

Going to Extremes: Politics after Financial Crises, 1870-2014

Manuel Funke* Moritz Schularick† Christoph Trebesch§

September 13, 2016
Hoover Institution in Washington, DC

*Free University of Berlin; John F. Kennedy Institute

†University of Bonn; CEPR and CESifo

§University of Munich; CEPR and CESifo

Goodbye financial crisis, hello political crash



Motivation

- Slow recoveries from financial crises are well-documented (Reinhart and Rogoff 2009; Jordà, Schularick, and Taylor 2013)
- Competing explanations: demand deficiency, debt overhang, slowing innovation, etc.
- What role for politics? Policy uncertainty (Baker, Bloom, and Davis 2013), fractionalization (Mian, Sufi, and Trebbi 2014), debtor-creditor conflict (Frieden 2015)
- Limited empirical evidence on the underlying channels

The Questions

- Does the political landscape change systematically after financial crises?
- Does governing become more difficult, crisis resolution harder, and policy uncertainty more pronounced?

What we do

- We turn to quantitative economic history to study rare crisis events and their political aftermath
- We code a new large dataset covering 800 general election results in 20 countries since 1870
- We then quantify the political after-effects of more than 100 financial crises

What we find

1 Hard right turns:

The political far right is the biggest beneficiary from financial crises.

2 Governing becomes more difficult:

Crises are associated with shrinking government majorities, greater fractionalization, and increasing street protest.

3 The effects appear specific to the aftermath of financial crises:

Not observable in either normal recessions or severe economic downturn without a financial crisis.

Why is the reaction to financial crisis different?

- **The public may not see crises as “excusable” events:**
Rather the result of policy failures, moral hazard and political favoritism: desire for accountability.
- **At the same time, policy responses to financial crises often have the opposite effects:**
Dissatisfaction with bail-outs.
- **Order amidst fear and chaos:**
The appeal of authoritarianism and strong hands.

Quantifying political responses

Data

- Time period: 1870-2014
- Countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States
- Chronology of **systemic financial crises** building on Bordo et al. (2001), Reinhart and Rogoff (2009), Laeven and Valencia (2012), Jordà, Schularick and Taylor (2013)
- All macroeconomic data and business cycle coding come from the latest vintage of the Jordà, Schularick and Taylor (2016) dataset

Political variables: voting and parliament

Variable	Description	Sources
Government vote share	Vote share of governing party or coalition in the most recent general elections to the national parliament (lower chamber)	Mackie and Rose (1974), Nohlen and Stöver (2010), Döring and Manow (2012) and country-specific sources
Opposition vote share	Combined vote share of all opposition parties, excluding independents, in the most recent general elections to the national parliament (lower chamber)	Mackie and Rose (1974), Nohlen and Stöver (2010), Döring and Manow (2012) and country-specific sources
Far-right/ far-left vote share	Combined vote share of all far-right (far-left) political parties with more than 0.1 % of total votes in the most recent general elections to the national parliament (lower chamber)	Bertelsmann Foundation (2009), Betz (1994), Capoccia (2012), de Bromhead, Eichengreen, and O'Rourke (2012), Minkenberg, (2001, 2008), Mudde (2000, 2005, 2007) and country-specific sources
Fractionalization	The probability that two representatives picked at random from among the parties in the legislature will be of different parties; range: [0;1]	Mackie and Rose (1974), Nohlen and Stöver (2010), Döring and Manow (2012) and country-specific sources
Number of parties	The number of parties elected into the legislative branch in the most recent general election to the national parliament (lower chamber)	Mackie and Rose (1974), Nohlen and Stöver (2010), Döring and Manow (2012) and country-specific sources

Coding of far-right and far-left political parties

- For the interwar period, we use the list of extremist parties from de Bromhead, Eichengreen, and O'Rourke (2012)
- For the post-WW2 period, we use the “right-wing” and “communist/socialist” classifications in Döring and Manow (2012)
- We double-checked for name changes/ splinters/ mergers of parties
- We consulted additional country-specific sources

List of far-right (R) and far-left (L) parties since 1919

. . .

- CHE R Freedom Party of Switzerland, Geneva Citizens' Movement, National Front*, Swiss Democrats, Swiss People's Party, Ticino League
L Alternative Left, Autonomous Socialist Party, Communist Party of Switzerland*, Progressive Organizations of Switzerland, Solidarity, Swiss Party of Labour
- DEU R Action Alliance of Independent Germans, Alternative for Germany, Civil Rights Movement Solidarity, Economic Reconstruction Union, Empowered Citizens, German Community, German National People's Party*, German Party, German People's Union, German Right Party, Law and Order Offensive, National Democratic Party of Germany, National Socialist German Workers' Party*, Organization of the National Collection, Patriots for Germany, Popular Vote, Pro Germany, Pro German Middle, Statt Party, The Offensive
L Action Democratic Progress, Alliance of Germans, Collection to Action, Communist Party of Germany*, German Communist Party, German Union for Peace, Marxist-Leninist Party of Germany, The Left
- DNK R Danish People's Party, National Socialist Worker's Party of Denmark*, Progress Party
L Communist Party of Denmark*, Common Course, Left Socialists, Socialist People's Party, Unity List - The Red-Greens
- ESP R Falange Española*, Basque Nationalists*
L Catalan Nationalists*, Communist Party of Spain*, Workers' Party of Marxist Unification*, United Left
- FIN R Finns Party, Finish Rural Party, Patriotic People's Movement*
L Communist Worker's Party, Communist Party of Finland*, Finnish People's Democratic League, Left Alliance
- FRA R Movement for France, National Front, National Republican Movement
L French Communist Party*, Left Front, Revolutionary Communist League, Worker's Struggle
- GBR R British National Party, Democratic Unionist Party, English Democrats, National Democratic Party, National Front, United Kingdom Independence Party
L Communist Party of Great Britain*, Green Party of England and Wales, Plaid Cymru, Respect Party, Scottish Socialist Party, Sinn Féin, Socialist Alternative, Socialist Labor Party
- GRC R Freethinkers' Party*, Golden Dawn, Independent Greeks, National Democratic Union, National Political Union, Popular Independent Alignment, Popular Orthodox Rally
L Coalition of the Radical Left, Communist Party of Greece*, Communist Party of Greece (Interior), Democratic Left, Synaspismos, United Democratic Left

. . .

Other issues

- We account for improvements in political participation by controlling for suffrage (population eligible to vote, by election, in %) and voter turnout (by election, in %)
- Our results are robust to excluding the Great Depression and the 2007-2008 global financial crisis from the sample
- We always exclude the World War periods (1914-1920 and 1939-1949)
- We differentiate between presidential vs. parliamentary system and for proportional representation vs. first-past-the-post systems
- We divided the group of far-right parties into the "Old Right" (traditional "fascist") and the "New Right" ("right-wing populist")

Degrees of democracy

- What about cases such as the German Kaiserreich, Japanese Empire?
 - We coded fractionalization and the number of parties as far back as possible, i.e., since official election statistics indicate the presence of a party system
 - Assumption: link between crises and changing parliamentary composition may exist also in monarchies with a legislature
 - We do not code government/ opposition vote shares: makes no sense to investigate a government's voter support when it is not elected but appointed
- We disqualify single-party elections during dictatorship (Germany, Italy, Portugal, Spain)
- Besides official statistics, political variables from the *Archigos*, *CNTS*, *ParlGov*, *POLCON* and *Polity IV* data sets helped determining autocracy-democracy shifts

Other political variables: street protests

Variable	Description	Sources
Violent riots	Any violent demonstration or clash of more than 100 citizens involving the use of physical force.	Banks and Wilson (2014)
General strikes	Any strike of 1,000 or more industrial or service workers that involves more than one employer and is aimed at national government policies or authority	Banks and Wilson (2014)
Demonstrations	Any peaceful public gathering of at least 100 people for the purpose of voicing opposition to government policies or authority, excluding demonstrations of a distinctly anti-foreign nature	Banks and Wilson (2014)
Street protests	The sum of violent riots, general strikes, and demonstrations per year	Banks and Wilson (2014)
Executive turnover	1 indicates year with a new leadership; 0 indicates year with no changes in effective executive	Goemans, Gleditsch, and Chiozza (2009)
Government crises	Any rapidly developing situation that threatens the downfall of the present regime, but excluding situations of revolt aimed at such an overthrow	Banks and Wilson (2014)

Summary statistics

Variable	Obs.	Mean	Std.Dev.	Min.	Max.
Far-right vote share	1794	5.45	14.5	0.00	99.8
Far-left vote share	1794	5.46	7.01	0.00	34.4
Government vote share	2078	50.7	14.5	12.3	100
Opposition vote share	2078	46.1	14.6	0.00	84.1
Fractionalization of parliament	2510	0.63	0.18	0.00	0.89
No. of parties in parliament	2495	6.26	3.51	1.00	21.0
No. of general strikes	1727	0.22	0.72	0.00	8.00
No. of violent riots	1727	0.81	2.80	0.00	55.0
No. of anti-government demonstrations	1727	0.82	2.99	0.00	60.0
No. of street protest incidents	1727	1.85	5.42	0.00	85.0
No. of major government crises	1727	0.37	0.82	0.00	6.00
Executive turnover dummy	2572	0.29	0.45	0.00	1.00
Financial crises dummy	2900	0.04	0.19	0.00	1.00
Financial recession dummy	2900	0.03	0.17	0.00	1.00
Normal recession dummy	2900	0.12	0.33	0.00	1.00
Non-financial macro disaster dummy	2900	0.02	0.15	0.00	1.00

Financial crises

Australia	1893	1989						
Austria	<i>1873</i>	1924	<i>1929</i>	2008				
Belgium	<i>1870</i>	1885	1925	<i>1931</i>	<i>1939*</i>	2008		
Canada	1907	<i>1923</i>						
Denmark	1877	<i>1885</i>	1908	<i>1921</i>	1931	1987	2008	
Finland	1878	1900	<i>1921</i>	1931	1991			
France	1882	<i>1889</i>	1907	1930	2008			
Germany	<i>1873</i>	1891	<i>1901</i>	1907	1931	2008		
Greece	1931	1991	2008					
Ireland	2008							
Italy	1873	<i>1887</i>	<i>1893</i>	1907	<i>1921</i>	<i>1935*</i>	1990	2008
Japan	1882	1900	<i>1904*</i>	<i>1907</i>	<i>1913</i>	<i>1927</i>	1992	
Netherlands	1893	1907	<i>1921</i>	<i>1939*</i>	2008			
Norway	1899	<i>1922</i>	1931	1988				
Portugal	1890	<i>1920</i>	<i>1923*</i>	1931	2008			
Spain	1883	<i>1890</i>	<i>1913</i>	<i>1920</i>	<i>1924*</i>	<i>1931</i>	1978	2008
Sweden	1878	1907	<i>1922</i>	1931	1991	2008		
Switzerland	<i>1870</i>	<i>1910</i>	1931	1991	2008			
United Kingdom	1890	1974	<i>1984</i>	1991	2007			
United States	<i>1873</i>	1884	<i>1893</i>	1907	1929	1984	2007	

Notes: Financial crisis events from Bordo et al. (2001), Reinhart and Rogoff (2009b), Laeven and Valencia (2008; 2012), and Jordà, Schularick, and Taylor (2013). The table shows all financial crisis events in the 20 countries in our sample since 1870. * = crises removed from the OLS regression. Italics = crises removed from the descriptive analysis.

Quantifying political responses

Strategy

- Start with some historical narrative
- Simple event study: post-crisis deviation from long-run country-specific average
- Dynamic local projections (Jordà 2005): quantify the cumulative change in political variables relative to the pre-crisis level

Empirical strategy

- Event study regressions

$$Y_{it} = \alpha + \beta * post_{it} + \mu_i + \varepsilon_{it}$$

where $post_{it} = \{\tau_i + 1, \dots, \tau_i + 5\}$; $\tau_i = \text{crisis event}$

Empirical strategy II

Local projections

$$\underbrace{\Delta_h y_{it+h}^k}_{\text{outcome}} = \underbrace{\theta_F^k d_{it}^F}_{\text{conditional post-crisis path}} + \underbrace{\sum_{l=0}^L \Gamma_{h,l}^k Y_{it-l}}_{\text{controls (demeaned)}} + \underbrace{\alpha_i^k}_{\text{fixed effects (demeaned)}} + \underbrace{u_{h,it}^k}_{\text{error term}}$$

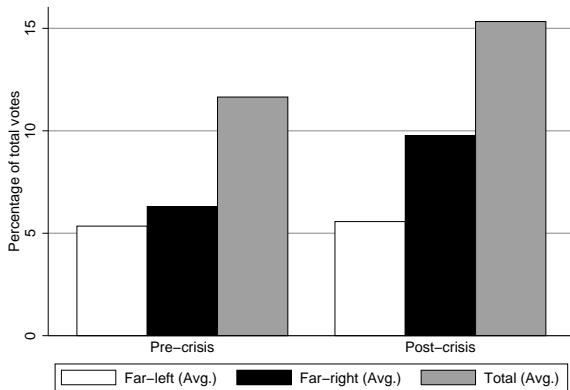
where $\underbrace{k = 1, \dots, K}_{\text{variables}}; \underbrace{h = 1, \dots, H}_{\text{horizons}}; \underbrace{l = 1, \dots, L}_{\text{lags}}$

Electoral outcomes: hard right turns

Some historical examples

- Rise of right-wing and fascist parties in the 1920s/1930s crises: Mussolini's Fascist Alliance, German NSDAP, Rexists (Belgium), Patriotic People's Movement (Finland), Falange (Spain), National Front (Switzerland)...
- 1990s financial crises: Danish Progress Party, Norwegian Progress Party, New Democracy (Sweden), Swiss People's Party, North League party (Italy)...
- 2007-08 crisis: UKIP, Party for Freedom (Netherlands), Front National (France), True Finns, Sweden Democrats, Alternative for Germany, The Donald...

The tragedy of the left



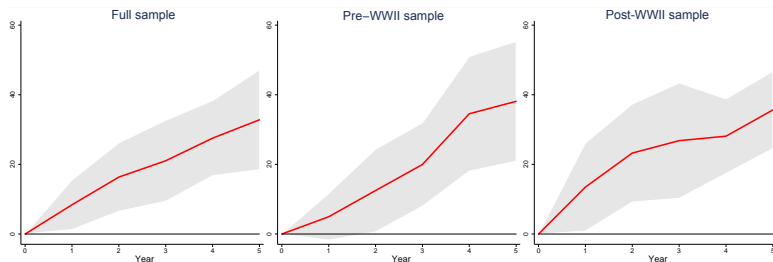
Notes: The figure shows average vote shares of far-left (white columns) and far-right (black columns) political parties. The grey columns represent the sum of the two. The left panel refers to average vote shares in the five years before the start of a financial crisis and the right panel shows average shares in the five years after. The differences are statistically significant at the 5% level, except for the far-left vote share, which does not significantly increase in the post-crisis period. All crises from 1919 to 2014. Years that are simultaneously pre-crisis and post-crisis years, years in which financial crisis erupts and World War II years are excluded.

Hard right turns

	(a) Full sample	(b) Pre-WWII	(c) Post-WWII
Far-right vote share			
Post-crisis	4.212* (2.161)	3.288 (3.376)	3.770*** (1.089)
R^2	0.023	0.012	0.056
Observations	1611	390	1221
Far-left vote share			
Post-crisis	-1.580 (0.978)	-0.001 (0.335)	0.437 (1.025)
R^2	0.015	0.000	0.001
Observations	1611	390	1221

Notes: This table compares the post-crisis levels of far-right and far-left vote shares to their average level. The time window for post crisis is five years. Regressions controlled for country fixed effects, the growth rate of real GDP per capita and the CPI inflation rate (not reported). Robust standard errors (clustered by country) are shown in parentheses. Panel (a) cover the years 1919-2014, with World War II being excluded, panel (b) 1919-1938, panel (c) 1950-2014. *** Significant at .01 ** significant at .05 * significant at .1. Coefficient for far-right vote shares in the (b) Pre-WWII sample is 4.665 (statistically significant at the 5% level) once country fixed effects are removed.

Time path: right wing votes

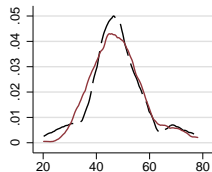


Notes: Each path shows local projections of the cumulative change in 100 times the logged variable relative to peak for years 1-5 of the recession/recovery period. The red line refers to the average path in financial crisis recessions and the shaded region is a 90% confidence interval. The controls are contemporaneous and 1-year lagged values of the growth rate of real GDP per capita and the CPI inflation rate at peak. The left panel cover the years 1919-2014, with World War II being excluded, the middle panel 1919-1938, and the right panel 1950-2014. The dependent variable is the combined vote share of all electorally successful far-right political parties in the most recent general election.

Increasing fragmentation

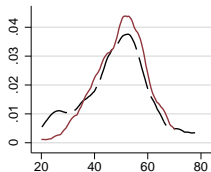
Shifting densities

Full sample

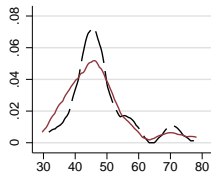


Pre-WW2 sample

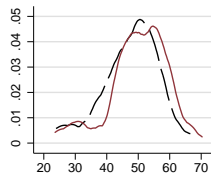
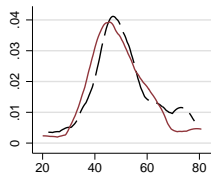
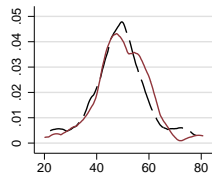
Government vote share



Post-WW2 sample



Opposition vote share

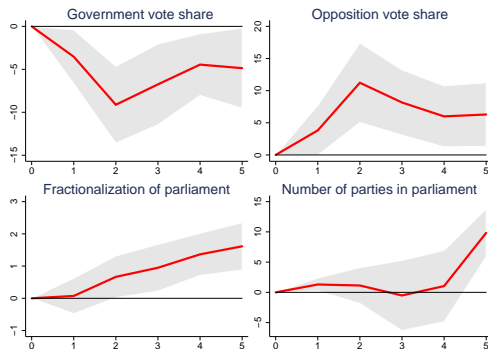


Government vote share

	(a) Full sample	(b) Pre-WWII	(c) Post-WWII
Government vote share			
Post-crisis	-2.275 (1.556)	-0.133 (1.741)	-4.377*** (1.372)
R^2	0.006	0.000	0.022
Observations	1865	636	1229
Opposition vote share			
Post-crisis	1.623 (1.498)	-0.456 (1.760)	3.523** (1.434)
R^2	0.003	0.000	0.013
Observations	1865	636	1229
Fractionalization of parliament			
Post-crisis	0.011 (0.020)	0.007 (0.013)	0.063** (0.023)
R^2	0.001	0.000	0.029
Observations	2241	969	1272
No. of parties in parliament			
Post-crisis	0.325 (0.489)	0.371 (0.271)	1.110*** (0.340)
R^2	0.002	0.004	0.026
Observations	2241	969	1272

Notes: This table compares the post-crisis levels of the parliamentary variables to their average level. The time window for post crisis is five years. Robust standard errors (clustered by country) are shown in parentheses. Regressions controlled for country fixed effects, real GDP per capita growth rate and CPI inflation rate (not reported). Panel (a) covers 1870-2014, panel (b) 1870-1938, and panel (c) 1950-2014. Years of global war (1914-1918 and 1939-1949) are excluded. *** Significant at .01 ** significant at .05 * significant at .1.

Time path: fragmentation



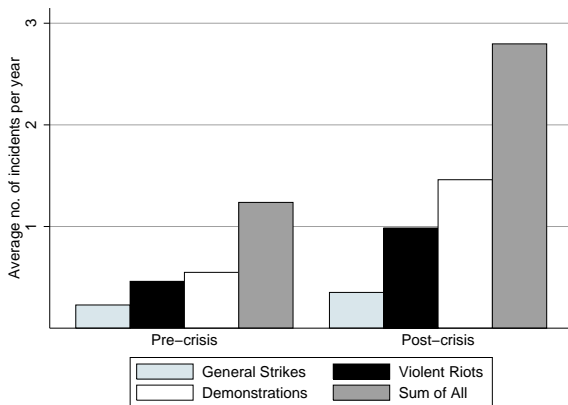
Notes: Each path shows local projections of the cumulative change in 100 times the logged variable relative to peak for years 1-5 of the recession/recovery period. The red line refers to the average path in financial crisis recessions and the shaded region is a 90% confidence interval. The controls are contemporaneous and 1-year lagged values of the growth rate of real GDP per capita and the CPI inflation rate at peak. Post-WWII sample: 1950-2014.

From fragmentation to post-crisis instability

	Major Government crises (Fixed effects OLS)	Executive turnover (Fixed effects logit)
Government vote	-0.0216* (0.0116)	-0.0701*** (0.0207)
R^2	0.301	-
Observations	235	249
Opposition vote	0.0213* (0.0116)	0.0670*** (0.0195)
R^2	0.302	-
Observations	235	249
Fractionalization	2.1268*** (0.6783)	3.7292** (1.4695)
R^2	0.315	-
Observations	252	380
No. of parties	0.0653** (0.0258)	0.0711 (0.0735))
R^2	0.229	-
Observations	252	380

Street protests

People take to the streets



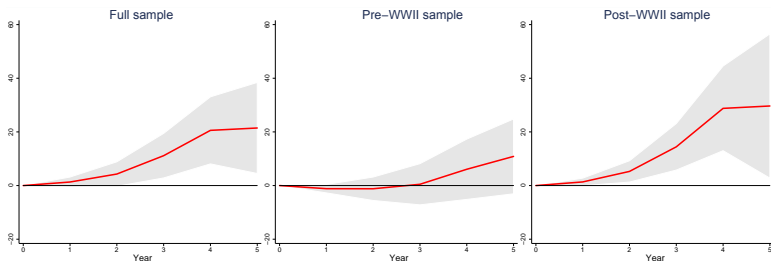
Notes: The figure shows the average number of street protest incidents per year, including the number of general strikes (light blue columns), violent riots (black columns), anti-government demonstrations (white columns) and the sum of the three (grey columns). The bars in the left-hand side panel refer to pre-crisis averages (five years) and the bars in the right-hand side panel to post-crisis averages (five years). All crises from 1919 to 2014. Years that are simultaneously pre-crisis and post-crisis years, years in which a financial crisis erupts and World War II years are excluded. Except for the number of general strikes, the differences are statistically significant at the 5% level.

Strikes, riots, demonstrations

	(a)Full sample	(b)Pre-WWII	(c)Post-WWII
General strikes			
Post-crisis	0.058* (0.031)	0.037 (0.023)	0.104*** (0.034)
R^2	0.048	0.048	0.104
Obs.	1623	396	1227
Violent riots			
Post-crisis	0.072** (0.033)	0.140* (0.075)	0.052 (0.048)
R^2	0.014	0.135	0.014
Obs.	1623	396	1227
Anti-government demonstrations			
Post-crisis	0.084*** (0.026)	0.075 (0.048)	0.148** (0.060)
R^2	0.016	0.083	0.026
Obs.	1623	396	1227
Street protests			
Post-crisis	0.115** (0.045)	0.159** (0.070)	0.159** (0.071)
R^2	0.020	0.127	0.025
Obs.	1623	396	1227

Notes: This table compares the post-crisis levels of the number of street protests events per year (% deviation from trend) to their average level. The time window for post crisis is five years. Robust standard errors (clustered by country) are shown in parentheses. Table 17 shows the crises that are included. Regressions controlled for GDP per capita growth rate and CPI inflation rate (not reported). The left panels cover the years 1919-2012, excluding World War II (1939-1949), the middle panels 1919-1938, and the right panels 1950-2012. *** Significant at .01. ** Significant at .05. * Significant at .1.

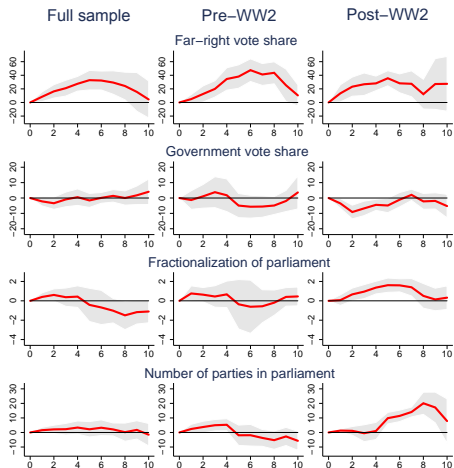
Time path: street protests



Notes: Each path shows local projections of the cumulative change in 100 times the logged variable relative to peak for years 1-5 of the recession/recovery period. The red line refers to the average path in financial crisis recessions and the shaded region is a 90% confidence interval. The controls are contemporaneous and 1-year lagged values of the growth rate of real GDP per capita and the CPI inflation rate at peak. The left panel cover the years 1919-2012, with World War II being excluded, the middle panel 1919-1938, and the right panel 1950-2012. The dependent variable is the percentage deviation from trend in the combined number of street protests (general strikes, violent riots and anti-government demonstrations) per year.

How long does it take for politics to normalize?

A decade of instability



Notes: Each path shows local projections of the cumulative change in the political variables relative to peak for years 1–10 of the recession/recovery period. The red line refers to the average path in financial crisis recessions and the shaded region is a 90% confidence interval. The controls are contemporaneous and 1-year lagged values of the growth rate of GDP per capita and the CPI inflation rate at peak.

Are financial crises different?

Crises and other (severe) recessions

- How does the political fall-out from crises compare to normal recessions and severe (non-financial) macroeconomic slumps?
- Benchmark 1: all normal recessions without financial crisis
- Benchmark 2: sub-sample of particularly severe non-financial recessions, “macro-disasters”
 - Definition: annualized peak-to-trough percentage decrease of real p.c. GDP more severe than the average financial recession

Crises and recessions: example United States

Financial crisis 1873, 1884, 1893, 1907, 1929, 1984, 2007

1873	1875	1882	1887	1889	1892	1895	1901	1906
1909	1913	1916	1918	1926	1929	1937	1944	1948
1953	1957	1969	1973	1979	1981	1990	2000	2007

Financial recession

Normal recession

Macro disaster

Severe non-financial recessions

Australia	1881	1889	1896	1926	1981			
Austria	1912	1915	1943					
Belgium	1913	1916	1942					
Canada	1877	1884	1913	1917	1928	1944	1953	1981
Denmark	1877	1884	1914	1916	1939	1944	1953	1981
Finland	1890	1913	1916	1938	2008	2011		
France	1892	1909	1912	1920	1939	1942	2012	
Germany	1879	1913	1922	1943				
Greece	1973	1885	1888	1894	1896	1899	1911	1918
	1921	1926	1935	1939	1973	1986		
Ireland	none							
Italy	1918	1939	1974	2010				
Japan	1880	1887	1890	1895	1898	1919	1929	1940
	1973	2007						
Netherlands	1873	1913						
Norway	1873	1916	1939	1941				
Portugal	1916	1927	1934	1939	1973			
Spain	1873	1877	1894	1909	1935			
Sweden	1916	1939						
Switzerland	1875	1890	1893	1916	1920	1939	1957	1974
United Kingdom	1907	1918	1925	1929	1943			
United States	1895	1913	1918	1937	1944	1957	1981	

Notes: Non-financial macro-economic disasters are defined as normal recessions where the yearly real p.c. GDP percentage loss is higher than the average in financial crisis recessions.

Far-right votes

(a) Full sample	Year 1	Year 2	Year 3	Year 4	Year 5
Financial recession	8.47*	15.90**	21.27***	27.85***	33.10***
	(4.34)	(5.97)	(6.95)	(6.38)	(8.70)
Normal recession	5.53	8.19**	10.14***	7.36**	8.72*
	(3.27)	(3.35)	(3.37)	(3.22)	(4.31)
Non-financial macro disaster	1.20	0.85	4.73	2.10	14.83
	(2.34)	(3.29)	(7.22)	(8.08)	(13.51)
Ho: Financial = normal; p-value	0.66	0.32	0.19	0.01	0.02
Ho: Financial = disaster; p-value	0.12	0.03	0.11	0.00	0.23
R ²	0.037	0.067	0.091	0.115	0.120
Observations	1539	1515	1491	1467	143
(b) Post-WWII sample	Year 1	Year 2	Year 3	Year 4	Year 5
Financial recession	13.77*	23.86**	27.76**	29.03***	35.57***
	(7.70)	(8.56)	(10.08)	(6.78)	(6.99)
Normal recession	6.18	9.21**	12.48**	9.34**	11.05*
	(3.23)	(3.96)	(4.77)	(4.33)	(5.39)
Non-financial macro disaster	0.35	0.15	8.41	7.96	31.95
	(2.15)	(4.17)	(13.30)	(13.92)	(24.45)
Ho: Financial = normal; p-value	0.38	0.12	0.13	0.01	0.00
Ho: Financial = disaster; p-value	0.10	0.01	0.22	0.16	0.86
R ²	0.056	0.103	0.141	0.167	0.187
Observations	1174	1154	1134	1114	1094

Other political variables (post-WWII)

	Year 1	Year 2	Year 3	Year 4	Year 5
Government vote share					
Financial recession	-3.54* (1.89)	-9.13*** (2.68)	-6.86** (2.85)	-4.40* (2.21)	-4.84 (2.84)
Normal recession	-0.91 (1.62)	-0.17 (1.62)	-0.54 (1.41)	-0.02 (1.24)	0.24 (1.31)
Non-financial macro disaster	-1.30 (1.53)	-0.00 (2.74)	8.98* (4.98)	2.82 (1.63)	3.73 (3.87)
Ho: Financial = normal; p-value	0.37	0.02	0.02	0.11	0.16
Ho: Financial = disaster; p-value	0.43	0.06	0.01	0.01	0.07
Fractionalization of parliament					
Financial recession	0.02 (0.33)	0.70* (0.37)	0.95** (0.41)	1.36*** (0.39)	1.610*** (0.44)
Normal recession	-0.33 (0.31)	-0.13 (0.39)	0.33 (0.45)	0.10 (0.42)	-0.29 (0.55)
Non-financial macro disaster	-0.53 (0.47)	2.15 (3.15)	2.00 (3.29)	2.47 (3.19)	1.65 (3.81)
Ho: Financial = normal; p-value	0.37	0.06	0.36	0.05	0.02
Ho: Financial = disaster; p-value	0.25	0.64	0.75	0.73	0.99
Street protests (% deviation from trend)					
Financial recession	1.37 (0.86)	5.30** (2.45)	14.72** (5.47)	28.96*** (9.77)	30.04* (16.39)
Normal recession	2.20*** (0.69)	2.71** (1.28)	0.96 (2.03)	-0.03 (2.40)	-1.52 (2.60)
Non-financial macro disaster	3.95* (2.19)	7.78 (5.19)	6.99 (5.73)	4.53 (6.74)	4.20 (9.71)
Ho: Financial = normal; p-value	0.50	0.42	0.04	0.01	0.08
Ho: Financial = disaster; p-value	0.34	0.71	0.40	0.08	0.19

Conclusions

Financial crises have political after-effects

1 Hard right turns:

The political far right is the biggest beneficiary from financial crises.

2 Governing becomes more difficult:

Crises are associated with shrinking government majorities, greater fractionalization, and increasing street protest.

3 The effects are specific to the aftermath of financial crises:

Not observable in either normal recessions or non-financial macro-disasters.

Implications

1 Slump politics are different.

The political economy of financial crises poses particular challenges and puts a strain on effective governance when it is needed most.

2 The danger that politics go off track is real.

Fragility of democracies not only a 1930s story.

3 Preventing financial crises means reducing the probability of a political disaster.

Regulators carry a large responsibility for political stability.

The End

Appendix

Parliamentary elections 1870-2014

AUS	AUT	BEL	CAN	CHE	DEU	DNK	ESP	FIN	FRA	GBR	GRC	IRE	ITA	JPN	NLD	NOR	PRT	SWE	USA	
1861	1818	1873*	1877	1877	1871	1872	1871	1871	1871	1871	1871	1871	1871	1871	1871	1871	1871	1871	1871	
1862	1820	1872	1874	1875	1874	1877	1873	1873	1873	1880	1875	1821	1874	1862	1873	1871	1874	1878	1872	
1866	1823	1874	1878	1878	1877	1876	1873	1873	1882	1877	1885	1879	1822	1876	1804*	1875	1876	1878	1874	
1862	1827	1876	1882	1881	1876		1878	1885	1881	1884	1886	1881	1823	1880	1869*	1877	1876	1876	1881	
1813	1830	1878	1887	1884	1881	1881*	1879	1888	1885	1892	1885	1827*	1882	1862	1862	1879	1882	1881	1884	
1814	1845	1880	1891	1887	1884	1882	1881	1891	1889	1895	1890	1832	1886	1863	1881	1885	1884	1887*	1880	
1817	1848	1882	1886	1886	1887	1884	1884	1884	1884	1893	1890	1892	1833	1890	1864	1883	1888	1887	1890	
1819	1853	1884	1900	1893	1890	1887	1888	1880	1886	1906	1895	1837	1892	1900	1884	1891	1889	1883	1884	
1822	1856	1886	1904	1896	1893	1890	1891	1901	1902	1910*	1899	1838	1895	1912	1888	1894	1890	1890	1886	
1826	1858	1888	1908	1899	1896	1892	1891	1905	1906	1918	1882	1941	1897	1915	1887	1897	1892	1899	1882	
1826	1862	1890	1911	1902	1903	1895	1896	1907	1910	1922	1905	1944	1900	1917	1888	1900	1894	1902	1890	
1829	1866	1882	1917	1905	1907	1898	1898	1908	1914	1923	1906	1948	1884	1920	1891	1903	1895	1905	1882	
1831	1870	1894	1921	1908	1912	1901	1901	1901	1910	1924	1910*	1911	1909	1924	1884	1906	1896	1907	1903	
1834	1871	1896	1925	1911	1919	1903	1903	1910	1924	1929	1912	1954	1913	1929	1897	1909	1899	1911	1896	
1837	1875	1898	1926	1914	1920	1906	1908	1911	1928	1931	1913*	1907	1919	1930	1901	1912	1906	1914	1898	
1843	1879	1900	1930	1917	1924*	1909	1907	1913	1932	1935	1920	1961	1921	1932	1905	1915	1901	1917	1900	
1846	1883	1902	1935	1919	1926	1910	1910	1914	1936	1945	1921	1965	1924	1936	1909	1918	1901	1920	1902	
1848	1886	1904	1940	1922	1930	1913	1914	1917	1940	1950	1928	1966	1929	1937	1913	1921	1904*	1921	1904	
1911	1990	1906	1945	1925	1932*	1915	1914	1918	1948*	1951	1928	1973	1934	1942	1917	1924	1908	1924	1906	
1914	1994	1908	1949	1928	1933*	1918	1918	1922	1951	1955	1932	1977	1946	1946	1918	1927	1910	1928	1908	
1916	1996	1910	1953	1931	1936	1920*	1919	1924	1958	1959	1933	1981	1948	1947	1922	1930	1911	1932	1910	
1919	1999	1912	1957	1935	1936	1924	1920	1927	1958	1964	1935	1982*	1953	1949	1925	1933	1915	1936	1912	
1961	2002	1914	1968	1939	1949	1936	1922	1926	1962	1966	1938	1987	1958	1952	1929	1938	1918	1940	1914	
1963	2008	1919	1962	1943	1953	1929	1931	1930	1967	1970	1948	1980	1963	1953	1933	1945	1919	1944	1916	
1968	2008	1921	1963	1947	1957	1932	1933	1933	1968	1974*	1950	1992	1968	1955	1937	1948	1921	1948	1918	
1969	2013	1925	1965	1951	1961	1938	1936	1936	1973	1978	1951	1997	1972	1968	1946	1953	1922	1952	1920	
1872	1829	1868	1955	1965	1939	1877	1839	1878	1883	1882	2002	1976	1960	1948	1957	1925	1956	1922		
1875	1912	1972	1959	1969	1943	1879	1945	1961	1987	1956	2007	1979	1963	1963	1962	1961	1934	1958	1924	
1877	1938	1974	1963	1972	1945	1882	1948	1986	1982	1968	2011	1983	1967	1964	1965	1966	1938	1964	1926	
1880	1939	1979	1967	1976	1947	1986	1951	1988	1967	1961	1987	1969	1959	1959	1969	1942	1964	1928		
1882	1988	1971	1969	1969	1950	1981	1950	1981	1954	1981	1982	1971	1963	1973	1965	1966	1963	1948	1930	
1884	1948	1884	1975	1983	1953*	1982	1958	1997	2005	1964	1994	1972	1967	1977	1949	1970	1932			
1887	1950	1988	1979	1987	1957	1996	1982	2002	2010	1974	1996	1976	1971	1981	1963	1973	1934			
1980	1954	1983	1983	1960	1956	2000	1986	2007	1977	2001	1979	1972	1986	1967	1968	1967	1938			
1983	1958	1987	1987	1964	1964	2000	1987	2010	2012	1981	2006	1980	1977	1989	1961	1979	1938			
1986	1961	2000	1991	1986	1986	2008	1972	1985	1985	2008	1983	1982	1993	1965	1982	1940				
1988	1965	2004	1995	2002	1986	2011	1978	1989*	2013	1986	1966	1997	1966	1983	1944					
2001	1966	2006	1999	2005	1971	1971	1990	1990	1989	2001	1973	1988	1944							
2004	1968	2006	2003	2009	1973	1983	1993	1993	1993	1984	2006	1975	1991	1946						
2007	1971	2007	2013	1975	1987	1987	1986	1986	1986	1986	2006	1978	1984	1988						
2010	1874	2011			1977	1991	2000	2000	2002	2002	2013	1979	1998	1950						
1877					1979	1996	1996	2004	2004	2004	2004	2004	2004	2004						
2013					1978	1981	1990	2007	2005	2006	1983	2008	1954							
1881					1984	2003	2009	2009	2009	2010	1985	2010	1956							
1885					1887	2007	2007	2007	2012*	2012	1987	2012	1958							
1887					1888	2011				2014	1991	1960	1958							
1991					1990						1995	1962	1958							
1995					1994						1999	1964	1956							
1999					1996						2002	1966	1956							
2003					2001						2005	1968	1958							
2007					2006						2009	1968	1950							
2010					2007						2011	1972	1954							
2014					2011						2014	1974	1976							
											1978	1978	1978							
											1880	1880	1880							
											1882	1882	1882							
											1884	1884	1884							
											1886	1886	1886							
											1888	1888	1888							
											1890	1890	1890							
											1982	1982	1982							
											1984	1984	1984							
											1986	1986	1986							
											1988	1988	1988							
											2000	2000	2000							
											2002	2002	2002							
											2004	2004	2004							
											2006	2006	2006							
											2008	2008	2008							
											2010	2010	2010							
											2012	2012	2012							
											2014	2014	2014							

Notes: () = no data available | = monarchy/dictatorship * = two elections in that year.

The table provides a chronology of elections from 1870-2014 by country. We include all general elections to the national parliament, but not sub-national or presidential elections. In the case of a bicameral legislature, we only consider results from the lower legislative chamber. This means that we focus on the following results: AUS: House of Representatives (lower house); AUT: National Council (lower house); BEL: Chamber of Representatives (lower house); CAN: House of Commons (lower house); CHE: National Council (lower house); DEU: Bundestag (until 1949 Reichstag) (unicameral); DNK: Folketing (until 1953 lower house, since then unicameral); ESP: Congreso (lower house); FIN: Eduskunta (unicameral); FRA: National Assembly (until 1958 Chamber of Deputies (lower house)); GBR: House of Commons (lower house); GRK: Hellenic Parliament (unicameral, bicameral from 1927-1935); IRL: Dáil Éireann (lower house); ITA: Chamber of Deputies (lower house); JPN: House of Representatives (lower house); NLD: Tweede Kamer (lower house); NOR: Storting (unicameral); PRT: Assembly of the Republic (unicameral, bicameral from 1915-1925); SWE: Riksdag (unicameral); USA: House of Representatives (lower house).