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THE ELECTION PROCESS AND FISCAL POLICY CYCLES: A SURVEY

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ABSTRACT

All industrial economies have been experienced significant fiscal policy cycle in their economic process. Related with these cycles, the paper is about basic level study about fiscal policies around elections within restricted theoretical background. Both political and budget cycles have crucial rules for understanding cyclical effects of fiscal policy around elections as well. That's why; this paper could be focused given basic literature related with these subjects. In this paper, the main argument is uncertainty about remaining in power results in increased fiscal spending, which in turn distorts incentives by pushing individuals away from productive work to rent-seeking activities; then, distorted incentives affect growth. Finally, policy uncertainty as measured by the variability of government capacity will be reason of instability conditions as a whole.

Key Words: Election-Fiscal Policy-Business and Budget Cycle

SEÇİM SÜRECİ VE MALİYE POLİTİKASI DALGALANMALARI: BİR ALAN TARAMASI

ÖZET

Tüm sanayileşmiş ülkeler ekonomik gelişme sürecinde önemli ölçüde mali dalgalanma deneyimi yaşamıştır. Biz bu çalışmamızda, bu dalgalanma deneyimleri ile ilgili olarak, seçim dönemlerinde uygulanan mali politikalarla ilgili süreci alan taraması kapsamında sunmayı amaçlamaktayız. Politik konjonktür ve bütçesel dalgalanmalar da bu deneyimde büyük öneme sahiptir. Bu nedenle, çalışmamız bu konuları temel alan çalışmalara yoğunlaşmaktadır. Çalışmanın mali harcamaların artışıyla ilgili temel bulgusu; seçim sürecinin olası koşullarının politika ve bürokrasiyi verimli alanlardan, rant üreten faaliyetlere doğru yönlendirdiği şeklinde olup ve makro değişkenleri, başta büyüme olmak üzere, olumsuz anlamda etkileyebilir. Hükümet ile ilgili siyasi belirsizliğin genel bir istikrarsızlığa neden olabileceği konusu da bulgular arasında yer almaktadır.

Anahtar Sözcükler: Seçim-Maliye Politikası-Konjonktür ve Bütçe Dalgalanması

1. Introduction

A number of OECD countries experienced severe problems in fiscal policy during the last two, three decades of the 20th century. However, there were large differences among countries within the OECD group. Some countries maintained a roughly constant public debt-to- GDP ratio; others display a simply rising debt ratio - a clear indication that the financial policy regime was not sustainable. However, the main indicators show us, the debt-to-GDP ratio have a crucial role in financial regime.

For this reason, our paper initially argues including how election process effects on these financial regimes in less developed and/or developed countries. The most government has taken some unusual behavior in election times, especially movements thorough increasing spending as a whole. On the other hand, second argument defends the relationship between macroeconomic events and democratic institutions especially in less developed countries. For instance; Molander (2001) also provides some explanation on this argument. Our main indicator indicates that democratic institutions and culture play a key role for determined fiscal policy cycles living conditions hardly or not.

Finally, the last argument deals with the way of fiscal adjustment during election time. For example; Mierau (2007) supports that the success of efforts to consolidate the government budget depends on the kind of budgetary adjustments undertaken around elections. The paper also agree with Mireau and has some opinions parallel with him like as the governments used to politically sensitive expenditures such as transfers, subsidies, and wage expenditures in election process but not effectively.

As a result, related with our arguments determined correctly or not about the relationship fiscal policy cycles during election times. These arguments, including variety views and data, affect us mostly in significant references in election times. However the kind of fiscal problem so important, for determining special arguments plays key roles on this process as well.

2. The Main Fiscal Cycles

2.1. Fiscal Policy Cycles

The paper primarily demonstrates pioneer study related with analyzing fiscal policies around elections by Nordhaus-approach.

Nordhaus (1975) provides us some important views including government behavior during election times. Moreover, which policies are right policies in election times; monetary or fiscal? And which policies are given more popularity to the government against voters?

However, related with the first argument, if we looked at CPIA public sector management and institutions cluster average (1=low to 6=high) data especially for developing countries by World Bank generally - the public sector management and institutions cluster includes property rights and rule-based governance, quality of budgetary and financial management, efficiency of revenue mobilization, quality of public administration, and transparency, accountability, and corruption in the public sector- show us low degrees (average 2.2) in some countries which is routed more popular ways for affect their voters. But high degrees (average 3.4) in some countries which it did not admire this route relatively) (World Development Group, 2013: CPIA database).

On the other hand, more recently, Rogoff and Sibert (1988) showed that Nordhaus-type cycles will be expanded with the voter's rational expectations. According to them, voters are assumed not to know the policy maker's competence meaning of asymmetric information, and they have to infer it from observable economic data. Almost all government accepted like a legal rights, use asymmetric information for affecting their voters especially near election times. Moreover, the governments often use expansionary monetary or fiscal policy before elections as well.

Finally, restrictive policies after the election then lead to a full cycle in economic activity. Rogoff and Sibert design a model in which asymmetric information about the government's competence can lead to fiscal and monetary policy cycles (Rogoff and Sibert, 1988: 3-4).

At this point, the study concentrates to the second arguments which are the relationship between macroeconomic events and democratic institutions especially in less developed countries. Related with this topics, Schuknecht's article (2000) would be help us maintain some information defined as Partisan cycles which result from ideological differences in the preferences for inflation and unemployment between political parties.

Especially, if your countries democratic instutions mainly separated left-right wings parties, there would be usual policy organized from this framework.

For example Left-wing parties assign greater value to low unemployment, while right-wing parties value low inflation more highly. As a result, some models predict that right-wing governments consistently generate lower inflation and higher unemployment than do leftist governments (Schuknecht, 2000: 116).

This means that macroeconomic events and chosen policy depend on position of democratic parties. Besides, democratic institutions sometimes give more chance announced different opinion and access for increase different sounds in political system. And this point supports the second argument that, if the macroeconomic event supports new opinion, the democratic instutions will improve and voters concentrate projects rather than promise or miracles.

Both government opportunism and rationalist models have been proposed as explanations. For instance; Chauvet and Collier (2009) points out relationship between the election times and voter's behavior during the government is in power.

These explanations enables us valuable acknowledge for this study also, because the link between government and their voters so complicated in election time, especially in less developed countries.

One effect of an election is to create a discrete difference between the period prior to the election during which the government is in power and on which it may be judged by voters, and the period after the election when it may not be in power. If voters are unsophisticated, this introduces an incentive for the government to improve its record by transferring resources from expenditures that only generate observable benefits after the election to those that generate observable benefits prior to the election (Chauvet and Collier, 2009:514).

Collier also explains not only pre or/and post-election times effects but also try to allow some evidence in support of the short-term bias of democratic governments. There is indeed some evidence in support of the short-term bias of democratic governments: they invest less than autocracies.

Before concluding, also we could be evaluated fiscal policies can be an effective means of influencing government popularity. If we chose these fiscal policies, the way of allow either increase public expenditure or reduce revenue. In both cases, we would expect an increase in the fiscal deficit before elections and fiscal consolidation thereafter.

In addition, Schuknecht expect that much of the election-oriented policy making ways in developing countries affects the expenditure side with two main ways first elections are preceded by expenditure increases rather than lower revenues and second; election-oriented policies raise capital expenditures more strongly than current expenditure (Schuknecht:117-118).

2.1.1. Cyclical Effects of Elections

The last arguments the way of fiscal adjustment during election time. Hence, if study look at different countries election times; in the majority of the world's democracies election dates are not fixed. Governments, especially those in parliamentary democracies, often can and do call elections before the mandatory end of their term, with consequences for domestic politics and economics.

A well-timed election, such as one that coincides with an expanding economy, can boost an incumbent government's reelection prospects as well as diminish the political demand for politically motivated macroeconomic intervention.

Sometimes, the government choose time depend on probability of winning election either. Scholars and the public alike have long believed that governments, time elections and manipulate their economies for political advantage.

Moreover, Kayser (2005) aimed at political histories and press accounts abound with depictions of parliamentary governments consumed with the timing of elections.

Related with the third arguments; interest in economic manipulation has been no less pervasive. Kayser also determined that “It is incontrovertible that the public and many academics believe that governments gain electoral advantage from activities, surfing and manipulation” (Kayser, 2005: 17).

3. Political Business Cycles (PBsC)

Elections are periodic events and the possibility of a political business cycle (hereinafter PBsC) has been a long history in economics. Almost all elections have strong potential influence on budgetary fluctuations.

Rogoff and Sibert (1988) conclude that, if the governments may choose to increase the fiscal deficit in the approach to an election (whereas introducing asymmetric information between governments and voters). Hence, the pace of reform might slow, or even become negative, as the election approaches.

On the other hand, another arguably argument might be ranking in financial cycles for developing countries. For instance, Feng (2001) prepare a dynamic models on three basic apply. According to Feng in addition to democracy and political freedom, regime stability is another important factor influencing private investment.

Feng’s analysis depends on the mostly result of political instability in economy. Hence, less developing countries government have control dynamics of the stability of political progress. Otherwise, in times of political instability, both the supply of investment capital by savers and the demand for capital by investors will decrease.

Moreover Feng also emphasized the terms of “governmental change” in study. The phrase “governmental change” apparently refers to fundamental political change rather than regular government change under a constitution.

The “governmental change” will support our first argument which is political uncertainty expand whereas voters not decide better parties before the elections especially.

Though regular government change-particularly major regular government change, that is, as a constitutional power transfer that involves a change in the ruling party or the coalition of ruling parties-may produce political uncertainty, it more or less represents policy adjustment (Feng, 2001: 274).

Another subject as the literature on public expenditures and budgetary processes has revealed, taxpayers in general have a tendency to demand more public services than their tax payments can support. For instance, Hou (2006) evaluated on the political reasons related with the budgetary process for explaining the PBsC.

According to this framework, when current demands are adequately satisfied but the government still possesses extra resources, requests for tax refunds often dominate. Elected officials and legislators, following the preferences of voters, also prefer current spending curbs or tax refunds to win elections. Therefore, surpluses are often subject to spending pressure from key players in the budgetary process and are not easy to accumulate or sustain (Hou, 2006: 732).

Still, the relation of voter's pressure with spending-tax organization of government show us, if the election process necessary, the governments would be change their position easily. From a budgeting perspective which is support our third arguments, the process needs to adapt to increased contentiousness and the apparent willingness to hijack the entire process for short-term policy gains. Rubin (2009) evaluated budgeting perspective; Separating out the core functions of the budget process from policy pressures and strengthening the enforcement of the core functions, such as transparency, should help.

Providing for minority party input through known and predictable rules also should help by defusing the anger of the minority at being completely excluded and their determination to do the same to other party when they are in the majority. Revenge should have no place at the table. The art of politics is not about revenge. Late proposals that no one has read should simply be out of order (Rubin, 2009: 247).

Meanwhile, rent-seeking activities affect government behavior also in election times. Angelopoulos and Economides (2008) are concentrates on some anecdotal and case study evidence across countries suggests that rent-seeking activities intensify before elections.

Addition to this, lobbying efforts, interest group activity, participation in strikes and demonstrations, and so on indicate that the redistributive struggle escalates in pre-election periods. At the same time, there is econometric evidence of electoral cycles in economic policy. For instance, government spending increases, as political parties become short-sighted before elections (Angelopoulos and Economides, 2008: 1376).

Also large public sectors in pre-election periods distort private incentives by pushing individuals away from productive work to rent-seeking activities. Thus, distorted private investment may cause negative effect on macroeconomy. This concern supported our second arguments as well.

On the other hand, we will check out some controversial sample from US presidential and Russian elections via two studies. As a result of this, our third argument might be supported by these data.

First, Grier (2008) study made valuable contribution on PBuC model thorough relationship between US presidential election and real GDP growth from 1961 to 2004.

The main result of his paper shows that controlling for money, prices, inflation, interest rates, energy prices and lagged growth there is a significant opportunistic cycle. The implication is that some other factor presumably is causing the PBuC. One possibility is that there is some, still omitted, variable that drives the cycle. Perhaps other types of fiscal variables might be more effective than the ones considered here. Another possibility is that electoral cycles occur when the inflation-controlling policies of the Fed are consistent with the electoral incentives of the President (Grier, 2008: 348).

And second, we might be mentioned interesting article from Treisman and Gimpelson (2001) about relationship between PBuC and Russian elections. The refinement this study suggests is that, different monetary and fiscal instruments - and means of financing government spending - should be considered substitutes.

Depending on the constitutional set-up and the nature of the political game in specific countries, governments have a variety of ways to affect these: influence over growth in the money supply, rates of public spending on social services and job creation schemes, tax rates, the minimum wage, the stateprovided pension and other benefits"(Treisman and Gimpelson,2001: 226).

These measures that require additional spending can be financed by additional taxes or other revenues, additional public borrowing or additional money creation - each of which, in turn, has effects on the economic variables thought to influence voters.

Now, we'll pass on to another cycle called as 'political budget cycles' which is determined political effects on the budget adjustments framework. Following section also shows, also have shown us different countries sample for testing our arguments and political suggestions.

4. Political Budget Cycles (PBC)

The phenomena of manipulation of the economy by the incumbent for electoral purpose are called Political Business Cycles (PBC), introduced by Nordhaus (1975). Using policy control economic instruments, as fiscal and monetary instruments, government may manipulate the economy to gain electoral advantage by producing growth and decreasing unemployment before elections. In addition to increased public expenditures, also the production/supply of certain publicly provided goods may score improvements (Kachelein et al., 2010: 2).

The second argument has taken off from Hibbs (1977), It holds that in a class-based electoral system it might be rational for the political party to pursue its own ideology once in government. A third approach from Lalvani (1999) which means that, to PBC integrated the preceding two alternatives. Government is seen to be ideological but as soon as its re-election chances are threatened it resorts to measures which would increase its popularity (Hibbs, 1977:1470-1472; Lalvani, 1999:2677-78).

Moreover Saporiti and Streb (2008) have try to build on earlier research about the opportunistic manipulation of the economy around elections, the literature on PBC studies cycles in fiscal policies generated by the electoral process. These cycles may be in the composition of public spending, in the size of the total budget, and in the choice of taxes or debt to finance the budget (Saporiti and Streb, 2008: 329).

While Aghion and Marinescu (2007) can't know of any previous attempt at analyzing the growth effects of countercyclical budgetary policies, analyses of the determinants of the cyclicality of budgetary policies already exist in the literature. For example, Alesina et al.(2008) argues that more corrupt democracies will tend to run a more procyclical fiscal policy.

The hypothesis is that, in good times, voters demand that the government cut taxes or provide more public services instead of reducing debt, because they cannot observe the debt reduction and can suspect the government of appropriating the rents associated with good economic conditions. In equilibrium, this leads to a more procyclical policy as the moral hazard problem worsens, in the sense that governments are more likely to divert public resources in booms. They also show that this mechanism tends to be more powerful in explaining the variation observed in the data than in borrowing constraints alone (Alesina et. al., 2008, 1008-1010; Aghion and Marinescu, 2007: 253).

It seems to be obvious that the economic performance of a government determines to a large extent its likelihood of reelection as confirmed by studies and therefore economic actors influence political factors and the other way around. Furthermore, incumbents may use their power and the instruments available to influence the economic environment especially prior to election to improve the likelihood of reelection (Kachelein et al., 2010: 3).

Meanwhile there are some different perspectives about procyclical policy. For instance Neto and Vernengo (2005) give some detail information from Post-Keynesian perspectives. However, this perspective not supported our arguments completely.

These study concentrates on public investment in GDP, like infrastructure investment, increase in the past three decades. Therefore, significant infrastructure gaps have emerged in Latin America. These gaps adversely affect the growth potential of those countries and limit social development. As a result of this, voters put some reactions them and the governments have lost power in the elections.

There is also a political economy aspect to social transfers. In theory, anti-poverty programs such as CCTs- even though certain program characteristics vary from country to country, in general standard CCTs provide money to poor families, through women, contingent upon investments in the human capital of their children, such as regular school attendance, basic preventive health care and better nutrition- may play a role in influencing individual political participation in the form of voting and preferences, strengthening democratic representation but also producing electoral rewards (Baez et al.,2012: 2-3).

However, all our arguments supports by pure democratic elections. Democratic elections play an important role in protecting political freedoms.

However, since the results of competitive elections are rarely predictable with certainty, the democratic process injects an element of surprise and uncertainty into politics. Whenever political parties have differing ideological preferences over macro-economic policy objectives, then democratic elections also create uncertainty over future economic policy and induce post electoral blips in economic activity (Berlemann and Markwardt, 2007: 1937).

Finally, Berlemann and Markwardt concentrates on the electoral system of a country may also have a decisive effect on the degree of stability in economic policy and macro-economic outcomes.

Empirical studies of party ideologies also indicate that coalition governments are associated with ideological moderation compared to plurality systems with two-party governments. As a result, coalition governments should contribute to smooth rational partisan cycles. Electoral systems that produce coalition governments are therefore expected to produce greater stability in economic policy and outcomes (Berlemann and Markwardt, 2007: 1938).

4. Conclusion

First argument of this paper on the link between fiscal policy cycles which including business and budget cycles in the presence of uncertainty about remaining in power. Our first arguments; including how election process effects on these financial regimes in less developed and/or developed countries. Related with this point, the main prediction is that when a party cares less for voters when out of office, uncertainty about remaining in power pushes governments to follow relatively short-sighted policies in the form of a larger public sector, which in turn compound rent seeking activities and damage the macro economy.

Actually we mention before in introduction to the article which about is, the adverse effects of electoral uncertainty. Especially this would be occur by pushing individuals away from productive work to rent-seeking activities; then, distorted incentives affect growth.

On the other hand, the second argument defends that, the relationship between macroeconomic events and democratic institutions especially in less developed countries. A government that hesitates on policy positions and in strength does not help the economy. If it becomes essential that some policy change be made so that the economy can be replace for growth, a policy in favor of gradual adjustment should be preferred to a radical change. Those situations that require the government to take action to change its political capacity or economic agenda can be approved by changes in exchange rates, trade deficits, oil price increases, and global economic recessions.

Furthermore, the last arguments deal with election time's fiscal adjustment way. The process of fiscal adjustment depends on voter's expectation and democratic culture. Some governments made political movement so pragmatist, even if logical voters might be affected during election process. Although taxpayer and/or investor condition improve in short run, the macroeconomic condition and stability will deterioration after the election process. To the extent that investment requires a reduction from present consumption through taxation or inflation in order to raise consumption after the next election, the theory outlined here indicates that the level of such investment will be lower than is optimal.

Finally, under all these circumstances, the government must meet the challenge presented by change. This means that, if necessary, allows the government to build institutional credibility by degrees, and over time helps reduce risk factors of policy uncertainty. Political regime instability is often an issue outside of a government's control. While a government can change its level of political capacity to suit a policy goal, it cannot easily do so to efficiently improve regime instability. For this reason, next step for this study is working macro data set including causes for instability condition in LDC's.

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