# Comments

**Marcela Eslava:** After Ames's pioneering research showing electoral increases in government spending in Latin America, cross-country work on the presence of electoral budget cycles in the region has been very limited.[1] Not only have decades passed since Ames's work, but the literature on political budget cycles evolved to suggest that electoral fiscal policy may depend on different features related to how well-rooted democracy is. Lorena Barberia and George Avelino's paper is thus a welcome contribution. Besides examining the presence of political budget cycles in Latin America in recent decades, they take advantage of relatively recent transitions to democracy in the region to examine the role played by democratization. They propose an interesting thesis: namely, it is not how much time has passed since democratization that affects the intensity of political budget cycles, but whether democracy is sufficiently consolidated to guarantee power turnover. Their proposal challenges the original view on the role played by democracy, which suggested that time since democratization matters per se, as after a few elections voters learn that high pre-election spending or low pre-election taxes are not necessarily signals of the incumbent's competence.[2]

Barberia and Avelino's results are interesting. First, they show that as a whole, the region shows pre-electoral deteriorations in fiscal balances. Whether these are driven by tax cuts or spending increases cannot be told from their results, implying that it is probably a not-well-defined mix of both. Second, the finding of electoral deficits is driven by what happens in countries where elections are a recent phenomenon. Even more interesting, what matters seems to be whether the democracy is new or not, rather than whether it is consolidated enough to guarantee turnover. It thus seems that what

1. Ames (1987).
2. For example, Brender and Drazen (2005c).

moves the government to manipulate fiscal policies for electoral purposes is indeed facing inexperienced electorates and media, rather than a history of victories by the opposition that may signal a stable democracy. This lends support to the original thesis that what matters is voters' sophistication, which is also consistent with theoretical results suggesting that deficit cycles arise only if voters are sufficiently badly informed about fiscal policy.[3]

Placing Barberia and Avelino's results in the context of recent studies about voters' behavior in Latin America helps understand why governments in countries with less experienced voters use fiscal contractions before elections while others do not. Studies conducted at the subnational level for different countries suggest that electoral deficits help incumbents get reelected only in contexts that fit the notion of new democracies. In other countries, by contrast, incumbents seem to lose votes if they show fiscal indiscipline. For instance, Jones, Meloni, and Tommasi find that Argentine voters reward incumbent governors for high spending, while Sakurai and Menezes-Filho find that Brazilian voters do the same with incumbent mayors.[4] In contrast, Colombian mayors who run deficits face a lower probability of reelection than those who show greater fiscal discipline.[5] What might make the difference between Argentina and Brazil, on the one hand, and Colombia, on the other? The former recently lived through a democratic transition, whereas Colombia's only episode of transition took place more than sixty years ago. In fact, the mentioned empirical studies for Argentina and Brazil cover only the early years of the transition. In a recent re-examination of the Brazilian case, Avelino and coauthors show that the effect of fiscal deficits on the incumbent's reelection chances depends on how sophisticated voters are.[6] Running a deficit actually makes the mayor less likely to stay in power in municipalities with high literacy rates.

The finding that electoral deficits actually harm incumbents in late phases of democratic transitions is also present for countries outside the region. For a large and varied sample of countries, Brender and Drazen find that electoral deficits harm the incumbent's reelection chances in old democracies, but the negative impact disappears for new democracies.[7]

3. For example, Shi and Svensson (2006).
4. Jones, Meloni, and Tommasi (2009); Sakurai and Menezes-Filho (2008).
5. Drazen and Eslava (2010).
6. Arvate, Avelino, and Tavares (2009).
7. Brender and Drazen (2008).

Within-country studies also fit this pattern well. While voters in the United States have been characterized as fiscal conservatives for punishing incumbents running deficits, the post-transition Russian electorate falls at the other end of the spectrum.[8] For Israel, Brender finds that deficits hurt an incumbent's reelection prospects, but only in a late period characterized by better media and accounting practices.[9]

If more experienced voters are not impressed by high electoral deficits, is fiscal policy not affected at all by elections in countries where the electorate is more educated? That doesn't seem to be the case. In countries that have not recently undergone democratic transitions, incumbents seem to find ways of using fiscal policy to gain votes without increasing deficits. Several studies find that, in these countries, there are electoral changes in the composition of spending. This is the case both in Latin America and other regions. Drazen and Eslava find an electoral shift of public spending in Colombian municipalities from specific categories of current spending, such as transfers, toward public works (specifically, housing projects and health care).[10] González finds similar increases in federal infrastructure spending and cuts in transfers in the quarters leading up to elections in Mexico.[11] Others have found similar results for countries in other regions, such as India and Canada.[12] Vergne also provides cross-country evidence of electoral changes in the composition of spending for a set of developing countries.[13]

Thus, studies focusing on different countries and regions all point to a consistent pattern. There seems to be a well-defined story of inexperienced electorates that respond to expansionary fiscal policy in electoral times by reelecting the incumbent or his party, and incumbents that take advantage of this opportunity to gain votes. Voters learn over the first few elections that electoral deficits are opportunistic, however, and they end up punishing incumbents who run them. Incumbents then find other ways to use fiscal policy as a tool to gain electoral advantage. Barberia and Avelino's paper plays the important role of showing how Latin America fits this pattern.

8. On the United States, see Peltzman (1992); on Russia, see Akhmedov and Zhuravskaya (2004).
9. Brender (2003).
10. Drazen and Eslava (2010).
11. González (2002).
12. Khemani (2004); Kneebone and McKenzie (2001).
13. Vergne (2009).

**Jorge M. Streb:** Barberia and Avelino empirically study political budget cycles in Latin America. Theoretical models of political budget cycles predict that cycles arise under asymmetric information. In Rogoff, competent incumbents reduce taxes in election years, while incompetent incumbents do not distort policy (though the incumbent's type is not directly observable, if only competent incumbents reduce taxes, this allows competent incumbents to indirectly signal their type and differentiate themselves from incompetent types).[1] Since there is no debt, total spending must fall, too. However, there is a composition effect by which expenditures on visible public goods rise, at the expense of other expenditures that bear fruit later (to generate a budget deficit in election years, obligations due in the post-election year would have to be included as an additional instrument). Alt and Lassen, as well as Shi and Svensson, explicitly introduce short-term debt.[2] Following Lohmann's lead, they also abstract from the signaling problem, concentrating instead on the crucial credibility problem, namely, that all incumbents have an incentive to produce political budget cycles before elections in order to improve their reputation.[3] These models predict that the budget balance worsens in election years because of spending hikes. In the post-election year, the budget balance improves as a result of spending cuts. Since the pre- and post-electoral effects cancel each other out, political budget cycles have no long-term effects on debt.

Latin America is an especially interesting region to analyze since, as Barberia and Avelino point out, the region's pronounced cycles have put it at the center of debates on political budget cycles. The authors examine in particular Brender and Drazen's informational explanation for why there are stronger political budget cycles in Latin America—namely, that stronger cycles arise because Latin America is full of new democracies where incumbents can take advantage of voters' lack of experience.[4] The authors also mention an institutional explanation offered by Schuknecht, an issue to which I turn below.[5]

Barberia and Avelino also investigate which channel drives larger budget deficits in election years. The early empirical literature on political budget cycles points to both spending surges and tax cuts.[6] However, much of the

1. Rogoff (1990).
2. Alt and Lassen (2006); Shi and Svensson (2006).
3. Lohmann (1998).
4. Brender and Drazen (2005c).
5. Schuknecht (2000).
6. Frey and Schneider (1978); Tufte (1978).

recent literature explains larger budget deficits exclusively through increases in government spending.[7]

Barberia and Avelino indeed find strong and significant political budget cycles in the region, but their first striking result is that the channel that leads to higher budget deficits in election years is not higher spending, but rather smaller government revenues (tables 3 and 4). This echoes earlier findings for Latin America by Amorim Neto and Borsani, who link the deterioration of the budget balance in election years to the authorities' reluctance to raise taxes.[8] This revenue channel may be particularly relevant in the absence of a low inflation environment, as was the case of Latin America during most of the 1973–2008 period. The reluctance to make upward adjustments in election years might also extend to the prices of public utilities regulated by the national government.

The second striking conclusion that Barberia and Avelino draw is that the link between political budget cycles and new democracies depends on the specific definition used for the democratic transition period. When they use Brender and Drazen's definition of a new democracy (that is, the first four elections in countries with a nonnegative Polity IV score), political budget cycles are indeed statistically significant only in new democracies (table 5).[9] This is no longer true, however, when they use an alternative definition that they consider more objective and grounded in political theory (specifically, the period of competitive elections until the second turnover in the political party that controls the presidency) (table 6).

Barberia and Avelino do not delve into the dynamics of debt in political budget cycles in Latin America, something that might merit further study. One can draw a distinction between electoral cycles and outright populist policies. Populist policies might be characterized as go-go policies, like the battery commercial in which the toy keeps going and going until, of course, it finally drops dead. Instead, Nordhaus-style opportunistic incumbents follow stop-and-go policies, in which expansive electoral polices are followed by a correction after elections.[10] This leads to a boom-bust pattern for political business cycles that might also be present in political budget cycles. In relation to post-electoral fiscal adjustments, Persson and Tabellini indeed find significant contractions

7. Brender and Drazen (2005c); Shi and Svensson (2006); Alt and Lassen (2006).
8. Amorim Neto and Borsani (2004).
9. Brender and Drazen (2005c).
10. Nordhaus (1975).

in their study of sixty democracies, while Alt and Lassen find something similar in OECD countries with low fiscal transparency.[11]

If budget deficits incurred before elections were not corrected afterwards, public debt would pile up. This picture might suit the situation of governments such as that of Greece, but not governments in Latin America, which have seldom had an investment grade that provides that kind of ample access to credit. The ability to issue debt was problematic for many governments in Latin America during the democratic transition period. Without credit, it is hard to pull off a political budget cycle. Remmer gives several examples in which Latin American governments ended their terms in office without access to finance.[12] In this regard, an anomaly stands out in Stein and Streb's study of exchange rate stabilizations before elections in Latin America: in Argentina in 1989, the exchange rate was left to depreciate shortly before the elections (and a hyperinflation eventually ensued).[13] This anomaly is easy to understand in the current framework. The decision to allow the exchange rate to float was taken when the Central Bank ran out of reserves. No credit was available either, because the country was in default with private creditors since 1982, and credit from international financial organizations was completely cut off by early 1989.

As to institutional explanations for political budget cycles briefly mentioned by Barberia and Avelino, Schuknecht suggests that stronger electoral cycles in developing countries are due to weaker checks and balances.[14] This cannot be captured in the theoretical framework on opportunistic political budget cycles developed by Alt and Lassen, Rogoff, and Shi and Svensson, because they model fiscal policy in terms of a single policymaker.[15] This implicitly assumes that the executive has full discretion over fiscal policy and neglects the role of the legislature in the budget process. Saporiti and Streb explicitly model how a legislature might curb political budget cycles, while Streb and Torrens show that this will endogenously depend on whether voters support unified or divided government.[16] Streb, Lema, and Torrens study this issue empirically, finding that legislative checks and balances under divided government moderate political budget cycles in countries with

11. Persson and Tabellini (2005); Alt and Lassen (2006).
12. Remmer (1993).
13. Stein and Streb (1998).
14. Schuknecht (1996).
15. Alt and Lassen (2006); Rogoff (1990); Shi and Svensson (2006).
16. Saporiti and Streb (2008); Streb and Torrens (2009).

high compliance with the law.[17] More effective checks and balances help to explain why cycles are weaker in developed countries and in established democracies.

What I personally find most attractive in Barberia and Avelino's paper is the careful attention devoted to the democratic transition period, as well as the idea that founding elections are qualitatively different because authoritarian incumbents have greater discretion to manipulate fiscal policy before elections.[18] This discussion made me think about the 1946 elections in Argentina. Colonel Perón, vice president in the de facto government that was formed after the 1943 military coup, used government resources to finance not only an expansive fiscal policy during his campaign, but also to found the Justicialist Party, which has been the major political party ever since. No other founding election in Argentina has had such momentous consequences, perhaps because no other de facto government has had such a clear political heir.

17. Streb, Lema, and Torrens (2009).
18. See Remmer (1993).

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