Protecting Home Abroad: Financial Rescues as Migration Prevention

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Tequila Crisis

Tequila Crisis


The migrant workers...
CARTOON MOVEMENT
GLOBAL FINANCIAL CRISIS

Crises, Migration & Bilateral Bailouts

Crisis country dynamics:

- Economic consequences of financial crises
- Recessions induces incentives to emigrate

Creditor country dynamics:

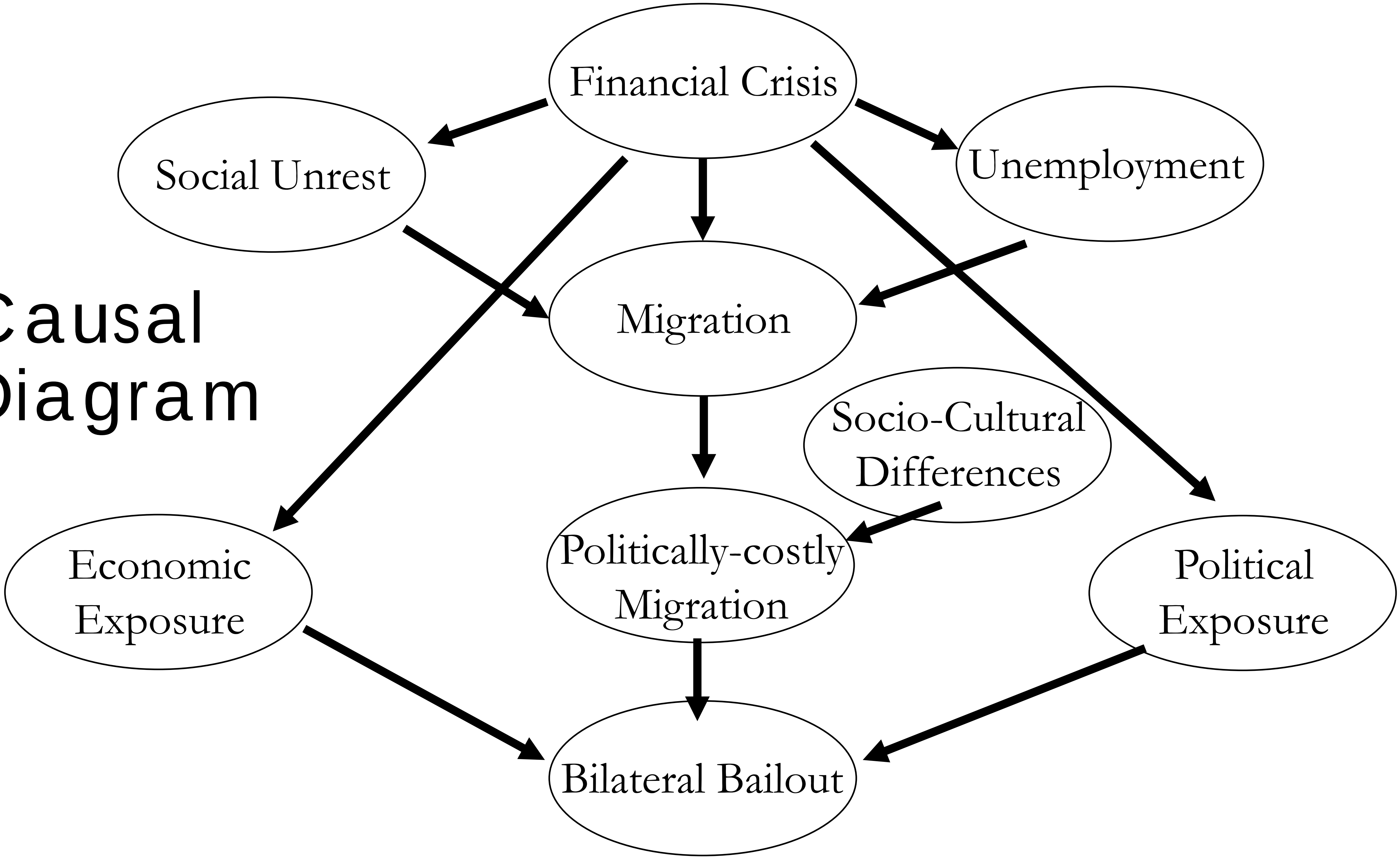
- Expectations about migration potential
- Expectations about political costs of migration potential

Crises, Migration & Bilateral Bailouts

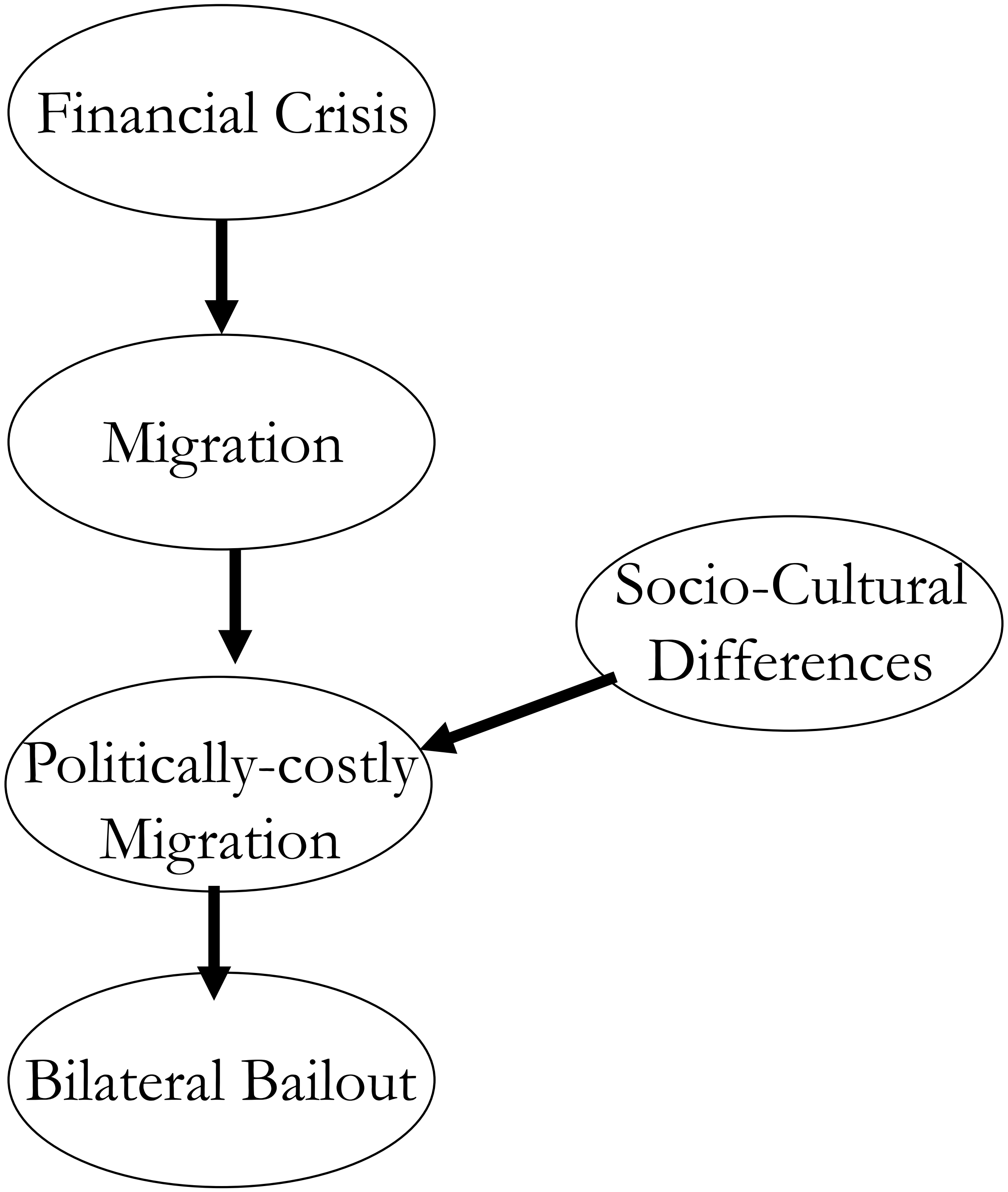
Bilateral bailouts as one policy solution:

- Ex ante tool to prevent migration
- Fewer domestic & international constraints
- Fast provision of massive liquidity

Causal Diagram



Causal Diagram



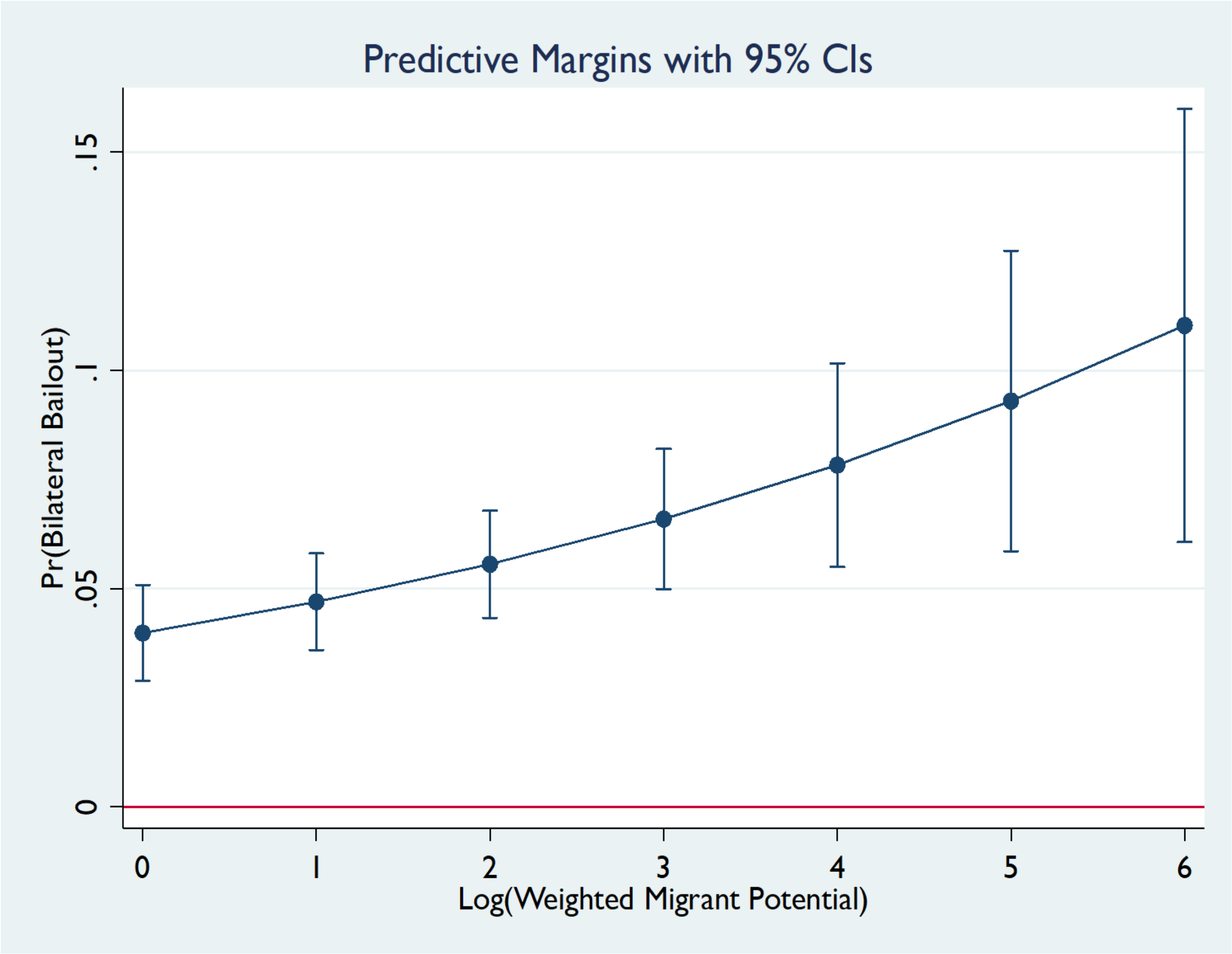
Hypothesis

Creditor governments are more likely to provide bilateral bailouts to countries facing financial crises if there is the potential for politically costly immigration from the country in crisis

Research Design

- Data: bailouts from OECD countries to countries experiencing financial crises, 1970-2010
- DV: Bilateral Bailout
- IV: Migration Potential (weighted)
- Two stages:
  - Predict potential for costly migration
  - Predict bilateral bailouts
- Specification: Logistic regression with spatial weights
- Controls: Economic exposure, political exposure, …

Main Results



Conclusion

- Threat of crisis-induced and politically costly migration increases likelihood of bilateral bailouts
- Importance of expectations over facts in complex decision-making environments
  - Expectations on migration potential
  - Information on effectiveness of financial rescues
- Incentives depend on the expected costs of migration (little incentive to provide bailouts when costs are low, even if migration potential is large)