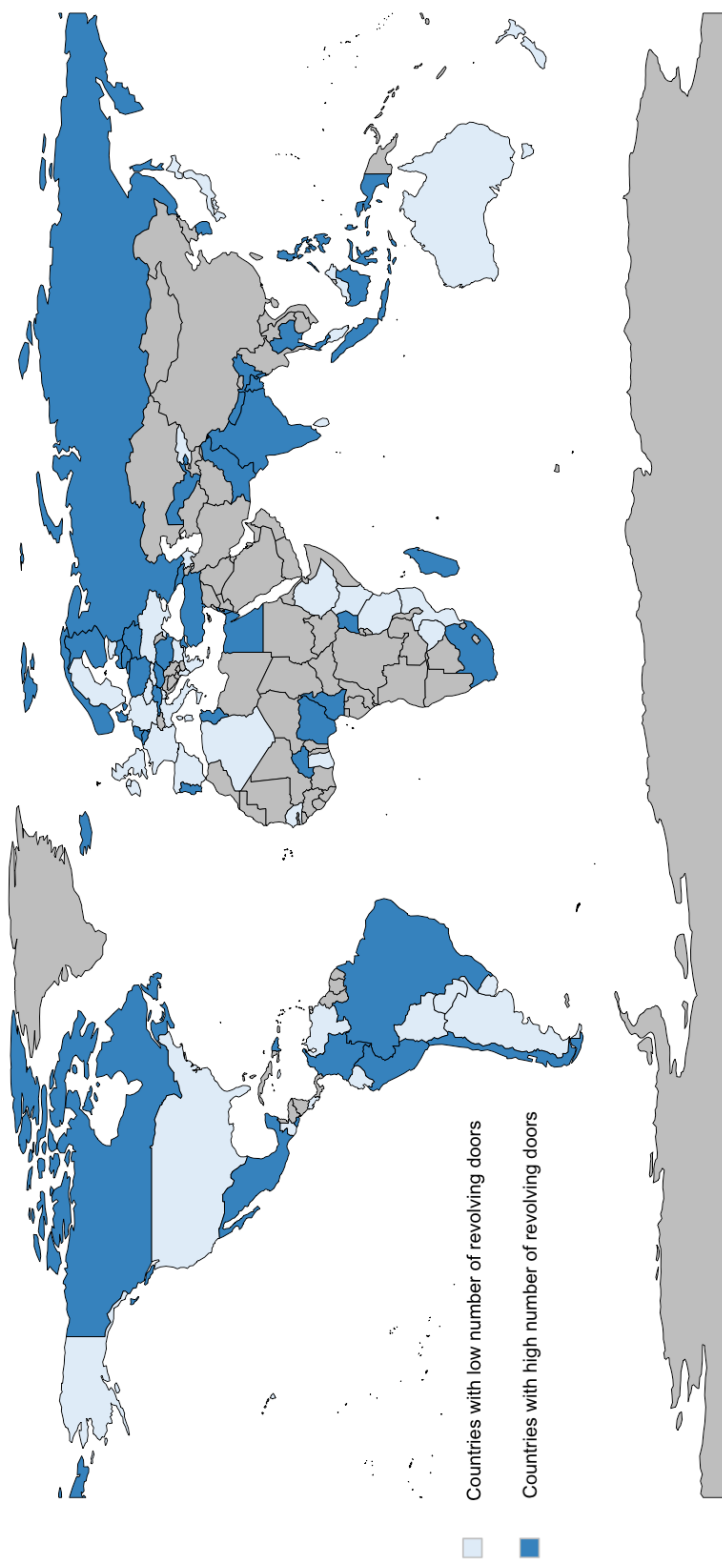


Fig. B2. **Revolving doors between financial and political institutions across the globe: Dichotomous version.** The figure maps each country into one of the two categories (with high or low number of revolving doors) depending on the fraction of its politically-connected banks which is the number of banks with at least one former politician on the board of directors divided by the number of banks for which there are data on board members in Bankscope as of year 2006. The measures are obtained from [Braun and Raddatz \(2010\)](#).