

# Electoral Economics in New Democracies: Affecting Attitudes About Democracy\*

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PRELIMINARY

## Abstract

Recent research finds that political budget cycles are predominantly a phenomenon of new democracies, but also indicates that even in these countries higher deficits in election years do not help incumbents to get reelected. We suggest that the higher election year deficits in recently democratized countries may reflect the response of democratic leaders to the public's uncertainty about the value of democracy, as indicated by our findings from the World Values Survey. We present a model in which voters form beliefs about the efficacy of democracy on the basis of economic outcomes. To force a reversion to a non-democratic regime, anti-democratic elites must gain sufficient support from the citizenry. This leads government to increase expenditures and deficits before elections –when new democracies are particularly fragile - in the attempt to convince voters that “democracy works”, with these expenditures going primarily to citizens rather than elites. Data on the composition of election year expenditure increases in new democracies are broadly consistent with the suggested pattern. The focus on citizens rather than elites, and the implications of the necessity of “buying off” citizens rather than elites to prevent a successful coup or similar measure contrasts with some of the recent literature on democratic consolidation.

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# 1 Introduction

The political budget cycle, that is, the increase in government deficits or expenditures in election years relative to non-election years, is a widely-studied phenomenon. Conventional wisdom is that political budget cycles are a common phenomenon in many countries, especially developing ones (see for example, Shi and Svensson [2006]). However, Brender and Drazen (2005a) find that increases in the government deficit (relative to GDP) in election years take place predominantly in new democracies, and that there is no statistically significant cycle in older democracies as a group.<sup>1</sup> In the period 1960-2001, the election year in the first elections (up to the first four) after the transition to democracy in 36 new democracies is characterized by an increase in public expenditure and the deficit of 0.8% of GDP. In contrast, in elections after the first four, as well as in established democracies, there is no statistically significant increase in the deficit relative to non-election years.<sup>2</sup> A significant difference between new and established democracies remains even after controlling for the strength of the democracy (as measured by the POLITY IV index), the level of economic development, endogeneity of election dates, the electoral system and whether a country has a Presidential or a Parliamentary system.

The obvious question is: What accounts for the existence of a political budget cycle in new democracies but not in older democracies (for short, the “new democracy” effect)? The general perception in the literature is that pre-election manipulation reflects an attempt of incumbent leaders to increase their reelection prospects. Shi and Svensson suggest that a stronger political cycle may reflect higher rents that incumbents perceive from remaining in office or a higher share of less well-informed voters (presumably making it easier or less politically costly for an incumbent to engage in pre-electoral fiscal manipulation).

However, Brender and Drazen (2005b) look at voter response to deficit spending in a sample of 74 democracies (old and new) over the period 1960-2003 and find no evidence that deficits help an incumbent get reelected in any group of countries, *including* new democracies! (In developed countries and old democracies, election-year deficits actually reduce the probability that a leader is reelected, while in less developed countries or new democracies, there is no significant effect either

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<sup>1</sup> “New” democracies in our paper referred to up to the first four elections in a country after the transition to democracy, whereas elections after the first four are taken to refer to old or established democracies. We use the term “old” for the latter case here, since a democracy may be old but still not consolidated in the sense discussed in section 2.4 below. Our argument refers to new, fragile democracies, where the age of the democracy is crucial to our argument.

<sup>2</sup> Drazen and Eslava (2006), as well as other papers referenced therein, argue that in established democracies, electoral manipulation more often takes the form of changes in the composition of spending, or in expenditures targeted at some voters at the expense of others, in both cases with little or no change in overall deficits.

way.) This finding, when combined with our earlier work, thus suggests that the political deficit cycles in new democracies may reflect something other than the incumbent's attempt to gain votes at the expense of his election opponents.

In this paper we suggest an alternative explanation for the “new democracy effect”. We argue that “fragility” of democracy may lead to high government expenditures to prevent the collapse of democracy, but that this effect will be present primarily when democracy is *both* fragile and new. Moreover, the probability of reversion to authoritarianism will be higher in election than non-election years, so that democratic fragility may lead to the observed political expenditure and deficit cycle in new democracies.

Fragility or lack of consolidation of democracy refers to a situation in which some crucial political groups, or the public at large, lack full commitment to the democratic process. Such a lack of widespread commitment to democracy makes it more vulnerable to anti-democratic elites. As Linz and Stepan (1996, p.5) put it, consolidation refers to

a political situation in which, in a phrase, democracy has become ‘the only game in town.’ Behaviorally, democracy becomes the only game in town when no significant political groups seriously attempt to overthrow the democratic regime ...

If not, democracy is viewed as not yet consolidated, that is, still fragile.

Our argument on how fragility may help explain the political budget cycle in new democracies may then be put more specifically as follows. Voters in recently democratized countries are concerned about economic performance and may not be fully convinced that democracy leads to good economic results. This perception leads democratic governments in these countries to expend resources in the attempt to convince voters that “democracy works” (that is, orderly functioning of the economic system under democracy), with a resulting increase in expenditures and deficits that may be significant. This effect is pronounced in election years, as they are periods of greater risk to the new democratic system. Inexperience of voters and the media with a democratic system (and the lack of information relative to a more experienced democracy) may make it harder for citizens in new democracies to perceive spending expansions as fiscal manipulation than in older democracies (even if fragile). Hence such fiscal expansions will be more effective in the former than the latter democracies, and hence more likely to be observed. .

The plan of the paper is as follows. In the next section we discuss conceptual issues connected with the consolidation of democracy and the importance of public attitudes about whether democracy works. In section 3 presents a formal model illustrating these ideas. Section 4 considers evidence consistent with our approach, Section 6 presents conclusions.

## 2 Democratic Consolidation and Public Perception of Democracy

Following the literature<sup>3</sup>, we organize our discussion of the problems of consolidating democracy around class interests, concentrating on the “elites” and the “masses”. Identifying groups whose support is important in consolidation will give us a framework for understanding how economic policy may be used to prevent a reversion to a non-democratic regime.

### 2.1 Elites

There is fairly wide agreement that elites – groups with special political position or power – play a central role in the transition from authoritarianism to democracy. For example, in Rustow’s seminal article (1970, p. 356) it is argued that democracy “is acquired by a process of conscious decision at least on the part of the top political leadership... A small circle of leaders is likely to play a disproportionate role.” Similarly, Huntington (1984, p. 212) argued that “democratic regimes that last have seldom, if ever, been instituted by mass popular action. Almost always, democracy has come as much from the top down as from the bottom up; it is as likely to be the product of oligarchy as of protest against oligarchy.”

This focus on elites has carried over to much of the discussion of consolidation of newly democratic regimes. The citizenry supports democracy, while it is antidemocratic elites (oligarchs, the military, *etc.*) who have the interest and perhaps the ability to subvert or overthrow democracy. Under this approach, it is the elites who constitute the principal threat to democracy and who must be appeased or placated in ensuring that democracy, is not overthrown.<sup>4</sup> For example, as Acemoglu and Robinson (2005) put it clearly and concisely:

In building our theory of coups, we will emphasize the same economic and political incentives that featured prominently in understanding the creation of democracy. So far we have emphasized that in democratic societies the majority of citizens are able to alter policies in their favor and against the interests of elites. This makes the citizens pro-democratic while simultaneously giving the elite an incentive to oppose democracy. These contrasting incentives determine when and how democracy emerges. The same basic forces will also determine the incentives for coups. Since the elite prefer nondemocracy to democracy, they may, under certain circumstances, support a coup against democracy, which would lead to policies more favorable to themselves in the future.

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<sup>3</sup> Moore (1966) is the pathbreaking work on class conflict and the origin of democracy in England, France, and the United States. Rueschemeyer, Stephens, and Stephens (1992) is a key reference in putting class interest at the center of the analysis of democratization. The recent book by Acemoglu and Robinson (2005) follows in this tradition.

<sup>4</sup>O’Donnell and Schmitter (1986) however note the very low actual occurrence of anti-democratic coups.

## 2.2 Public Attitudes

Our argument on the role of the elites and the citizenry in ensuring the survival of democracy is more nuanced. Though some anti-democratic elites may have the *interest* in overthrowing democracy, their *ability* to do so depends the attitudes of the citizenry to democracy. Anti-democratic elites may be generally unable to successfully overthrow democracy without support from the citizenry (if only their lack of active opposition to reversion). But this perhaps simple observation, when combined with the possibility that the masses may not be unambiguously convinced of the value of democracy, implies a quite significant change in how one should think about the use of economic policy to ensure the survival of democracy. It is no longer the case, as in Acemoglu and Robinson (2005), that policy should be aimed simply at “buying off” the elites. If some degree of support from citizens is crucial to the overthrow of democracy, policy must also be aimed at ensuring their support for democracy, thus making collapse less likely.

This approach thus forces a reconsideration of the assumption that the interest of the masses is unambiguously in favor of democracy; otherwise it will never be possible to overthrow democracy. Conditional support on the part of the citizenry is consistent with the focus in the literature on the importance of *public attitudes* about the efficacy of democracy.<sup>5</sup> Efficacy clearly has economic dimensions and if citizens do not believe that democracy is able to solve economic problems, this may be fatal for democracy. In new democracies the efficiency of the new political system, and not just its legitimacy, becomes a crucial issue. As Linz and Stepan (p. 80) put it

The key question for the democracies is whether their citizens believe that, in the circumstances, the democratic government is doing a credible job in trying to overcome economic problems. It is important to stress that the political economy of legitimacy will produce severe and perhaps insoluble challenges to democratic consolidation in those cases where the democratic system itself is judged to be incapable of producing a program to overcome the economic crisis.

While belief in efficacy by the citizens is crucial, beliefs can change over time. In summarizing the experience of the new democracies of Southern Europe, Linz and Stepan write (p. 144)

... the overwhelming majority of consolidated democracies did not actually begin their transition to democracy with a majority of members of the polity or even many of the key agents of the transition being either convinced democrats or citizens who rejected everything about the past regime. Rather, a democratic majority emerges *when elites and ordinary citizens alike* begin to evaluate, for the societal problems they then face and the overall world within which they then live, that democratic procedures of conflict regulation are better or less dangerous than any other form of governance. Thus, for many key elites democratic behavior emerges before democratic attitudes because elites may make the calculation that breaking the democratic rules of the game – whether they like them or not – will not yield a positive outcome for their interests. Democracy becomes the “only game in town” partly by belief and partly by elite calculation of the cost of compliance versus the cost of mobilization for other governing alternatives. (*italics ours*)

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<sup>5</sup>See, for example, the wide-ranging survey of Linz and Stepan (1996).

As discussed in section @@ below, evidence from the World Values Survey indicates that the new democracies considered in our earlier papers are distinguished from older democracies by a significantly greater proportion of individuals who express uncertainty about the value of democracy.

## 2.3 Why election years?

The argument that problems of democratic consolidation may help explain political deficit cycles in new democracies raises an obvious question: Why should the policy effects that are implied by “fragility” and “performance” be manifest especially in election years? That is, why does the possible fragility of democracy imply a difference in election-year versus non-election-year policies?<sup>6</sup>

Our discussion in the previous sections implies that new democracies may face certain “critical points” at which democracy may be especially vulnerable, so that political support is crucial for democracy to survive. The question then becomes: why are these critical points more likely to be in election than non-election years? Several reasons suggest themselves. First, it makes sense that if democracy is fragile, the most obvious time for this to have implications is in an election year. It is not simply that dissatisfaction can be expressed at ballot box, but also, almost “by definition” the democratic system is being tested at election time: a leader may cancel elections; turnover of parliament is time of mechanical fragility. In fact whether the first elections take place after the transition to democracy is generally seen as crucial to the legitimacy of a newly democratic system (See, for example, O’Donnell and Schmitter (1986) and Linz and Stepan(1978).)

Second, the cost of being thrown out of office when the democratic system is discarded is probably much greater than in losing an election in a democratic system not itself in danger. Hence, incumbents may perceive a quite high benefit to showing that the system works, even if they are primarily self-interested rather than concerned with the survival of democracy per se. This may be true even if the costs of this policy are observable after the elections.

The focus on election years is supported by the observation that democracies are three times more likely to collapse in election years than non-election years, as shown in Table 1. It is also evident from the table that in old democracies the probability of a collapse of the democratic regime is very small.

[Place Table 1 Here]

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<sup>6</sup>Note first that if the null hypothesis is that fragility implies higher expenditures in both election and non-election years, one is asking is there a benefit of “unsmoothing” expenditures towards election years, implying election-year deficits.

## 2.4 Newness versus fragility

Our basic argument is that newness of democracy implies fragility which in turn implies high election year expenditures (and deficits). We want to stress quite strongly that in our approach fragility alone is *not* sufficient to explain election-year effects; it is the combination of fragility and newness that is key to political deficit cycles in new democracies. Newness implies incomplete information about how the economic system will function under democracy (and how democracy itself works). Hence, running deficits to pay salaries to government workers (for example), that is, to strengthen the public's perception of a well-functioning system, will not be seen as electoral manipulation as easily as when voters have more experience with democracy and "election-year" economics. As voters gain more experience with the democratic electoral system, using fiscal policy to "grease the wheels" of the economic system may be increasingly less effective in affecting voter perceptions, and hence may be less likely to occur.<sup>7</sup>

To make the point another way, an "old" democracy may be fragile, but voter experience means that fiscal manipulation will be seen as such and hence be ineffective. Fragility is necessary for our explanation of the existence of political budget cycles, but it is not sufficient. (In an established democracy, that is, where democracy is consolidated, policy aimed at convincing the public that democracy works is, by definition, unnecessary.)

The distinction between newness and fragility of democracy leads to another distinction, namely between use of fiscal policy in election periods to show that the system works and genuine reform. The general view is that new democracies can survive social strife and economic instability for some years, but are likely to break down in the medium to long run unless they can address problems of poverty and inequality through reforms that provide the basis for sustainable growth. Our focus on the role of election-year fiscal policy in reducing the vulnerability of democracy to breakdown should not be read as contradicting this view. Quite the contrary. Our argument is applied to new democracies, rather than any fragile democracy, precisely because we believe that such policies can only be effective in the first few elections, after which electoral manipulation will be seen as such and hence will not reduce (and may well increase) the vulnerability of democracy to breakdown. In this paper our motivation is positive, not normative. Election-year expenditures to show the system works are not a substitute for true reform; they may be a temporary attempt to bridge a particularly

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<sup>7</sup>This is consistent with Brender and Drazen's (2005a) finding that a statistically significant electoral deficit cycle characterizes only the first four (at most) elections after the transition to democracy, but not subsequent elections. Similarly, Akhmedov and Zhuravskaya (2004) find the political expenditure cycles in regional elections in Russia after its transition to democracy become smaller over time, with the cycle disappearing for most fiscal instruments after two rounds of elections.

crucial breakpoint of democracy. In this respect they may explain the empirical regularity discussed in the introduction.

### 3 A Framework of Analysis

We now turn to modeling the relation between fiscal policy as an election year (seen as a critical point of democratic vulnerability) and fragility of democracy<sup>8</sup>. When democracy is new and not consolidated and voters are inexperienced with the electoral system, how will fiscal policy differ from the case of a fully consolidated democracy?

We focus on the effect of economic policy on support for democracy is via the *probability* that citizens or elites assign to democracy being superior to nondemocracy, rather than on the utility they associate with one system or the other. That is, we view the key problem that citizens face as an inference problem of deciding whether democracy “works”, depending on their observation of economic outcomes. Government expenditures can therefore increase public support for democracy primarily by inducing citizen’s to increase the probability they assign to democracy “working” (in short, is “good”). This does not mean that citizens have not formed beliefs about democracy but that, given their attitudes, their willingness to support (defend) democracy would depend on their perception of its ability to deliver a functioning economy in the particular country.

Government spending will affect the utility the citizenry assigns to democracy, we shall see that the political cycle in a new democracy comes solely from the effect of expenditures on the perception of democracy and is absent if this perception effect is not present. To help distinguish our approach from those focusing on placating the elites, we assume that direct transfers of income or wealth (for example, by giving them favorable terms in buying privatized government assets, as is sometimes done) is ineffective in changing the elites’s perception of democracy. This allows a sharper focus on the public’s inference problem. The ineffectiveness of government expenditures in affecting the utility associated with democracy directly may reflect, for example, the inability of the government to make binding commitments to future expenditures, so that only current utility is affected. In our view, this distinction is not semantic, since it implies that government policy will have no (or only minor) effect on support for democracy if the prior that democracy is superior is close to either 0 or 1.

We consider a simple two-period framework – an election period when democracy is at risk; and

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<sup>8</sup>In spite of the large amount of insightful literature on consolidation of democracy, formal modeling on which to base analysis is rare. An exception is Acemoglu and Robinson (2005), who present a powerful and elegant modeling of the process of democratization, as well as possible transitions from democracy back to non-democracy in cases where democracy is not “consolidated”. Smith, ... present an analysis of political survival using similar types of models.

a post-election period when the government budget must be balanced given the expenditures of the previous period. The government has two types of expenditure – spending on items that will affect public perception of democracy, denoted  $h_t$  (in fact, these will be used only in period 1) and spending on items that will affect a citizens utility in period  $t$  directly, denoted  $g_t$ . Though these are not always mutually exclusive (the government paying salaries on time, for example, will have both effects), for clarity of exposition, we assume that they are.

Consistent with the discussion in section 2.4, we further assume that citizens have quite imperfect information about and understanding of fiscal policy. This is also consistent with what has been argued about many new democracies after transition. We assume not only that citizens do they not observe  $g_t$  and  $h_t$ , but also that they are unaware that  $h$  may be used to “manipulate” public perceptions. This allows a straightforward application of Bayes’ rule to study the inference problem. Assuming that citizens attach some probability to outcomes being manipulated would complicate the modeling of the citizens’ inference problem, but not affect the basic result.

### 3.1 Elites

Since our focus is not on the elites, we model them simply. Though there may be many veto players in a new democracy, we assume there is a single elite. Our basic point about elites – that they cannot overthrow democracy without the support of the “masses” – is unaffected by the existence of more than one elite. We also assume (consistent with the discussion in the previous subsection) that pre-electoral spending or transfers to the elites cannot be made large enough to induce them to support democracy if they believe they can mount a successful coup. For simplicity, we assume these are zero.

What stops the elite from attempting to overthrow democracy is the perception of low probability of success (and high cost of failure), where probability of success is inversely related to  $\phi$ , the fraction of the public who support democracy (see section 3.2.3 below.)<sup>9</sup>. Hence, democracy survives if the elite finds it preferable not to attempt to overthrow it when comparing the expected costs and benefits of trying to overthrow it. The role of the elites is to “initiate” the process of overthrow of democracy when they have with sufficient popular support (or lack of opposition). This is consistent with the oft-stated hypothesis that regime change requires a “leader” (here the elite as the “avant garde” of

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<sup>9</sup>This argument may be made in *any* democracy, new or old, fragile or consolidated. That is, in a consolidated democracy, anti-democratic elements may have the desire to substitute a democratic system with an alternative that favors them, but realize that public support for democracy is sufficiently strong, that any attempt to do so is totally fruitless and hence is not attempted. This is fully consistent with Linz and Stepan’s ‘only game in town’ definition given in the introduction,

the anti-democratic revolution), combined with a mass of followers.

More formally, consider the first-period decision problem of the elites. (Since democracy cannot be overthrown in the second period, we need look only at the first period.) Denote by  $\xi$  the probability of successful overthrow (in period 1), where

$$\xi = \xi(\phi) \quad (1)$$

with  $\xi' < 0$ ,  $\lim_{\phi \rightarrow 0} \xi = 1$  and  $\lim_{\phi \rightarrow 1} \xi = 0$ .

The elite support democracy if and only if

$$W^D \geq \xi(\phi) W^A + (1 - \xi(\phi)) W^{FC} \quad (2)$$

where

$\phi$  = the fraction of the public who support democracy

$W^D$  = welfare of elite under democracy<sup>10</sup>

$W^A$  = welfare of elite under nondemocracy (“autocracy”)

$W^{FC}$  = welfare of elite with failed coup.

We assume that  $W^A > W^D$  (for any feasible policies followed by a democratic government), so that if the anti-democratic elite was sufficiently sure that it could overthrow democracy ( $\xi \rightarrow 1$ ), it would always find it optimal to do so. We also assume that  $W^D \gg W^{FC}$ , representing the great cost to the elite of a failed coup.

Equation (2) is the key constraint a government must satisfy if it is to prevent an attempt to overthrow democracy.<sup>11</sup> We may summarize this in:

**PROPOSITION 1 Survival of Democracy Condition:**

*No coup will be attempted if and only if there is sufficient public support for democracy, that is,*

$$\phi \geq \phi^{CRIT} \equiv \xi^{(-1)} \left( \frac{W^D - W^{FC}}{W^A - W^{FC}} \right) \quad (3)$$

where  $\phi^{CRIT} > 0$ . If a coup is attempted, democracy survives with probability  $1 - \xi$ .

The probability that democracy survives may then be written as

$$\sigma = \begin{cases} 1 & \text{if } \phi \geq \phi^{CRIT} \\ 1 - \xi(\phi) & \text{if } \phi < \phi^{CRIT} \end{cases} \quad (4)$$

**Proof:** The condition follows immediately from (2). The non-negativity of  $\phi^{CRIT}$  follows from  $\lim_{\phi \rightarrow 0} \xi = 1$  and  $W^A > W^D$ . The survival of democracy if a coup is attempted comes simply from the definition of  $\xi$ . The probability of survival  $\sigma$  follow from these. ■

<sup>10</sup>As indicated above, we could make  $W^D$  a function of economic policy, but the assumption that fiscal policy can have only a limited effect on  $W^D$  implies that  $\phi$  will still be the critical variable.

<sup>11</sup>Note that this approach allows for democracy to survive even if there is a coup attempt, as long as it fails. In reality, governments may want to buy off elites so that they make no attempt. Using policy to ensure that  $\phi$  is high enough that a coup is not attempted would have a similar effect.

This proposition formalizes the importance of public support for democracy, to which we now turn.

## 3.2 Citizens

### 3.2.1 Set-up

A citizen  $i$ 's perceived utility under democracy in any period  $t$  is

$$U^i(g_t, h_t) \equiv \sigma [P_t(h_t) V_t^{Gi}(g_t) + (1 - P_t(h_t)) V_t^{Bi}(g_t)] + (1 - \sigma) V_t^{Ai} \quad (5)$$

where

$V_t^{Gi}$  =  $i$ 's expected welfare under democracy in  $t$  if he perceives democracy is good for outcomes;  
 $V_t^{Bi}$  =  $i$ 's expected welfare under democracy in  $t$  if he perceives democracy is bad for outcomes;  
 $V_t^{Ai}$  =  $i$ 's expected welfare under autocracy (non-democracy);  
 $P_t$  = probability that citizens assign to democracy being good for good for outcomes in  $t$ .

Perceived utility over both periods is  $U^i(g_1, h_1) + U^i(g_2, h_2)$ , where for simplicity the discount factor is assumed equal to unity. In the second period, when (by assumption) democracy cannot be overthrown, citizens have no decision problem. The government will choose  $g_2 > 0$  and  $h_2 = 0$ .

In the first period, a citizen's basic decision is whether or not to support democracy. Non-support may take many forms: not voting; demonstrating against democracy or the government; or, not opposing coup attempts. Conversely, support for democracy may take the crucial form of opposing anti-democratic elements, that is, the "elite" at critical points where the success of these elements depends on their degree of support. Following our analysis on the ability of the "elite" to overthrow democracy depending on the fraction of citizens  $\phi$  who support democracy being small enough. (See equation (2) above), we concentrate on determinants of  $\phi$ .

Although all citizens face the same decision problem, we assume that citizens may differ from one another in two respects. First, they may differ in the welfare they perceive if democracy is superior ("good") to nondemocracy and in the welfare they associate with a reversion to nondemocracy. Second, they may differ in the probabilities they assign to democracy being "good" or "bad". For modeling simplicity, we assume that all citizens are influenced by the same expenditures in forming their inferences about democracy (hence the lack of an  $i$  superscript on  $P$ .) . In practice, different citizens will be affected by different programs. This may reflect numerous factors – geographic differences, rural versus urban allocations, and the socioeconomic, demographic, and ethnic distribution of the population. Since our basic argument may be illustrated using only a single type of expenditure, we abstract from this for now, but return to the conceptual point in section 3.4 below.

### 3.2.2 The decision rule

Citizen  $i$  supports democracy if and only if

$$P_1(h) V_1^{Gi}(g_1) + (1 - P_1(h)) V_1^{Bi}(g_1) \geq V_1^{Ai} \quad (6)$$

The crucial, but reasonable assumption is that  $V^{Gi} > V^{Ai} > V^{Bi}$  for some citizens  $i$ . (If  $V^{Bi} \geq V^{Ai}$ , then a citizen supports democracy for sure for any value of  $P$ . If this holds for all  $i$ ,  $\phi = 1$  no matter what, coups are known to have no chance of success, and democracy is fully consolidated.)

Equation (6) with equality defines a critical value  $\hat{P}_i$  for citizen  $i$  such that he supports democracy if

$$P_1 \geq \hat{P}^i \equiv \frac{V_1^{Ai} - V_1^{Bi}}{V_1^{Gi} - V_1^{Bi}} \quad (7)$$

and does not support if  $P_1 < \hat{P}^1$ . We drop the time subscripts on  $h$  and  $\hat{P}^i$  since it is clear this is relevant only in the first period. We also suppress the dependence of the variables on  $h$  and  $g_1$  for now.

### 3.2.3 Public support for democracy

The distribution of values of  $V_1^{Gi}$ ,  $V_1^{Bi}$ , and  $V_1^{Ai}$  in the population induces a distribution of  $\hat{P}^i$  via equation (7). Denote the CDF of  $\hat{P}^i$  by  $F(\hat{P}^i)$ . The fraction of citizens who support democracy for a value  $P_1$  is then simply

$$\phi \equiv F(P_1) \quad (8)$$

that is, the fraction of citizens with  $\hat{P}^i \leq P_1$ . The key observation here is that the higher is  $P_1$ , the greater is the fraction  $\phi$  of citizens who support democracy, that is  $\phi' > 0$ .

We now turn to how  $P$  is formed, that is, how the public forms its perception of the value of democracy. This will allow us to address the question: how might the public's uncertainty about the value of a democratic system help explain the greater political deficit cycle in new democracies?

### 3.2.4 The basic inference problem

Since the efficacy of democracy is unobserved, a natural framework is to use Bayes' rule. (Remember that expenditures to affect perceptions are also unobserved, and citizens do **not** associate the observation of outcome  $S$  rather than  $X$  with manipulation by the government, so that application of Bayes' rule for forming the posteriors is valid.) Suppose that individuals form the posterior

$P_1(\cdot)$  that democracy is good for outcomes on the basis of observed economic performance (“salaries and allowances are paid”, “electricity works”, etc.) and their prior using Bayes’ rule. We consider a simple “2x2” example, but this can be easily extended to multiple outcomes or levels of democracy.

Consider an “event”  $Z_1$  that can have two outcomes:  $Z_1 = S$  consistent with democracy “working” or  $Z_1 = X$  consistent with democracy “not working”. Let  $\gamma_1 = \Pr(Z_1 = S | \text{democracy is “good”})$  and  $\beta_1 = \Pr(Z_1 = S | \text{democracy is “bad”})$ , where  $\gamma > \beta$ . Let  $\pi$  = prior in period 1 that democracy is “good” prior to observing the event  $S$  or  $X$ . The posterior  $P_1$  that democracy is good conditional on the observed outcome may then be written:

$$P_1(Z_1 = S) = \frac{\pi\gamma_1}{\pi\gamma_1 + (1 - \pi)\beta_1} \quad (9a)$$

$$P(Z_1 = X) = \frac{\pi(1 - \gamma_1)}{\pi(1 - \gamma_1) + (1 - \pi)(1 - \beta_1)} \quad (9b)$$

We interpret “events” or “outcomes” not simply as general macroeconomic outcomes, but as specific events, such as government meeting its financial obligations.

Equations (9) have a number of implications, which we summarize in

**PROPOSITION 2 Relation of perceptions of democracy to observed outcomes:**

*In an unconsolidated democracy ( $\pi < 1$ ) a bad outcome will lower the probability  $P$  that citizens assign to democracy being good for outcomes and hence lower support for democracy, while a good outcome will have the opposite effect. In an established democracy ( $\pi = 1$ ), outcomes have no effect on perceptions of or support for democracy.*

**Proof:** The effect of a good or bad outcome on  $P$  follows from (9) as long as  $\gamma > \beta$ , which follows from the definition of  $\gamma$  and  $\beta$ . The effect of this on  $\phi$ , the fraction of the population that supports democracy, follows from the fact that  $\phi$  is increasing in  $P$  in (8). The lack of effect of outcomes on  $P$  when  $\pi = 1$  is obvious from (9). ■

This is the essence of the individual inference problem which will play a key role in determining government’s choice of fiscal policy in a new democracy.

### 3.3 Government

The government is assumed to choose fiscal policy subject to an intertemporal budget constraint

$$g_1 + g_2 + h = 1 \quad (10)$$

(Remember that there are no  $h$  expenditures in the second period, since it is not a point of democratic vulnerability.)

### 3.3.1 Government's objective

The incumbent government's objective is (equally) weighted sum of the value of being in office and the utility of the representative citizen. The government's two-period maximization problem may thus be written (where the discount factor is assumed equal to unity):

$$\underset{g_1, g_2, h}{Max} \Omega = \sigma(h) (\chi + \rho\chi) + (1 - \sigma(h)) \psi + U(g_1) + U(g_2) \quad (11)$$

subject to (10), where

$\sigma(h)$  = probability of a democracy surviving (either due to no coup attempt or an attempt failing);  
 $\chi$  = utility from holding office ("office rents");  
 $\rho$  = probability of reelection;  
 $\psi$  = an incumbent's utility if thrown out of office in a coup;  
 $U(g_t)$  = actual utility of the representative citizen in  $t$  from only  $g_t$ .

A key observation in interpreting (11) is the difference in the incumbent's utility depending on whether he loses office in an election or in a successful coup. The former is normalized to zero, while the latter is assumed to be below the utility associated with a peaceful democratic transition (that is,  $\psi$  is negative), perhaps much below ( $\psi < 0$ ) due to the personal implications to a leader who is deposed in a coup. The magnitude of  $\psi$  will be important in determining a leader's choice of fiscal policy. We take  $\rho$  to be possibly a function of fiscal policy, but since fiscal outcomes are not observed in a new democracy (and furthermore are found by Brender and Drazen [2005b] not to affect election outcomes),  $\rho$  is exogenous in a new democracy.<sup>12</sup> We also assume that a failed coup attempt imposes no costs on anyone other than the elites who staged it.

### 3.3.2 Reference case – consolidated or old fragile democracies

In a consolidated democracy, the prior probability the public puts on democracy being good for outcomes is  $\pi = 1$ . This implies the posterior  $P_1$  and the fraction who support democracy is 1, so that the probability of democracy surviving is one even if  $h = 0$ . The government's maximization problem becomes

$$\underset{g_1, g_2}{Max} \Omega = \chi + \rho\chi + U(g_1) + U(g_2) \quad (12)$$

The optimal solution is expenditure smoothing:  $g_1 = g_2 = \frac{1}{2}$ , reflecting both utility  $U(\cdot)$  being concave in  $g$  and the view that re-election probabilities in consolidated democracies cannot be helped by deficits (consistent with the strong findings of Brender and Drazen [2005b] to this effect). In other

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<sup>12</sup>Brender and Drazen [2005b] find that good economic outcomes do affect re-election probabilities in a new democracy. However, we abstract from that since the effect of good outcomes on the probability that an incumbent stays in office in the second period is captured already in  $\xi$ .

words, there is no electoral cycle in either expenditure or deficits in an established democracy.

When democracy is not fully consolidated but citizens have experience with electoral economics and better knowledge of fiscal manipulation than in a new democracy (an “old, fragile” democracy), the key assumption is that expenditures  $h$  meant primarily to make democracy look as if it is working will be largely ineffective. When  $\sigma$  is assumed unaffected by  $h$  and when  $\rho$  is not improved by deficit spending, the government’s problem is simply to maximize  $U(g_1) + U(g_2)$ , so that here too  $g_1 = g_2 = \frac{1}{2}$ .

We take the absence of a political cycle in old democracies as our reference case.

### 3.3.3 Affecting perceptions in a new democracy

As indicated, the key characteristic of a new democracy in which democracy is not fully consolidated is that the government can devote resources to increasing the probability of a good outcome of event  $Z$ . We model this simply by assuming that the probability  $\mu$  of a good economic outcome is monotonically increasing in government expenditure  $h$ . That is:

$$\mu(h) \equiv \Pr(Z = S | h) \quad (13)$$

(so that  $\Pr(Z = X) = 1 - \mu(h)$ ), where  $\mu'(h) > 0$ .

Using (13), one can then derive the probability that citizens assign to democracy being good conditional on the government’s choice of  $g$ , namely:

$$P_1(h) = \mu(h) P_1(Z_1 = S) + (1 - \mu(h)) P_1(Z_1 = X) \quad (14)$$

Since (14) may be written

$$P_1(h) = \mu(h) (P_1(Z_1 = S) - P_1(Z_1 = X)) + P_1(Z_1 = X)$$

and from (9), one has that

$$P_1(Z_1 = S) - P_1(Z_1 = X) = \frac{\pi(1 - \pi)(\gamma - \beta)}{(\pi\gamma + (1 - \pi)\beta)(\pi(1 - \gamma) + (1 - \pi)(1 - \beta))} > 0 \quad (16)$$

one concludes that  $P_1(h)$  in (14) is monotonically increasing in  $h$ .

The importance of this is summarized in

**PROPOSITION 3 Effect of fiscal policy on the survival of democracy:**

$\sigma(h)$  is increasing in  $h$ , that is, higher  $h$  increase the probability of democracy surviving.

**Proof:** Immediate from combining the relation  $P_1(h)$  with (8) for  $\phi(P)$  and (1) and 4 for  $\sigma(\phi)$ . ■

We may then ask what this implies for fiscal policy at critical points of democratic fragility.

### 3.3.4 Government fiscal choices

We may now return to the government's first-period maximization problem (11). The first-order conditions for  $g_1$  and  $g_2$  imply

$$\frac{dU(\cdot)}{dg_2} = \frac{dU(\cdot)}{dg_1} (\equiv U_g(\cdot))$$

so that at the optimum  $g_1 = g_2 = \frac{1-h}{2}$ . Substituting this into (11), we may write the government's maximization problem as

$$Max_h \Omega = \sigma(h)(\chi + \rho\chi) + (1 - \sigma(h))\psi + 2U\left(\frac{1-h}{2}\right) \quad (17)$$

The first order condition with respect to  $h$  may then be written

$$\sigma_h(h)[(\chi + \rho\chi) - \psi] \geq U_g(g_1) \quad (18)$$

The inequality sign reflects the fact if the loss to the incumbent government from a coup, namely  $[(\chi + \rho\chi) - \psi]$  is large enough and  $\phi$  is “responsive” enough to  $h$  as in the previous section, then it may choose to choose  $h$  high enough that  $\sigma(h) = 1$  (that is,  $\phi = \phi^{CRIT}$ ).

More specifically, consider the level of  $h$  just sufficient to make  $\phi = \phi^{CRIT}$ . Denoting this by  $\hat{h}$ , one has

$$\hat{h} = P_1^{(-1)} \left[ F^{(-1)}(\phi^{CRIT}) \right] \quad (19)$$

where the function  $P_1^{(-1)}[\cdot]$  is defined by (14) and similarly  $F^{(-1)}(\cdot)$  is defined by (8). Government choice of  $h$  is then summarized by:

**PROPOSITION 4 Optimal choice of  $h$ :**

- a) if  $\sigma_h(\hat{h})[(\chi + \rho\chi) - \psi] \geq U_g\left(\frac{1-\hat{h}}{2}\right)$ , then  $h = \hat{h}$  so that  $\phi = \phi^{CRIT}$  and  $\sigma(h) = 1$ ;
- b) if  $\sigma_h(\hat{h})[(\chi + \rho\chi) - \psi] < U_g\left(\frac{1-\hat{h}}{2}\right)$ , then  $h$  is determined by (18) with equality, so that  $0 < h < \hat{h}$ ,  $\phi < \phi^{CRIT}$ , and  $\sigma(h) < 1$ .

$\sigma(h)$  is increasing in  $h$ , that is, higher  $h$  increase the probability of democracy surviving.

**Proof:** Immediate. ■

The implications for a political budget cycle are immediate:

**PROPOSITION 5 Political budget cycles in new democracies due to fragility:**

*Democracies that are fragile (that is where the prior  $\pi$  that democracy is good is less than unity) and where government expenditures  $h$  can affect public perceptions will be characterized by higher expenditures in election than non-election years if the former are points of vulnerability for democracy.*

**Proof:** Since ordinary expenditures are smoothed (that is,  $g_1 = g_2$ ), Proposition 4 which implies that  $h > 0$  in a new democracy yields  $g_1 + h > g_2$ . ■

Our modeling of the democratic survival problem is obviously extremely stylized, but it illustrates the basic problem of a new democratic regime concerned about the survival of democracy when public support is critical. If the public is not convinced about the ability of the democratic regime to maintain a functioning economy, the government may face the need to devote resources to making the citizens not turn against democracy. One could extend this simple model in the direction of greater realism, by, for example, further exploring uncertainty on the part of the government on the extent of expenditures needed to increase the probability of democratic survival. But, the basic result on the importance of such expenditures will be robust to such extensions, so that the key result about the existence of a political budget cycle due democracy not being consolidated will be robust as well.

### 3.4 The magnitude of the political budget cycle

Proposition 5 shows the existence of a political budget cycle due to democratic fragility. To close the argument fully, one would need to show that the size of expenditures  $h$  is large enough to explain the magnitude of the cycle (an increase in expenditures and the deficit of about .8% of real GDP in election relative to non-election years in new democracies a group). In the next section we present some data consistent with our approach (though we cannot “prove” that the cycle is due to expenditures to consolidate democracy). The model indicates some of the determinants.

First comparing incentives in new, fragile democracies versus consolidated democracies ([17] versus [12]) the key difference is  $\psi$ , the high cost of losing office in a fragile than a consolidated democracy. As Proposition 4 makes clear, the higher is  $\psi$ , the higher will be  $h$ .

Second, from (3) (and the underlying (2)) we see that the level and sensitivity of  $\xi$ , the probability of a successful overthrow of democracy as perceived by the elites, to  $\phi$ , support for democracy by the masses, is important. A low level of  $\phi$  (that is, a high level of  $\xi$ ) in the absence of government action, as well as a low sensitivity of  $\xi$  to  $\phi$  (so that a large increase in  $\phi$  is needed to reduce  $\xi$  significantly) will lead to higher level of expenditures  $h$ . Intuitively, if the public begins with a weak belief in democracy and this implies that anti-democratic elements think an anti-democratic coup has a large chance of success, government expenditure on consolidation will be high.

Third, the sensitivity of good versus bad outcomes to fiscal policy is crucial. In terms of our specific model, how does the probability  $\mu$  that a good outcome will be observed rise as expenditure  $h$  increases? Intuitively, how costly is it for the regime to produce good outcomes, that is, outcomes that will induce citizens to support democracy? In practice this would depend, inter alia, on the magnitude of the problems facing the economy before the election year and on “luck” - *e.g.*, global developments. A negative external shock - such as a global slowdown or an increase in import prices - after democratization would make it more difficult - and costly - for the government to persuade the public that democracy can coexist with a functioning economy. Though we did not model it, a crucial characteristic of new democracies is that voters do not see fiscal policy directed toward this end as manipulative. To the extent they learn about election-year manipulation, this sort of fiscal policy will be ineffective and hence less likely to be used.

## 4 Some Regularities

What observable characteristics of or empirical findings about new democracies suggest the importance of fragility in determining economic policy in these economies?

A first regularity is the relation between economic performance and regime survival. Basically, the survival of new democracies is seen to be quite sensitive to economic performance. Przeworski, et al.(2000) find empirically that better growth performance makes a democracy more likely to survive, while poor economic performance makes both presidential and parliamentary systems more vulnerable. Bernhard, Reenock, and Nordstrom, (2003) find this to be true especially prior to the third legislative election. Many other authors make similar observations (see, for example, Linz and Stepan [1978] or Remmer [1996].)<sup>13</sup>

Note further that the transition to democracy is often associated with large structural changes in the economy. This was particularly noticeable in the formerly socialist economies of Eastern Europe but also in Southern Europe and in some Latin American countries.<sup>14</sup> The twin transitions may thus imply an especially great need to show that the economic system functions under the new

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<sup>13</sup>It is often argued that the survival of *authoritarian* regimes is also sensitive, perhaps even more so, to perceptions of their ability to deliver good economic performance. This observation in no way invalidates the sensitivity of democratic regimes to economic performance, our subject of interest.

<sup>14</sup>Of course, one may then argue that the political deficit cycle in new democracies reflects the economic upheaval rather than the political implications of democratic fragility. To address this possibility in our original paper we did two things. First, for the formerly socialist economies (FSEs), we excluded all the elections that took place in the first two years following the transition from communism. Second, we tested for the political cycle both including and excluding the FSEs in the sample and found the same new democracy effect for the existence of statistically significant political deficit cycles. See Brender and Drazen (2005a).

arrangements, and hence the possible need for large fiscal expenditures. It may well be that the large changes in economic structure in some newly democratic countries have electoral effects of their own – governments may well arrive at elections facing more economic problems than in old democracies. However, in order to concentrate on the election-year fiscal implications of showing that democracy works, in our modeling we abstract away from any *direct* effect of the economic transition on fiscal policy. As the previous footnote explains, such effects do not appear to be empirically driving the basic new democracy effect found in Brender and Drazen (2005a).

Further empirical support for our approach may be gleaned from the World Values Survey (Inglehart, 2004). We tabulated differences in the responses between new and old democracies (as defined in Brender and Drazen [2005a]) and after controlling for characteristics such as per-capita income and the age-structure of the population, investigated what significant differences remained in answers to the survey questions. These results from equations based on the mean values for each country are summarized in Table 2. We note three differences between the responses in new and old democracies that we think should be reflected in the modeling of why new democracies are different. In new democracies: 1) people appear to be more tolerant of manipulation; 2) democracy is more fragile; and, 3) people care more about good economic performance. (This last difference is consistent with the empirical work in Brender and Drazen [2005b] on the stronger effect of economic growth on re-election probabilities in new versus old democracies.) These results are confirmed in Table 2A where we estimate similar equations at the individual level, looking for differences between individuals who live in new and old democracies. In addition to country characteristics we also control in these equations for various individual characteristics such as age, gender, the individual’s income level in his country and religion. We also note that there was *no* significant difference in survey responses between new and old democracies in people’s exposure to politics or news (though there may be less “fiscal content” in the news) at the country level (Table 2); in fact, the results at the individual level in Table 2A suggest that people in new democracies tend to follow politics in the media more than those in old ones. In our modeling, we concentrate on the second and third differences. The similarity in the exposure to politics and news does not mean, in our opinion, similar information about how well the economy works – in fact, such a difference is crucial to our approach. Brender (2003) shows that the development of information sources about fiscal performance and the means to deliver them to the public had a substantial effect on the response of citizens to such information. Therefore our argument does not require that in a new democracy individuals are less informed about all aspects of politics for the difference in information to make electoral manipulation possible.

[Put Tables 2 and 2A Here]

A second observation concerns the usefulness of spending directed to specific groups in consolidating democracy. In many established democracies, targeted spending is often quite important in gaining electoral support.<sup>15</sup> When democracy is not yet consolidated, such transfers may play the further crucial function of generating support for the democratic process itself. There are several avenues by which high expenditures may be useful in buttressing a fragile democracy. A leading one is in placating the military (see, for example, O'Donnell and Schmitter [1986] or Gillespie [1991]). O'Donnell (1996) argues more generally that “particularism” – patronage, favors, etc. to specific groups – is important in general in fragile democracies. Many authors suggest that the “newness” of democracy implies *overabundance* of demands due to high expectations. In short, “buying off” groups to gain their support for democracy itself may be an important aspect of fiscal policy in new democracies. However, it may also be needed to use spending on the broader population to create a picture of a functioning economy and society, in order to ensure that the masses support democracy.

Third, in explaining the “new democracy effect” found in Brender and Drazen (2005a), we argued that one should not look solely at expenditures directed at the elites. This is not to say that such expenditures may not be part of the process of democratic consolidation, but that looking only at elites misses a crucial aspect of consolidation. To go a step further, we would argue that expenditures directed at elites would not be of sufficient magnitude to explain the observed effects.<sup>16</sup> That is, in our opinion, any model that would explain the data based on the fragility of democracy must consider spending on the masses.

Some evidence that high expenditures in election years in new democracies are not primarily directed at the elites may be seen in Table 3, where we look at the composition of the increase in expenditures in the election year in the 20 new democracies that had the largest such increase in the sample used by Brender and Drazen (2005a). Countries are ordered by the overall growth in expenditure in the election year (in percent of GDP) relative to the previous year, indicated by the number in parentheses after the election date. For each country the table compares the fraction of the *increase* in public expenditures that was due to each of 4 spending categories (with the share of each category in total spending in the year before the election in the left-hand column in each category).

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<sup>15</sup>Drazen and Eslava (2005, 2006) discuss the electoral budget cycle in established democracies based on the use of targeted spending.

<sup>16</sup>We note however that when buying off elites is seen as critical to democracy surviving, the amount that needs to be given to elites to secure their support need not be proportional or correlated with their size. That is, a very powerful elite may be able to extract an immense amount of resources from the government in order that they to secure their support for the regime.

A larger figure in the right-hand column than in the left-hand column in each category indicates a more than proportional share of that item in the election-year spending expansion. Overall, it seems that the increase in public spending in election years tended to be proportional to the composition of spending before the election year with the share of social spending (welfare transfer payments, education and health) unchanged on average.<sup>17</sup> The detailed composition of the increase in spending suggests that it was mostly transfer payments, agricultural subsidies to restore food supplies, or payment of arrears to utility suppliers that accounted for the increased spending in the election years. While not offering an unequivocal proof, these expenditures can more intuitively be classified as spending on the masses than on elites.

[Put Table 3 Here]

Another key part of the argument was that fiscal manipulation is less observable in new democracies. A somewhat rough indication of this can be drawn from Table 4. In this table we compare the data on public expenditure as reported in the IFS in the year subsequent to the one for which the data are reported with the latest available data for the same year.<sup>18</sup> We find that in new democracies the level of expenditure reported immediately after the election year were 1.6 percent lower than finalized data; it was lower by only 0.3 percent in non-election years. In contrast, in established democracies initial reports for election years were 0.1 percent higher than the final data, compared to 0.4 percent in non-election years. While a comprehensive analysis of the differences in the quality of reporting in various groups of countries is beyond the scope of this paper, these figures are suggestive that new democracies provide a lower quality of data to their citizens in election years.

These observations are meant to be suggestive. Case studies may give more information, but we have found it difficult to find discussions of electoral cycles in new democracies that are very informative about the origin of expenditure bulges. This is work yet to be done.

## 5 Concluding comments

New democracies as a group are characterized by significant election-year increases in public expenditures and deficits not observed in established democracies. Though conventional wisdom is that high expenditures or deficits may help an incumbent get re-elected, Brender and Drazen (2005b)

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<sup>17</sup>The noticeable outlier Ethiopia reflects the combined effects of the war with Eritrea and famine which required higher military spending and agricultural subsidies.

<sup>18</sup>For example, we compare the data for Spain in 1982, as reported in the 1983 IFS, with the data for Spain in the same year as reported in the 2005 IFS.

find no evidence that deficits help an incumbent get reelected in any group of countries, including new democracies. This suggests that the increases in spending in election years observed in new democracies may reflect something other than the incumbent's attempt to gain votes.

In this paper, we have explored the argument that the political cycle in new democracies reflects the fragility of democracy in these countries, that is, the less than full belief of citizens in the efficacy of democracy in producing good economic results. This perception leads governments to expend resources at points where democracy may be especially vulnerable in order to convince the public that "democracy works". The resulting increase in expenditures and deficits may be significant.

Empirically, we find that new democracies are indeed more fragile, both in terms of the public's attitudes toward democracy and the actual likelihood of a collapse. We find that in a new democracy, democracy is far more likely to collapse in an election than a non-election year, so that election years are an obvious critical point for the survival of democracy. There are several reasons why this may be so, including that the time of elections is an obvious focal for dissatisfaction with the new democratic system and a technical point of discontinuity. Combining the above argument on the use of expenditures to consolidate democracy at critical points with the observation that elections are likely to be such points leads to the result that fragility of democracy may explain the existence of a political budget cycle.

We have argued, however, that fragility alone is not sufficient to explain election-year effects. For good economic results to convince the public that "democracy works", such results cannot be seen by the public as a reflection of temporary increases in government expenditure. That is, fiscal policy cannot be seen simply as political manipulation. When voters are experienced with the electoral system and have good information about fiscal policy, election-year increases in government spending are unlikely to lead them to believe that the system is working well. (In fact, as we show in an earlier paper, voters in established democracies punish election-year deficits.) It is only when voters lack experience or information, that is, in new democracies, that such increases in expenditure might be effective in affecting perceptions of the efficacy of the democratic system. Hence, it is the combination of fragility and newness that is key to political expenditure and deficit cycles in new democracies.

Much of the literature on democratic consolidation has focused on elites and the need to gain their support in order for democracy to be consolidated. In contrast, we stress the importance of the attitude of ordinary citizens – their disenchantment with democracy is crucial to the possibility that anti-democratic elites may successfully overthrow democracy, while their support of democracy will help ensure its survival. This shift in focus has both important theoretical and empirical implications,

the existence of a political expenditure or deficit cycle being the focus of this paper.

We have tried to marshal different types of empirical evidence to buttress our conceptual argument. Unfortunately, direct tests of some of our arguments are impossible for both conceptual reasons and due to data unavailability. Nonetheless, we think the evidence, while certainly not definitive, is quite suggestive of the possible connection between democratic fragility and the existence of political budget cycles in new democracies.

We further hope that this paper serves as a contribution to the more general question of determinants of economic policy in states or polities where democracy is not consolidated. Formal modeling of the political economy of weak states is relatively recent. Much good work has already been done, some of which we have discussed here. Like others, we think that this is an especially important area of research. Our focus on the importance of public attitudes toward democracy in explaining policy choices in fragile democracies is a step in that more general research program.

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**Table 1: The Fall of Democracies in Election and Non-Election Years**

|                                                                            |     | New Democracies <sup>1</sup>             |             |                           | Old Democracies <sup>1</sup> |             |                           |
|----------------------------------------------------------------------------|-----|------------------------------------------|-------------|---------------------------|------------------------------|-------------|---------------------------|
|                                                                            |     | (Percent of all the years in the column) |             |                           |                              |             | Total No. of Observations |
|                                                                            |     | Election Years                           | Other years | Total No. of Observations | Election Years               | Other years |                           |
| <b>Fall of Democracy<sup>2</sup></b>                                       | yes | 8.5                                      | 3.0         | 37                        | 0.4                          | 0.7         | 10                        |
|                                                                            | no  | 91.5                                     | 97.0        | 974                       | 99.6                         | 99.3        | 1,419                     |
| <b>Sharp decline in the level of democracy<sup>3</sup></b>                 | yes | 10.8                                     | 3.5         | 45                        | 0.4                          | 0.7         | 9                         |
|                                                                            | no  | 89.2                                     | 96.5        | 966                       | 99.6                         | 99.3        | 1,420                     |
| <b>A decline of 2 or more points in the level of democracy<sup>4</sup></b> | yes | 12.3                                     | 3.9         | 50                        | 0.4                          | 1.2         | 16                        |
|                                                                            | no  | 87.7                                     | 96.1        | 961                       | 99.6                         | 98.8        | 1,413                     |
| Total Years                                                                |     | 130                                      | 881         | 1,011                     | 228                          | 1,201       | 1,429                     |

<sup>1</sup>Countries are defined as new democracies until the 4<sup>th</sup> democratic election campaign.

<sup>2</sup>A downfall of a democracy is defined as a shift from a positive score in the democracy/autocracy scale in the POLITY IV dataset of the University of Maryland.

<sup>3</sup>Defined as a decline of 5 or more points in the democracy/autocracy scale, starting with a positive level.

<sup>4</sup>Starting from a positive level.

**Table 2: Differences in Attitudes and Preferences Between Citizens in New and Established Democracies<sup>1</sup>**

|                                                    | New<br>Democracy     | GDP per<br>capita<br>(1,000\$) | Share of<br>population<br>in ages<br>15-64 | Share of<br>population<br>over age 64 | Constant            | N   | of which:<br>new<br>democracies | Adj. R <sup>2</sup> |
|----------------------------------------------------|----------------------|--------------------------------|--------------------------------------------|---------------------------------------|---------------------|-----|---------------------------------|---------------------|
| <b>Significance of economic performance:</b>       |                      |                                |                                            |                                       |                     |     |                                 |                     |
| Growth is important <sup>2</sup>                   | 0.049**<br>[0.028]   | -0.005***<br>[0.005]           | -0.005*<br>[0.073]                         | 0.007**<br>[0.010]                    | 1.088***<br>[0.000] | 91  | 47                              | 0.32                |
| Stable economic progress is important <sup>3</sup> | 0.110***<br>[0.000]  | -0.003<br>[0.226]              | 0.005<br>[0.152]                           | 0.001<br>[0.839]                      | 0.35<br>[0.108]     | 92  | 48                              | 0.302               |
| <b>Attitudes toward democracy and politics:</b>    |                      |                                |                                            |                                       |                     |     |                                 |                     |
| Democracy is good <sup>4</sup>                     | -0.171***<br>[0.004] | 0.006<br>[0.126]               | -0.028***<br>[0.001]                       | 0.004<br>[0.561]                      | 5.104***<br>[0.000] | 86  | 47                              | 0.342               |
| Maintaining order is important <sup>5</sup>        | 0.077**<br>[0.012]   | -0.004*<br>[0.062]             | -0.005<br>[0.250]                          | 0.006<br>[0.120]                      | 0.703***<br>[0.006] | 137 | 62                              | 0.144               |
| Freedom of speech is important <sup>6</sup>        | -0.052***<br>[0.001] | 0.004***<br>[0.001]            | -0.001<br>[0.718]                          | 0<br>[0.813]                          | 0.161<br>[0.223]    | 137 | 62                              | 0.322               |
| Evaluation of democracy's progress <sup>7</sup>    | -0.203**<br>[0.048]  | 0.018***<br>[0.002]            | -0.041***<br>[0.003]                       | -0.013<br>[0.299]                     | 5.087***<br>[0.000] | 50  | 26                              | 0.519               |
| Superiority of democracy <sup>8</sup>              | -0.208***<br>[0.002] | 0.006<br>[0.179]               | -0.016*<br>[0.079]                         | 0.005<br>[0.517]                      | 4.257***<br>[0.000] | 85  | 47                              | 0.319               |
| <b>Honesty and Government</b>                      |                      |                                |                                            |                                       |                     |     |                                 |                     |
| Cheating to get government benefits <sup>9</sup>   | 0.584***<br>[0.000]  | 0.012<br>[0.272]               | 0.019<br>[0.437]                           | -0.042*<br>[0.057]                    | 1.129<br>[0.431]    | 134 | 59                              | 0.152               |
| Avoiding fares on public transport <sup>10</sup>   | 0.650***<br>[0.000]  | -0.002<br>[0.851]              | 0.012<br>[0.603]                           | 0.015<br>[0.456]                      | 1.3<br>[0.321]      | 121 | 53                              | 0.171               |
| Following politics on the media <sup>11</sup>      | 0.215<br>[0.160]     | -0.002<br>[0.787]              | 0.017<br>[0.424]                           | 0.038**<br>[0.047]                    | 1.158<br>[0.367]    | 48  | 23                              | 0.205               |

<sup>1</sup> Based on the mean responses of citizens' in various countries to the World Values Survey (Inglehart (2004)). The figures in the first row for each question are regression coefficients and the figures in the second row are P values.

<sup>2</sup> The share of respondents stating that a "high level of economic growth" is one of the two most important goals their country should aim for in the

next 10 years. The other options were "making sure that the country has strong defense forces", "seeing that people have more say about how things are done at their jobs and in their communities" and "trying to make our cities and countryside more beautiful".

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<sup>3</sup> The share of respondents stating that a "stable economy" is one of the two most important goals their country should aim for in the next 10 years. The other options were "progress toward a less impersonal and more humane society", "progress toward a society in which ideas count more than money" and "the fight against crime".

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<sup>4</sup> The means of respondents' opinions of the democratic system as a way of governing their country. The possible answers (on a scale of 4) ranged from "very bad" to "very good".

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<sup>5</sup> The share of respondents stating that "maintaining order in the nation" is the most important goal their country should aim for in the next 10 years. The other options were "giving people more say in important government decisions", "fighting rising prices" and "protecting freedom of speech".

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<sup>6</sup> The share of respondents stating that "protecting freedom of speech" is the most important goal their country should aim for in the next 10 years. The other options were "giving people more say in important government decisions", "fighting rising prices" and "maintaining order in the nation".

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<sup>7</sup> The means of respondents' satisfaction with the progress of democracy in their country. The possible answers (on a scale of 4) ranged from "not at all satisfied" to "very satisfied".

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<sup>8</sup> The means of respondents' agreement with the statement "Democracy may have problems but it's better than any other form of government". The possible answers (on a scale of 4) ranged from "strongly disagree" to "agree strongly".

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<sup>9</sup> The means of respondents' opinions on how justifiable it is to claim government benefits to which one is not entitled. The possible answers (on a scale of 10) ranged from "never justifiable" to "always justifiable".

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<sup>10</sup> The means of respondents' opinions on how justifiable it is to avoid a fare on public transport. The possible answers (on a scale of 10) ranged from "never justifiable" to "always justifiable".

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<sup>11</sup> The means of respondents' answers to the question "How often do you follow politics in the news on television or on the radio or in the daily papers". The possible answers (on a scale of 5) ranged from "never" to "every day".

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\* - Significant at the 10 percent level; \*\* - Significant at the 5 percent level; \*\*\* - Significant at the 1 percent level.

**Table 2A: Differences in Attitudes and Preferences Between Citizens in New and Established Democracies<sup>1</sup>**

|                                                    | Living in<br>New<br>Democracy | GDP per<br>capita<br>(1,000\$) | Gender<br>(male = 0) | Age                  | Income<br>level <sup>2</sup> | N       | of which: in<br>new<br>democracies | R <sup>2</sup> |
|----------------------------------------------------|-------------------------------|--------------------------------|----------------------|----------------------|------------------------------|---------|------------------------------------|----------------|
| <b>Significance of economic performance:</b>       |                               |                                |                      |                      |                              |         |                                    |                |
| Growth is important <sup>3</sup>                   | 0.092***<br>[0.000]           | -0.028***<br>[0.000]           | -0.092***<br>[0.000] | 0.003***<br>[0.000]  | 0.033***<br>[0.000]          | 106,451 | 51,746                             | 0.027          |
| Stable economic progress is important <sup>3</sup> | 0.315***<br>[0.000]           | -0.015***<br>[0.000]           | -0.133***<br>[0.000] | 0.005***<br>[0.000]  | 0.024***<br>[0.000]          | 108,656 | 53,125                             | 0.028          |
| <b>Attitudes toward democracy and politics:</b>    |                               |                                |                      |                      |                              |         |                                    |                |
| Democracy is good                                  | -0.098***<br>[0.000]          | 0.009***<br>[0.000]            | -0.057***<br>[0.000] | 0.000***<br>[0.003]  | 0.023***<br>[0.000]          | 95,652  | 47,537                             | 0.052          |
| Maintaining order is important <sup>3</sup>        | 0.253***<br>[0.000]           | -0.016***<br>[0.000]           | -0.041***<br>[0.000] | 0.008***<br>[0.000]  | 0.007***<br>[0.000]          | 153,309 | 68,467                             | 0.026          |
| Freedom of speech is important <sup>3</sup>        | -0.332***<br>[0.000]          | 0.019***<br>[0.000]            | -0.073***<br>[0.000] | -0.006***<br>[0.000] | 0.029***<br>[0.000]          | 153,309 | 68,467                             | 0.05           |
| Evaluation of democracy's progress                 | -0.100***<br>[0.000]          | 0.024***<br>[0.000]            | -0.032***<br>[0.000] | -0.000**<br>[0.034]  | 0.008***<br>[0.000]          | 56,345  | 29,918                             | 0.104          |
| Superiority of democracy                           | -0.207***<br>[0.000]          | 0.007***<br>[0.000]            | -0.040***<br>[0.000] | 0.001***<br>[0.000]  | 0.011***<br>[0.000]          | 88,397  | 46,557                             | 0.046          |
| <b>Honesty and Government</b>                      |                               |                                |                      |                      |                              |         |                                    |                |
| Cheating to get government benefits                | 0.573***<br>[0.000]           | 0.009***<br>[0.000]            | -0.122***<br>[0.000] | -0.016***<br>[0.000] | -0.025***<br>[0.000]         | 150,129 | 63,971                             | 0.04           |
| Avoiding fares on public transport                 | 0.566***<br>[0.000]           | -0.017***<br>[0.000]           | -0.126***<br>[0.000] | -0.021***<br>[0.000] | -0.018***<br>[0.000]         | 136,216 | 60,116                             | 0.071          |
| <b>Following politics on the media</b>             | 0.284***<br>[0.000]           | -0.008***<br>[0.000]           | -0.315***<br>[0.000] | 0.011***<br>[0.000]  | 0.048***<br>[0.000]          | 55,355  | 26,675                             | 0.097          |

<sup>1</sup> Based on the responses of citizens' in various countries to the World Values Survey (Inglehart (2004). The detailed questions appear in Table 2. Controls also included the age composition of the country, marital status, employment status and religion (in a 7 groups distribution). The figures in the first row for each question are regression coefficients and the figures in the second row are P values.

<sup>2</sup> The income level of the individual in his country on a scale of 1-10, where 1 is the lowest level.

<sup>3</sup> Probit equations.

\* - Significant at the 10 percent level; \*\* - Significant at the 5 percent level; \*\*\* - Significant at the 1 percent level.

**Table 3: The composition of Expenditure increase in Election years**

| Country (Expenditure Growth in percent) | Social Expenditure                                                      |                                                                                   | Services and Infrastructure                                             |                                                                                   | Agriculture                                                             |                                                                                   | Other                                                                   |                                                                                   |
|-----------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
|                                         | Expenditure in the year before the elections (out of total expenditure) | Fraction of total election-year expenditure growth accounted for by this category | Expenditure in the year before the elections (out of total expenditure) | Fraction of total election-year expenditure growth accounted for by this category | Expenditure in the year before the elections (out of total expenditure) | Fraction of total election-year expenditure growth accounted for by this category | Expenditure in the year before the elections (out of total expenditure) | Fraction of total election-year expenditure growth accounted for by this category |
| Brazil_1989 (8.85)                      | 31.3                                                                    | 37.4                                                                              | 4.1                                                                     | -3.1                                                                              | 2.0                                                                     | 0.7                                                                               | 62.6                                                                    | 65.0                                                                              |
| Turkey_1977 (7.91)                      | 28.3                                                                    | 24.0                                                                              | 29.8                                                                    | 26.9                                                                              | 3.2                                                                     | 2.1                                                                               | 38.6                                                                    | 47.0                                                                              |
| Greece_1981 (3.83)                      | 51.6                                                                    | 66.3                                                                              | 7.2                                                                     | 0.0                                                                               | 5.3                                                                     | 14.5                                                                              | 36.0                                                                    | 19.2                                                                              |
| Bolivia_1993 (3.76)                     | 37.5                                                                    | 57.0                                                                              | 12.4                                                                    | 26.0                                                                              | 1.8                                                                     | 1.4                                                                               | 48.3                                                                    | 15.6                                                                              |
| Turkey_1991 (3.62)                      | 26.3                                                                    | 12.1                                                                              | 12.9                                                                    | 17.1                                                                              | 2.0                                                                     | 2.0                                                                               | 58.7                                                                    | 68.8                                                                              |
| Hungary_2002 (3.56)                     | 42.7                                                                    | 30.1                                                                              | 2.2                                                                     | 83.9                                                                              | 4.0                                                                     | 10.3                                                                              | 51.1                                                                    | -24.2                                                                             |
| Cyprus_1973 (3.47)                      | 35.8                                                                    | 20.8                                                                              | 11.1                                                                    | -5.2                                                                              | 14.8                                                                    | 62.1                                                                              | 38.3                                                                    | 22.2                                                                              |
| Estonia_1995 (3.15)                     | 59.6                                                                    | -1.8                                                                              | 7.1                                                                     | 2.4                                                                               | 1.6                                                                     | 58.7                                                                              | 31.7                                                                    | 40.7                                                                              |
| Spain_1982 (3.08)                       | 68.8                                                                    | 104.7                                                                             | 3.4                                                                     | 9.6                                                                               | 3.3                                                                     | 1.5                                                                               | 24.4                                                                    | -15.8                                                                             |
| Ethiopia_1999 (2.67)                    | 26.3                                                                    | -22.6                                                                             | 12.0                                                                    | 10.5                                                                              | 8.1                                                                     | 42.9                                                                              | 53.5                                                                    | 69.2                                                                              |
| Jamaica_1976 (2.59)                     | 39.4                                                                    | 44.8                                                                              | 10.0                                                                    | 4.2                                                                               | 6.3                                                                     | 24.3                                                                              | 44.4                                                                    | 26.7                                                                              |
| Cyprus_1983 (2.46)                      | 41.8                                                                    | 14.4                                                                              | 4.7                                                                     | 24.1                                                                              | 14.4                                                                    | 26.6                                                                              | 39.1                                                                    | 35.0                                                                              |
| Mongolia_1997 (2.44)                    | 31.9                                                                    | 39.1                                                                              | 8.8                                                                     | -4.4                                                                              | 2.2                                                                     | 3.0                                                                               | 57.2                                                                    | 62.2                                                                              |
| Brazil_1998 (2.29)                      | 57.5                                                                    | 89.7                                                                              | 1.7                                                                     | 0.2                                                                               | 2.6                                                                     | 1.6                                                                               | 38.2                                                                    | 8.4                                                                               |
| Uruguay_1994 (1.96)                     | 73.6                                                                    | 65.6                                                                              | 4.3                                                                     | 3.9                                                                               | 1.1                                                                     | 1.2                                                                               | 21.0                                                                    | 29.3                                                                              |
| Fiji_1977 (1.90)                        | 37.9                                                                    | 73.2                                                                              | 17.2                                                                    | 0.3                                                                               | 8.0                                                                     | 3.0                                                                               | 36.9                                                                    | 23.5                                                                              |
| Argentina_1999 (1.59)                   | 60.8                                                                    | 38.8                                                                              | 4.6                                                                     | -4.1                                                                              | 0.9                                                                     | -1.2                                                                              | 33.6                                                                    | 66.5                                                                              |
| Nepal_1995 (1.53)                       | 24.1                                                                    | 8.5                                                                               | 13.3                                                                    | 16.4                                                                              | 11.0                                                                    | -4.5                                                                              | 51.6                                                                    | 79.6                                                                              |
| <b>Spain_1979 (1.50)</b>                | 67.9                                                                    | 83.9                                                                              | 3.2                                                                     | 10.9                                                                              | 3.6                                                                     | -5.9                                                                              | 25.3                                                                    | 11.1                                                                              |
| Fiji_1982 (1.42)                        | 31.6                                                                    | 52.3                                                                              | 26.3                                                                    | 1.2                                                                               | 6.5                                                                     | 0.2                                                                               | 35.5                                                                    | 46.2                                                                              |
| <b>Average</b>                          | <b>43.7</b>                                                             | <b>41.9</b>                                                                       | <b>9.8</b>                                                              | <b>11.0</b>                                                                       | <b>5.1</b>                                                              | <b>12.2</b>                                                                       | <b>41.3</b>                                                             | <b>34.8</b>                                                                       |

**Social Expenditure:** Education, Health, Social Security & Welfare, Housing & Community Amenities

**Services and Infrastructure:** Economic Services: Fuel & Energy, Transportation & Communication

**Agriculture:** Economic Services: Agriculture, Forestry, Fishing, Hunting

**Table 4: The Accuracy of Reported Expenditures in New and Old Democracies<sup>1</sup>**  
(In percent of the initially reported expenditures)

|                     |                           | <b>All Years</b> | <b>Election Years</b> | <b>Non-election<br/>Years</b> |
|---------------------|---------------------------|------------------|-----------------------|-------------------------------|
| All Countries       | deviation                 | 0.24             | -0.27                 | 0.42                          |
|                     | Number of available years | 365              | 94                    | 271                           |
| New Democracies     | deviation                 | -0.63            | -1.64                 | -0.30                         |
|                     | Number of available years | 102              | 25                    | 77                            |
| Old Democracies     | deviation                 | 0.58             | 0.23                  | 0.40                          |
|                     | Number of available years | 263              | 69                    | 194                           |
| Developed countries | deviation                 | 0.30             | 0.18                  | 0.35                          |
|                     | Number of available years | 213              | 63                    | 150                           |

<sup>1</sup> figures are the difference between the first figure for the level of central government expenditure that appeared in the IFS within a year after the end of the reported year and the latest available figure for the same year. Countries that did not have a published figure in the IFS within a year from the end of the fiscal year are excluded. A negative figure indicates that the initial figure was smaller than the final one.

Data cover the years 1960 -1995.