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## ELECTORAL AND PARTISAN CYCLES IN ECONOMIC POLICIES AND OUTCOMES

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■ **Abstract** Policy makers in democracies have strong partisan and electoral incentives regarding the amount, nature, and timing of economic-policy activity. Given these incentives, many observers expected government control of effective economic policies to induce clear economic-outcome cycles that track the electoral calendar in timing and incumbent partisanship in character. Empirics, however, typically revealed stronger evidence of partisan than of electoral shifts in real economic performance and stronger and more persistent electoral and partisan shifts in certain fiscal, monetary, and other policies than in real outcomes. Later political-economic general-equilibrium approaches incorporated rational expectations into citizens' and policy makers' economic and political behavior to explain much of this empirical pattern, yet critical anomalies and insufficiencies remain. Moreover, until recently, both rational- and adaptive-expectations electoral-and-partisan-cycle work underemphasized crucial variation in the contexts—international and domestic, political and economic, institutional, structural, and strategic—in which elected partisan incumbents make policy. This contextual variation conditions policy-maker incentives and abilities to manipulate economic policy for electoral and partisan gain, as well as the effectiveness of such manipulation, differently across democracies, elections, and policies. Although relatively new, research into such context-conditional electoral and partisan cycles seems to offer much promise for resolving anomalies and an ideal substantive venue for theoretical and empirical advancement in the study of political economy and comparative democratic politics more generally.

### INTRODUCTION

In democracies, voters elect the key economic policy makers or elected officials appoint them. In these elections, *ceteris paribus*, voters prefer candidates whom they expect, perhaps based on recent experience, will deliver them greater material well-being, perhaps through better aggregate economic performance. Thus, incumbents have powerful incentives to improve voters' economic fortunes, or to signal or feign ability to do so. Moreover, these incentives will sharpen near election time if voters weight the recent past more heavily than the distant past, which they may do myopically or rationally. Furthermore, candidates wage and voters adjudicate these electoral contests in partisan terms. Competing parties cultivate strong ties to differing segments of the voting public and nurture reputations for policy making that favors those segments and their ideological precepts. Parties and voters alike greatly value these partisan ties and reputations, so incumbents generally conduct recognizably distinct partisan policies, which might yield appreciably distinct macroeconomic outcomes.

Political economists have long recognized democratic policy makers' strong electoral and partisan motivations regarding the degree, nature, and timing of economic-policy activity (Nordhaus 1975, Hibbs 1977, Tufte 1978).<sup>1</sup> Given governmental control of effective economic policies, they argued, partisan electoral competition induces observable, regular cycles of electoral-calendar timing and incumbent-partisan nature in economic policies and outcomes. Empirical work, however, typically uncovered stronger evidence of partisan than of electoral cycles in real economic performance, and it found stronger and more persistent electoral and partisan shifts in certain monetary, fiscal, and other policies than in real outcomes. Subsequent general-equilibrium political-economy models of electoral and partisan cycles (Alesina 1987, 1988; Chappell & Keech 1988; Rogoff & Sibert 1988; Rogoff 1990; Alesina & Rosenthal 1995; Alesina et al. 1997)<sup>2</sup> added rational expectations to citizen and policy-maker political and economic behavior, which can explain some of this empirical pattern; yet critical anomalies and insufficiencies remain. For example, patterns and magnitudes of certain cycles of policies and outcomes do not accord well with each other

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<sup>1</sup> A fuller list of this first wave might begin with Schumpeter (1939) and Kalecki (1943) and add Ben-Porath (1975), Lindbeck (1976), Mosley (1976, 1978), MacRae (1977), Frey & Schneider (1978a,b), McCallum (1978), Chappell & Peel (1979), Golden & Poterba (1980), Beck (1982a, 1987), and Lachler (1982) on electoral cycles; on partisan cycles, refer to Beck (1982b,c), Alt (1985), Hibbs (1986, 1987a,b, 1992, 1994), and Havrilesky (1987). For reviews, see Alt & Chrystal (1983) and Willett (1988).

<sup>2</sup> Add to these Cukierman & Meltzer (1986), Nordhaus (1989), Terrones (1989), Ellis & Thoma (1991a,b, 1995), Alesina & Roubini (1992), Alesina et al. (1992, 1993a, 1997), Garfinkel & Glazer (1994), Alesina & Rosenthal (1995), Sieg (1997), Lohmann (1998, 1999), Carlsen & Pedersen (1999), Faust & Irons (1999), Gonzalez (1999a,b, 2000), Cusack (2000), and Heckelman (2001). For reviews, see Paldam (1997), Gärtner (2000), Persson & Tabellini (1990, 1994, 2000, 2001), Drazen (2000, 2001), and Oltsers (2001).

and/or fail to follow known contextual variation in policy makers' policy incentives, control, or maneuverability (see, e.g., Drazen 2001; Franzese 2000, 2002a).

Both rational- and adaptive-expectations political-cycle studies typically underemphasized crucial variation in the *(a) international and domestic (b) political-economic (c) institutional, structural, and strategic contexts* in which elected, partisan incumbents make policy. Henceforth, the simple term *context* or *contextual* will frequently replace the unwieldy italicized phrase, but the reader should not forget this central theme of the present review: that the magnitude, regularity, and content of electoral and partisan cycles will vary with the contexts reflected in differing combinations of conditions (a), (b), and (c). For example, in small, open economies, domestic policy makers may retain less autonomy over some policies, or some policies may be less economically effective, so that electoral and partisan cycles in those policies and outcomes are less pronounced than in larger, less-exposed economies. Some polities, moreover, concentrate policy-making control in fewer, more disciplined partisan actors, which may induce sharper political cycles in, e.g., Westminsterian than in other democracies. Furthermore, some policies may have more effect and so be more useful and so more used for electoral or partisan purposes, and this too varies with institutional, structural, or strategic context. For instance, the political benefits of demographic versus geographic targeting of spending may vary by electoral system, e.g., single-member plurality or proportional representation. As reviewed below, these and other contextual variations condition policy makers' incentives and abilities to manipulate policies and outcomes for electoral and partisan gain, and modify the political and economic efficacy of such manipulation, in manifold ways---which scholars can model, and increasingly have modeled, fruitfully---across democracies, elections, and policies.<sup>3</sup>

Although in infancy, research into context-conditional electoral and partisan cycles in policies and outcomes seems to offer much promise in redressing lingering anomalies and insufficiencies. This work provides an ideal venue for furthering recent theoretical and empirical advances in comparative and international political economy---specifically, the positive political economy of macroeconomic policy and, generally, comparative democratic institutions and policy making. Several recent books (e.g., Keech 1995, Boix 1998, Garrett 1998, Iversen 1999, Clark 2002, Franzese 2002a) show, for example:

- How developed democracies' postwar commitments to the Keynesian welfare state---i.e., some degree of social insurance, public goods and services provision,

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<sup>3</sup> These moves toward explicit theories of institutional, structural, and strategic-contextual conditional policy making may begin to answer the complicating considerations Alt & Woolley (1982) raised two decades ago.

and macroeconomic management by fiscal, monetary, and wage/price-regulatory policy---evolved differently, depending on international and domestic political-economic institutional, structural, and strategic setting;

- How policy-maker recourse to *macroeconomic* policies to fulfill such commitments became increasingly constrained by their own expansion and rising international exposure and so faded relative to *microeconomic* policies of public investment and tax structure;
- How choices among forms of these institutional and policy-paradigm changes manifest as and are determined by partisan electoral and governmental conflict.

Meanwhile, studies of how electoral and governmental institutions shape democratic politics have also advanced greatly. Such studies have elucidated electoral systems, representation, and competition (e.g., Cox 1997); coalition formation (e.g., Laver & Shepsle 1996); divided government and shared policy control (e.g., Tsebelis 2002); and myriad other issues in delegation and agency, common pools, regulation and oversight, etc. Finally, recent developments in macroeconomic modeling of political economy offer a coherent theoretical framework in which to study institutionally and interest-structurally conditioned political and economic effects of economic policy and the democratic choice thereof (e.g., Drazen 2000, Persson & Tabellini 2000, Grossman & Helpman 2001).

All this progress opens exciting opportunities for merging such insights to study how international and domestic political-economic conditions, institutions, and interest structures interact to determine electoral- and partisan-motivated economic policy making in democracies. The key factors that vary across policies, countries, and time to produce such interactive contextual effects include:

- The nature and relative, effective intensity of popular demands for economic policy and outcomes;
- The nature and relative, effective intensity of policy makers' reelection and partisan incentives;
- The inter-, intra-, and extra-governmental allocation of policy-making control across multiple actors;
- Policy maneuverability and efficacy.

Some examples of variation are as follows:

1. Relative, effective electoral demand for redistribution may depend on who votes and in what numbers, which in turn depends partly on electoral institutions (e.g.,

Franzese 2002a, ch. 2), which suggests that electoral and partisan cycles will stress transfers more in some political economies than others.

2. Incumbents' incentives to electioneer may rise with expected closeness of elections (e.g., Wright 1974; Tufte 1978; Frey & Schneider 1978a,b; Golden & Poterba 1980; Schultz 1995; Price 1998) and fall with the number of elected policy makers sharing control (e.g., Alt 1985, Goodhart 2000).
3. Incumbents' autonomy to manipulate monetary policy for electoral or partisan purposes, and the effectiveness of doing so, may depend on central bank independence, exchange-rate regime, and international exposure (e.g., Bernhard & Leblang 1999, 2002; Franzese 1999, 2002b; Oatley 1999; Boix 2000; Clark & Hallerberg 2000; Clark 2002; Leblang & Bernhard 2000a,b).
4. Maneuverability, economic efficacy, and political utility may vary across policies and across polities (e.g., Pommerehne et al. 1994, Keech 1995) depending on domestic economic institutions (e.g., Alvarez et al. 1991, Beck et al. 1993), on accumulated prior obligations (e.g., Blais et al. 1993, 1996; Franzese 2002a, ch. 3), or on international or domestic monetary-policy institutions or commitments (e.g., Oatley 1999; Clark 2002; Franzese 1999, 2002b).

Electoral and partisan cycles in economic policies and outcomes offer an ideal forum for exploring such institutional, structural, and strategic-contextual interactions. The forum is ideal because, in all democracies,

- all policy makers and policies ultimately must survive electoral evaluation (directly for elected policy makers, indirectly for appointed, bureaucratic, and other nongovernmental policy makers); and
- all electoral competition manifests as partisan representative democracy, in which all parties must develop, adapt, and maintain ideological reputations to survive and thrive.

Therefore, electoral and partisan cycles in policies and outcomes should emerge in all democracies, but to degrees and in characters heavily conditioned by multiple interactions among international and domestic political-economic institutional, structural, and strategic conditions.

This review of classical and modern studies of political business cycles, i.e., electoral and partisan cycles in economic policies and outcomes,<sup>4</sup> follows Alesina’s (1988) useful organization of models. That classification is based on whether voters evaluate candidates retro- or prospectively, whether economic actors have adaptive or rational expectations, and whether policy makers have opportunistic (office-seeking) or partisan motivations (Table 1). This review, however, stresses implications of these alternative theoretical foundations for economic policy making as well as for outcomes. It first surveys classic Nordhaus (1975)/Tufté (1978) models of electoral outcome cycles, which assume that policy makers are office-seeking and that citizens form adaptive expectations and retrospective evaluations. They argue that such conditions produce regular pre-electoral surges in stimulatory macroeconomic policies, which spur real economic improvement as elections near and defer any resulting adverse real or nominal effects to incur after the election. As reviewed next, Tufté (1978) stresses electoral cycles in directly manipulable policies and outcomes, such as transfer payments, more than in broader macroeconomic policies and outcomes, and introduces (albeit with little elaboration) several reasons electoral-cycle magnitude or content may vary across democracies, elections, and policies. Next discussed is Rogoff & Sibert’s (1988) and Rogoff’s (1990) concept of “incumbent competence,” which reproduces, in their models (and similar ones, e.g., Persson & Tabellini 1990), electoral cycles in economic policies and outcomes if voters and economic actors apply rational foresight. The review then surveys parallel developments in partisan theory: Hibbs’ (1977, 1987a, 1987b) foundational contribution, then the introduction of election-induced surprises in government partisanship, and so in policy, which reproduces at least short-term economic-outcome cycles from partisan policy cycles (Alesina 1987, 1988; Alesina & Rosenthal 1995; Alesina et al. 1997). Relevant empirical contributions are surveyed throughout, noting theoretical strengths and lingering anomalies or insufficiencies. The last section surveys some of the recent research on international and domestic political-economic institutional, structural, and strategic contextual conditioning of electoral and partisan cycles in economic policies and outcomes, which may begin to redress these shortcomings.

TABLE 1 Classification of political-business-cycle theories\*

Motivations ↓	Expectations and Evaluations	Adaptive, Retrospective	Rational, Prospective
Office-seeking		Tufté (1978), Nordhaus (1975)	Rogoff & Sibert (1988), Rogoff (1990)
Partisan		Hibbs (1977, 1987a,b)	Alesina (1987, 1988), Alesina & Rosenthal (1995),

<sup>4</sup> This paper generally avoids the term political business cycles so as to distinguish explicitly and clearly electoral cycles from partisan cycles, and policy cycles from outcome cycles. As used here, “political” means “electoral and/or partisan.”

\*Classification scheme adopted from Alesina (1988)

## ELECTORAL CYCLES (OFFICE-SEEKING POLICY MAKERS)

### Adaptive, Retrospective Citizens

**ECONOMIC-OUTCOME CYCLES** Nordhaus's "The Political Business Cycle" (1975) considered how incumbents might use monetary policy to leverage an exploitable Phillips curve<sup>5</sup> to buy votes from myopic voters. Although originally, and usually subsequently, stated in monetary-policy terms, the logic of models that assume adaptive, retrospective citizens and office-seeking policy makers (see also Lindbeck 1976, MacRae 1977, Tufte 1978, and footnote 1) extends easily to macroeconomic policy generally.<sup>6</sup>

1. Economic actors have adaptive expectations (i.e., their expectations of current policy are based on past policy), so an expectations-augmented Phillips curve characterizes the economy (i.e., unexpected stimulatory policies spur the real economy: growth and employment).
2. Voters favor incumbents who preside over low inflation and high growth and employment, and they discount recent outcomes less than distant ones in their retrospective evaluations.
3. Incumbent policy makers (*a*) seek reelection and (*b*) control Phillips-curve stimulatory policies.

Under these assumptions, incumbents will conduct stimulatory policy to improve real outcomes (e.g., output, income, employment) in pre-electoral periods and shift to contractionary policy after the election to combat the resulting inflation and to prepare to stimulate again for the next election. Applying Tufte's (1978) murder-mystery terms, points 2 and 3*a* create the "motive," point 1 creates the "opportunity," and point 3*b* creates the "weapon" for incumbents to electioneer.

Point 2 of all office-seeking models---that incumbents benefit from presiding over favorable macroeconomic outcomes---has plentiful, unequivocal support. Kramer (1971), Stigler (1973), Tufte (1978), Arcelus & Meltzer (1975), Bloom & Price (1975),<sup>7</sup> Fair (1978,

<sup>5</sup> The "Phillips curve" reflects the empirical relationship between nominal (e.g., inflation) and real (e.g., unemployment) outcomes. Early electoral-cycle theories built from a macroeconomic theory that a stable negative relationship between the two existed, which policy makers could exploit to trade higher inflation for lower unemployment and vice versa.

<sup>6</sup> Drazen (2001) shows, more fully and formally, how aspects of the logic extend to partisan and electoral fiscal policy with fully rational economic actors, voters, and politicians.

<sup>7</sup> Interestingly, Bloom & Price (1975) find voters asymmetrically rewarded incumbents less for economic booms than they punish them for busts.

1982, 1988), and Hibbs (1987a) all find clearly that incumbent parties in U.S. presidential elections win more votes, *ceteris paribus*, with economic growth higher (tightest relationship), inflation lower, and unemployment lower (weakest). Tufte (1975, 1978) finds similar though smaller and weaker relations of economic conditions to U.S. congressional incumbent votes. Lewis-Beck (1988) shows generally strong support for these relations in Germany, France, Italy, Spain, and the United Kingdom, as does Madsen (1980) in Denmark, Norway, and Sweden. Alesina et al. (1993) and Alesina & Rosenthal (1995) also find U.S. presidential and congressional incumbent vote-shares tightly and mildly related, respectively, to recent-past economic performance; notably, however, they find that voters reward/punish incumbents consistently with naïve, rather than rational, retrospective voting. Others find similarly strong links between incumbents' electoral success and presiding over highly visible and popular macroeconomic policies (e.g., Brender 1999 regarding fiscal policy, specifically deficit reduction). Indeed, "economic voting" seems nearly as reliable across democracies as Duverger's law and the relationship of district magnitudes and numbers to proportionality. So empirically secure is Tufte's "motive" for electoral cycles that scholars have moved to explore how institutional-structural context modifies economic voting, which is itself fully accepted. One highly influential study (Powell & Whitten 1993) finds that voters reward/punish disciplined one-party governments more than multiparty or undisciplined ones for macroeconomic outcomes. By similar logic, scholars might expect voters to hold central governments more tightly accountable for macroeconomic outcomes in unitary systems than in federal systems, which would imply sharper incumbent incentives to electioneer in disciplined, single-party-government, and unitary systems than in others. *Electoral Studies* (2000) offers two full issues of reviews and extensions of these and related advances in economic voting, many of which also suggest context-conditional electoral cycles.

Contrarily, evidence for opportunistic, office-seeking electoral cycles in outcomes, especially real outcomes, is weaker. As Alt & Chrystal (1983, p. 125) remark, "no one could read the political business cycle literature without being struck by the lack of supportive evidence." Alesina and colleagues<sup>8</sup> conclude similarly that evidence from the United States or OECD democracies offers inconsistent support for electoral policy cycles and very little support for electoral outcome cycles, especially in real outcomes. Hibbs (1987a) also doubts electoral cycles, arguing that U.S. presidents require popular support consistently, not just around elections, to pass their agendas through Congress.

<sup>8</sup> Alesina & Sachs (1988), Alesina & Roubini (1992), Alesina et al. (1992, 1993a,b, 1997), Alesina & Rosenthal (1995).



Although these partisan-theory protagonists are the sharpest critics, Nordhaus (1975) also finds significantly more pre- (post-) election years of falling (rising) than of rising (falling) unemployment in only 3 of 9 countries during 1947--1972. However, the relative significance<sup>9</sup> of these comparisons could support a view that closely contested elections, strong and unified executives, and domestic policy autonomy induce the strongest electoral outcome cycles. Thus, some suggestion of conditionality existed from the beginning. Tufte (1978), studying cycles especially in real disposable income, but also in inflation and unemployment, sees greater support in U.S. data and some in a simple cross-national study, but Alt & Chrystal (1983, pp. 120--22) sharply question many of his results, especially regarding U.S. real outcomes. They allow, "Not all of Tufte's evidence can or should be discredited. Sometimes there is observable evidence of a cycle and sometimes not." They suggest this irregularity in electoral cycles might support Mosley's (1976) "satisficing" theory of electioneering, in which public demand and hence policy-maker action on the economy heighten only when key political-economic conditions breach voters' attention filters. Mosley (1978) finds some support for this, an early, simple alternative to later, sophisticated rational-expectations "competence-signaling" models of sporadic electoral cycles (see below).

In a wider view, evidence for classic electoral cycles in economic outcomes is certainly mixed, but less uniformly unfavorable. Paldam (1979, 1981), Golden & Poterba (1980), MacRae (1981), Haynes & Stone (1988, 1989, 1990, 1994), Willett (1988), Grier (1989), Klein (1996), and Schuknecht (1996) all find some signs of outcome cycles, Haynes & Stone most favorably and stridently. Others find weaker signs or none at all (Lachler 1978, 1982; McCallum 1978; Beck 1982a, 1987; Thompson & Zuck 1983; Ahmad 1983; Lewis-Beck 1988; also Alt, Hibbs, and Alesina and colleagues, discussed above). McCallum (1978) explores the relation of unemployment to U.S. electoral cycles and concludes that a variable indicating electoral-cycle phase adds no explanatory power to autoregressive models of unemployment. Lachler (1978, 1982), Beck (1982a, 1987), Ahmad (1983), and Thompson & Zuck (1983) reach similar conclusions regarding U.S. real-outcome cycles. MacRae (1981), contrarily, reports some supportive evidence, especially in the Kennedy and Johnson administrations. Golden & Poterba (1980) find some (though weak) signs of real cycles in the United States, as does Paldam (1979, 1981) comparatively. However, Haynes & Stone (1988, 1989, 1990, 1994) insist that many previous studies mis-specify, and so obscure or understate, electoral cycles by mistakenly creating indicators for some pre-electoral quarters,

<sup>9</sup> United States  $p \approx 0.011$ , New Zealand  $p \approx 0.029$ , Germany  $p \approx 0.090$ , France  $p \approx 0.254$ , Sweden  $p \approx 0.387$ , United Kingdom  $p \approx 0.623$ , Australia  $p \approx 0.696$ , Japan  $p \approx 0.696$ , Canada  $p \approx 0.867$ .

whereas true U.S. electoral cycles, e.g., cover 16 quarters. Any electioneering policies, and so any electoral outcome cycle, would surely follow a smoother path than any simple election-period dummies could well approximate.<sup>10</sup> In autocorrelation, spectral density, and sine-wave analyses of four-year inflation and unemployment cycles, Haynes & Stone's three-equation model of Phillips curve, aggregate demand, and macroeconomic-policy reaction function uncovers strong evidence of four-year unemployment and inflation patterns in U.S. 1951--1980 data, with peaks and troughs that seem consistent with the presidential election cycle. Grier (1989) and Klein (1996) reanalyze U.S. data differently but also find encouraging signs of a real-economic electoral cycle. In all cases, evidence of inflation (and other nominal-outcome) increases around or after elections was the strongest of the electoral-*outcome*-cycle results. (See also Edwards 1993 and Remmer 1993 on inflation and other monetary cycles in developing countries.)

Finally, some recent studies extend the outcome purview of electoral-cycle theory to the financial markets that Tufte (1978) mentioned briefly. Bernhard & Leblang (1999), for example, consider whether election timing and exchange-rate regime choice correlate in parliamentary democracies but find no statistically significant relationship. Leblang & Bernhard (2000b) argue that economic actors make probabilistic assessments of the likelihood that a government will end by election or dissolution. The authors compare the probability to the actual event and find speculative attacks more likely when the political surprise is greater. Leblang (2002) finds that speculative attacks on developing-country currencies are also more likely during periods surrounding elections. Bernhard & Leblang (2002) argue that events beyond election day offer information to actors. They identify three periods that contain key political information: the campaign period from election announcement to election day, the post-election negotiation period from election day until the cabinet forms, and the dissolution period when cabinet membership reshuffles. They find greater biases in forward exchange rates during these periods. Leblang & Bernhard (2000a)

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<sup>10</sup> To this concern, Franzese (2002a) adds the following observations. First, many studies paid insufficient attention to the timing of elections within years and relative to fiscal years. Second, U.S. electoral-cycle studies often use seasonally adjusted data, which, with one third of the Senate and the whole House of Representatives elected every second November and the President every fourth, likely purged about  $(1/3)*(1/3)*(1/2)+(1/3)*(1/2)+(1/3)*(1/4) = 1/18+1/6+1/12 = 11/36 \approx 30.5\%$  of electoral cycles *before estimation*. Third, for this and several other political-institutional reasons (see below), U.S. electoral cycles, on which most studies focused, should be empirically smallest and so hardest to uncover in the data. Fourth, with challengers, post-election years should be at least as stimulatory, and more consistently so, than pre-election years (see below). He thus concludes that previous failure to find electoral cycles may be more condemnation of the empirical than the theoretical constructs of these studies. However, Franzese's theories and empirics address policy cycles more directly than outcome cycles.

<sup>12</sup> Alesina & Roubini (1992) also find temporary partisan differences in output and unemployment (as well as permanent differences in inflation, as Alesina's rational partisan theory implies), and no evidence of permanent partisan differences in unemployment or output (as Hibbs' partisan theory implies; see below).

find, using a GARCH framework, that these periods also correlate with greater exchange-rate variability.

Alesina and colleagues (see footnote 7) champion the opposite side. Alesina & Roubini (1992), e.g., examined political cycles in quarterly observations on 18 OECD democracies. Their base models, essentially maintained in later work, regress growth on some lags, a control for world growth, and an indicator for  $N - 1$  quarters preceding an election, experimenting with  $N = \{4,6,8\}$  and estimating country by country. They find, in sum, no support for office-seeking electoral real-outcome cycles, whereas inflation tends to increase after elections. Pre-electoral stimulatory policies would increase inflation, which, they argue, might support Rogoff's (1990) model of political budget cycles.<sup>12</sup> As one could infer from Drazen (2001), though, virtually any pre-electoral fiscal activism, Rogoff-type or not, would spur post-electoral inflation. Alesina & Roubini (1992) also report, citing other studies, strong evidence of Nordhaus/Tufte cycles in certain policy instruments, notably in transfers. Alesina et al. (1992, 1993a) similarly analyze a like dataset and, again, find little sign of pre-electoral *real* outcome cycles (i.e., cycles in unemployment or growth), but some evidence of monetary expansion around, fiscal loosening before, and inflation increases after elections. Later work (Alesina et al. 1993, Alesina & Rosenthal 1995, Alesina et al. 1997) enhances the econometric sophistication of rational-partisan-cycle empirical models (see below) but does not essentially alter the electoral-cycle empirical models, samples, or findings.

On balance, then, the empirical literature uncovers some possible, but inconsistent and weak, evidence for electoral cycles in macroeconomic outcomes, with evidence for cycles in real variables generally weakest (but not wholly absent). Inflation and other nominal outcomes (such as exchange rates) seem more clearly to rise around or after elections, although the regularity and magnitude of this tendency may have varied across countries (see Drazen 2001, sect. 3.3). Contrarily, electoral cycles in certain economic policies, and especially in direct transfers, appeared stronger and more regular, both statistically and substantively (see below; Alt & Chrystal (1983), Schneider & Frey (1988), Nordhaus (1989), Paldam (1979, 1997), Drazen (2001), and Block (2001b) provide further useful reviews). Moreover, evidence that voters evaluate incumbents on past economic performance (apparently myopically) unequivocally supports the existence of Tufte's "motive." Economists, therefore, have naturally sought explanation for this pattern of mixed support---

stronger for nominal than real electoral outcome-cycles and strongest for electoral policy cycles---in Tufte's "opportunity," i.e., in the proposition that citizens hold adaptive expectations, producing an exploitable Phillips curve (see below). This review will suggest that slippage is as likely to emerge from the implicit assumption in most empirical work that all incumbents seek re-election equally in all elections and that they all equally control policies that are equally effective in pursuing those aims. Theoretically and substantively, contrarily, incumbents' desire for re-election, their control over policies, and the effectiveness of those policies will vary contextually from one election to another. First, let us consider the theories and evidence regarding electoral cycles in economic policies.

**ECONOMIC-POLICY CYCLES** In addition to electoral economic-outcome cycles, Tufte's *Political Control of the Economy* (1978) also stresses incumbent electioneering of the character and timing of economic policy. En route, Tufte presages several conditional electoral-cycle arguments that view the incentive, ability, and efficacy to electioneer as varying across policies, elections, and democracies. "The single most important fact about politicians is that they are elected. The second...is that they usually seek re-election..." (Tufte 1978, p. xi). "[This] simple fact of competition, especially when competition is informed by political ideology, explains a great deal of what goes on in the political world and...in important parts of the economic world also" (p. xiv). Tufte expands the notion, long and widely held by voters, pundits, and politicians, that incumbents benefit electorally from recent favorable macroeconomic conditions---see, e.g., Brougham's complaint about his competitor Pitt's "damned spurts in the nick of time" (p. 3)<sup>14</sup>---to argue that "incumbents may seek to determine the *location* and the *timing* of economic benefits in promoting the fortunes of [themselves], their party, and friends" (p. 4).

Tufte characterizes this electoral cycle as a murder mystery. To electioneer, a candidate, like a murderer, must have motive, opportunity, and weapon. Motive: Incumbent politicians desire re-election and believe that delivering strong pre-election economic conditions to voters will achieve it. That is, "economic movements in the months immediately preceding an election can tip the balance and decide the outcome of the election," and, because the electorate rewards or punishes incumbents for material gains or losses, "short-run spurts...in months immediately preceding an election benefit incumbents" (Tufte 1978, p. 9).<sup>15</sup>

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<sup>14</sup> The full quotation is, "A Government is not supported a hundredth part so much by the constant, uniform, quiet prosperity of the country as by the damned spurts Pitt used to have just in the nick of time," to which add Reagan's "Are you better off now than you were four years ago?" and Clinton's "It's the economy, stupid!"

<sup>15</sup> Nixon's memoirs, for example, are particularly candid in attributing Republican losses in 1954 and 1958, as well as his own 1960 loss, to economic slumps that bottomed near the election.

Opportunity: Tufte assumes incumbents control macroeconomic policies that can exploit Phillips curve relations between nominal and real outcomes and various other discretionary policies that can target and time economic benefits to voters around elections. Such policy control and outcome manipulability provide ample opportunity. Weapon: As incumbents aim to deliver carefully timed economic benefits to key voters, they prefer easily maneuverable policy instruments that can deliver timed and clearly palpable and attributable (to incumbents) economic benefits to large numbers or specific groups of voters. This, Tufte notes, suggests transfers (e.g., social security, veterans' benefits, or other direct payments),<sup>16</sup> tax cuts or delayed hikes, certain types of spending increases or delayed cuts (especially public works), and public hiring or delayed firing. Notably, adaptive expectations and Phillips curve exploitability are largely irrelevant to citizen receipt of benefits from such policies. Indeed, some of Tufte's strongest evidence, and that best-replicated later across many countries and time periods, involves electoral cyclicity in economic policies, especially transfers but also other fiscal and monetary policies (see, e.g., Wright 1974; Ben-Porath 1975; Maloney & Smirlock 1981; Beck 1987; Ames 1987; Alesina 1988; Keech & Pak 1989; Sheffrin 1989; Alesina & Roubini 1992; Alesina et al. 1992, 1997; Krueger & Turan 1993; Schultz 1995; Fouda 1997; Price 1998; Brender 1999; Franzese 1999, 2002a,b; Gonzales 1999a,b, 2000; Moyo 1999; Schuknecht 1999, 2000; Khemani 2000; Shi & Svensson 2001; Block 2001a,b; Block et al. 2001; Harrinvirta & Mattila 2001; Clark 2002).

Tufte also argues, though, that accelerating real-disposable-income growth could serve as a reasonable summary indicator of electioneering across a range of policies. On this point, as noted above, evidence serves him and successors less well. Only 8 of 15 election years in Tufte's sample saw accelerating real-disposable-income growth per capita. He suggests excluding the "abnormally" fiscally conservative Eisenhower administration, which was indeed an exceptional period statistically ( $p \approx 0.026$ ), leaving 8 of 11. However, echoing the emerging theme of this review, Eisenhower's exceptionality suggests conditional electoral cycles, and so begs a systematic theory to explain how current political climate or incumbents' beliefs might alter predicted electoral cycles. Tufte also claims higher average unemployment rates 12 to 18 months before presidential elections (1946--1976) than around

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<sup>16</sup> Clinton's last State of the Union address ("Save social security first!") suggests continued validity for this focus on transfers.

<sup>18</sup> Veterans' payments also tend to peak in the fourth quarter of election years (Tufte 1978, Figure 2-3). Normally, transfer payments peak in December (7 of 8 odd-number years; Tufte 1978, Figure 2-4), but in 4 of 7 even-number years, October or November was maximum (Tufte 1978, Figure 2-5). Social-security checks arrive around the third day of the month; Tufte finds "octokyphosis" in 1964 and 1970, with elections early in the first week of November, and "novemkyphosis" in 1962 and 1972, with elections on November 6 and 7.

them (Tufte 1978, Figure 1-2), but this too received only weak and problematic (see Alt & Chrystal 1983) support. Less questionably, his content analysis of 1946--1969 State of the Union addresses shows that social-welfare and allocative policies are the second most prominent issues mentioned (behind foreign policy), and that their prominence rises over presidents' first terms, dominating by year four; the pattern repeats, but less starkly, in second terms. Likewise, Tufte notes, correctly though vaguely, that stock and financial markets are notoriously attentive to election-year politics, a theme to which Leblang & Bernhard (2000a,b) and Bernhard & Leblang (2002), among others, address more thorough and sophisticated attention. Thus, again, evidence that electioneering matters and that electoral policy cycles occur seems robust; evidence of real-outcome cycles seems less so.

Tufte also reports strong evidence for "credit-taking" and "kyphosis" in election-year policy making (Tufte 1978, Figures 2.1--7). ("Kyphosis" refers to the heaping of random outcomes around some value or, as here, around some time.) "The quickest way to...[accelerate growth in] real disposable income is to mail more people larger checks; i.e., for transfer payments to increase" (p. 29). Indeed, 9 of 13 social-security payment increases from September 1950 to June 1976 occurred in even-number (i.e., presidential-election) years (Tufte 1978, Table 2-1), and 8 of 9 within-year payment increases were in even-number years (Table 2-1). Since 1954, moreover, notice of the increase has come with a signed presidential message (Tufte 1978, Figure 2-1) lest anyone misallocate credit. Moreover, within-year benefit hikes usually occur in September and within-year tax hikes in January (Tufte 1978, Figure 2-2), and U.S. elections occur in November of course. The book overflows with examples of incumbents "making an election-year prank of the social security system and payroll tax" (p. 143).<sup>18</sup> Although Alt & Chrystal (1983) find some of these tales exaggerated, Congress likely did enact automatic (COLA) increases partly in response to voter concern, after 1972's shenanigans, over kyphotic and other electioneering tendencies. Yet, even so, the new system collects social-security taxes starting in January and continuing until the year's requirement is fulfilled, which for many voters precedes November; and, in 1978, after COLA provisions had restrained discretionary social-security increases, Congress shifted fiscal years from July 1--June 30 to October 1--September 30. (Spending tends to heap at fiscal-year changes. It rises near the end of the year, as agencies strive to spend remainders, and again near the start of the year, with new programs.) Tufte notes in this context that incumbents can apply the influence of their office to adjust bureaucratic collection and disbursement processes to induce electoral kyphosis without new legislation. The subtlety in implementation yet palpability and attributability in receipt of



such schedule-shifting electioneering, he argued, places it among office-seekers' preferred tools. Moreover, powerful presidents can more effectively entice bureaucracies to shift timing, implying that more-popular presidents can induce more kyphosis, which again suggests context-conditional electoral cycles.<sup>19</sup>

Tufte also considers electoral cycles in endogenous election timing, which has its own large literature, only briefly covered here (e.g., Chappell & Peel 1979; Lachler 1982; Ito & Park 1988; Ito 1990; Balke 1991; Cargill & Hutchinson 1991; Ellis & Thoma 1991b; Alesina et al. 1993; Chowdhury 1993; Smith 1996, 2000; Heckelman & Berument 1998; Reid 1998; Heckelman 2001). He notes that, where incumbents can call early elections, policy makers might more easily schedule elections to coincide with economic expansions than vice versa (Tufte 1978, fn. 16, p. 14). In fact, Chapter 3 suggests that, as the economies of the developed democracies increasingly synchronize, elections elsewhere (almost all endogenous) would increasingly synchronize with U.S. elections (exogenous). Tufte noted, suggestively, that of the G7 nations only Italy saw greater growth in its own election years than in U.S. election years, and all saw more growth in their own election years than in non-election years (Tufte 1978, Table 3-1, Figure 3-1). From 1959--1970, 13 of 22 non-U.S. G7 elections occurred in odd years, but only 1 of 12 occurred in 1971--1976. However, in a later, more systematic analysis, Thompson & Zuck (1983) find little evidence of such synchronization. Ito & Park (1988) and Ito (1990) find strong evidence of strategic election timing in Japan, as do Alesina et al. (1993), but the latter find little support for the idea elsewhere. Chowdhury's (1993) work on India, as well as most of the later, more comparative studies listed above, uncovered stronger support. The evidence for strategic election timing, particularly in India and Japan (which are dominant-party systems), raises another consideration. Early elections can occur because incumbents opt to call them, which they may do when economic conditions are especially good, or they may occur because coalition supporters abandon incumbents, which can force elections in some systems. Coalition partners might abandon government when economic conditions become especially bad, seeking to avoid the taint of presiding over recession. If this accurately describes the economic conditions that may conduce toward early elections, then economic conditions in countries with endogenous election-timing may exhibit greater variation in election years compared to their variation in non-election years than the same comparison will reveal in exogenous-election countries. Furthermore, as this discussion clarifies, opportunistic election

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<sup>19</sup> This also suggests that, should scholars develop means to test the Rogoff (1990) implication that more-competent incumbents electioneer more, they will need to distinguish competence from popularity/bureaucratic influence.

timing to *strong* economies should occur more regularly in single-party than in coalition governments (see also Smith 1996, 2000).

Thus, Tufte views incumbents as having several instruments for securing electoral advantage including fiscal and monetary policies to manipulate exploitable Phillips curves, more-direct transfers to large or strategic groups, policy timing, and election timing. Across policies and outcomes, he argues and offers suggestive evidence that manipulation of real disposable income per capita outranks that of unemployment among incumbents' preferred tools (Tufte 1978, p. 57), that incumbents prefer transfers to broad macroeconomic policy or outcome manipulation, and that they most prefer policy timing, or, in some settings, election timing. One can infer from Tufte, then, an electioneering Ramsey Rule: incumbents use all available policy tools for electoral gain in proportion to their utility toward that end.<sup>20</sup> This suggests (a) electoral cycles in composition as well as in amount of public activity, (b) more-prominent cycles in policies than in outcomes, (c) more prominent cycles in some policies than others, and (d) that the amount and character of such policy-composition electioneering are institutionally, structurally, and strategic-contextually conditional (see also, e.g., Rogoff 1990, Mani & Mukand 2000, Chang 2001).

Tufte (1978) mentions several other complications of the simple theory, some of which later conditional-electoral-cycles studies (reviewed further below) explore more closely. A single entity called an incumbent does not typically hold full economic policy-making control, for example. Therefore, to electioneer, policy makers (plural) may have to surmount (a) common-pool problems (e.g., Goodhart 2000), agency problems (e.g., Alt 1985), or veto-player problems (e.g., Franzese 2002a, ch. 3) in coalitions; (b) coordination problems between central banks and governments (e.g., Cusack 2000); or (c) other delegation and shared policy-making issues (e.g., Franzese 2002b). The degree of policy-maker discretion, moreover, varies across policies by international and domestic institutional-structural setting. Tufte mentions central-bank autonomy, global-economic exposure, and exchange-rate regime as key considerations, and these are central themes in later views of conditional electoral cycles (e.g., Bernhard & Leblang 1999, 2002; Franzese 1999, 2002b; Oatley 1999; Boix 2000; Clark & Hallerberg 2000; Leblang & Bernhard 2000a,b; Clark 2002). He also notes in this context (Tufte 1978, fn. 1, p. 69) the importance of reserve assets and, by implication, monetary and fiscal solvency more generally, to policy makers' maneuvering room for electioneering, presaging, e.g., Blais et al. (1993, 1996) and Franzese (2002a, ch.

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<sup>20</sup> The Ramsey Rule of public finance states that, with multiple revenue-generating instruments of positive and increasing marginal costs available to fund some task, using all the instruments in inverse proportion to their marginal costs is optimal.



3).<sup>21</sup> He also mentions that policy makers' and voters' beliefs about economic reality (and about others' beliefs) condition the policies most used for electioneering. Especially the economic voting side of recent literature elaborates this theme (e.g., Suzuki 1992). Tufte notes that incumbents may incur political costs if voters perceive them to be manipulating the economy opportunistically (1978, p. 23); given this cost, he speculates that the expected closeness of elections should augment electioneering incentives. An idea contemporaries and followers have often expanded theoretically and pursued empirically (Wright 1974, Frey & Schneider 1978a,b, Golden & Poterba 1980, Schultz 1995, Price 1998). He also suggests that electioneering is asymmetric. In election years, governments defer some actions and hasten to perform others; they close military-bases in non-election years, start showcase programs in election years, generally delay or advance foreign-policy acts or appointments strategically, etc. Recent work stresses this policy asymmetry around elections regarding, for example, reform or exchange-rate policy in developing democracies (Frieden & Stein 2001) and tax cuts or spending hikes in developed democracies (e.g., Harrinvirta & Mattila 2001). Tufte's (1978) presidential-campaign case study illustrating the spiral of candidate promises and counter-promises to raise transfers (pp. 35--36) suggests a direct role for challengers in ratcheting electoral promises (p. 60) and provides the foundation for Franzese's (2002a, chs. 2--3) explanation of some of his findings. Tufte stresses most, though, that the political stakes---and so electioneering incentives and electoral-cycle sizes---vary systematically across elections. For U.S. policy makers, he argues, the stakes are highest in on-year presidential-congressional elections with incumbents seeking reelection, followed by on-year elections without incumbents, then off-year, and last non-election years. He finds (Tufte 1978: Table 1-3) that growth in real disposable income per capita supports this ranking. Later scholars have not thoroughly explored this likelihood that the number and importance of policy-making offices at stake varies by election.

Having demonstrated ample motive, means, and opportunity, Tufte (1978) eventually asks, why electoral policy manipulation is not even greater and more regular than it is?<sup>22</sup> Essentially, he answered, because the conditions that particularly favor incumbent

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<sup>21</sup> See also Tufte (1978, fn. 3, pp. 69--70) for an interesting commentary on the upshot by a contemporary British observer.

<sup>22</sup> Indeed, if voters so strongly reward positive economic performance, might not the opposition try covertly to sabotage the economy? Most analysts have not taken this possibility seriously; oppositions cannot affect the economy much anyway, and being caught in such cynicism is probably too devastating to risk. However, oppositions routinely do something like sabotage when they support legislation that harms the constituencies of incumbents, or resist legislation that benefits them. Thus, oppositions, like incumbents, choose far more direct and targeted tools than manipulation of the broad macroeconomy.

manipulation do not always obtain. This answer upon elaboration, can serve to summarize the key conditional-electoral-cycle arguments that Tufte presages:

- *Expected closeness of election:* For voters to see incumbents as manipulating economic policy or, worse, the economy, for political gain is politically costly. Moreover, such manipulation may limit maneuverability for future policy actions or their efficacy. Therefore, incumbents will manipulate only in proportion to the value of buying a few marginal votes, e.g., only to the degree that they expect a close electoral contest.
- *Variable political stakes by election:* Where incumbents have greater and more unified stakes in an election, electioneering is more pronounced, e.g., more in elections contesting greater shares of powerful offices and to the degree that the incumbent is well-characterized as a unitary actor.
- *Shared policy control, conflict of interest among policy makers:* Several entities may share policy authority, e.g., under separation of powers, federalism, or bureaucratic (including central-bank) influence. If so, then problems of bargaining, agency, coordination, and collective action will dampen, or otherwise complicate, electioneering, especially insofar as these entities serve different constituencies.
- *Maneuvering room:* Prior policy and outcome legacies (e.g., debt or monetary reserves) and policy-making inertia/momentum limit current ability to electioneer in certain policies. For example, high accumulated debt or more policy-making veto players may hinder fiscal maneuverability.
- *Incumbent character, ideology, competence, and beliefs:* (These arguments are either vague or self-explanatory, depending on one's predilections.)
- *Varying issue saliency and policy efficacy:* Across elections and the electoral cycle, different outcomes will have greater saliency with voters, and different policies will be more accessible and effective in addressing those issues, depending on international and domestic political-economic institutional, structural, and strategic context. This suggests conditional electoral cycles in policy composition.
- *Endogenous election timing:* Election timing itself is another policy option in electioneering. This implies that other instruments are used less where election times are endogenous, and that the frequency of recourse to strategic election

calling, and the conditions under which incumbents use this strategy, should also vary contextually.

Tufte (1978) also mentions several universal limits to political control of the economy from which scholars of conditional electoral cycles might derive hypotheses about the relative weights of different policies in electioneering. First, political control of the economy usually operates only at the margins rather than on the underlying structure of the economy; the aggregate of private-sector actions determines most economic conditions. Second, uncertain lead and lag times of policy implementation and the effects thereof and, third, mutual agreements to “depoliticize” some economic policies (e.g., collection and reporting of economic data)<sup>24</sup> limit access to or utility of some policies for electioneering. Economic theory imposes a fourth limit. Policy makers cannot easily ignore consensus among theoreticians (concerning free trade, no price floors or ceilings, etc.). Only strong political pressure can overcome such consensus, although well-organized groups, for example, may be able to apply sufficient pressure (Olson 1965, 1982). The Council of Economic Advisers gives economic consensus an institutionalized voice in the United States; similar institutions of varying influence exist in all democracies.<sup>25</sup>

On these many theoretical complications, Alt & Chrystal comment (1983, p. 122), “Eclecticism is part of Tufte’s problem.” Their criticism refers to his tendency, perhaps reflecting the intellectual climate of his time or his near-exclusive single-country focus, to add these modifications to explain his data or examples entirely. That is, Tufte often applies such conditional argumentation to explain too much, so that “whatever happens can probably be interpreted as supporting one of [Tufte’s arguments]” (Alt & Chrystal 1983, p. 122). A modern lens, however, naturally converts these ad hoc conditional hunches into theories of

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<sup>24</sup> Tufte 1978 also cites central-bank independence in this context, but many would contest characterizing central banks as depoliticized.

<sup>25</sup> Tufte also enumerates and evaluates some potential costs of political control of the economy: stop-go economies; “making an election-year prank of the social security system and payroll tax” (1978, p. 143); short-termism or myopic bias toward policies with immediate, highly visible benefits and deferred, hidden costs and away from policies with the opposite characteristics; special-interest biases toward policies with small costs on many and large benefits for few and away from the opposite; and replacement of economically optimal with politically optimal adjustment paths (p. 144). Tufte acknowledges all of these costs. He discounts Nordhaus’ prediction that Phillips-Curve exploitation implies “politically determined policy...will have lower unemployment and higher inflation than is optimal,” noting that the data indicate voters are strongly inflation-averse and know right-wing parties reduce inflation, so that they could simply elect the right if concerned about inflationary bias. He offers several prescriptions for these ills, of varying practical and philosophical interest: reduce incumbent flexibility in calling elections (although the Ramsey-Rule logic actually argues he should rather suggest increasing flexibility), randomize election dates, desynchronize electoral and fiscal calendars, raise public attention to and knowledge of electioneering, or dilute political control of economic policy. Tufte is highly critical of the depoliticization movement. He notes its “well-financed” arrival after the events of 1972 and calls proposed cures “obtuse” in removing economic policy from political control, one place where democratic ideals seem most realized in practice, merely to reduce the particular problem of election-year economics.

systematic variation in electoral-cycle magnitude or content that readily generate comparative hypotheses for empirical evaluation. Empirically, scholars should model or at least control for such conditionality (Alt & Woolley 1982). That is, each consideration that complicates the theory should, but generally does not, also complicate the empirical analyses. This omission may have contributed to the ad hoc sense and, via mis-specification, to the apparent empirical weakness. Some recent advances are discussed below, but first, consider the electoral policy-cycles evidence.

Since before Tufte (1978), empirical work has stressed not only that certain policies should expand or contract around elections, but that closer elections should generate more such electioneering. For instance, a cross-sectional analysis of federal government expenditures during the 1930s (Wright 1974) shows that states with more competitive presidential races (in past voting history) received higher shares of federal spending on average. Frey & Schneider propose a theory combining office-seeking and partisan (see below) motivations to argue that governments that expect lower odds of reelection will stress electoral aims relative to partisan aims more than those that expect better electoral showings. Vulnerable governments will therefore pursue “common” fiscal policies, ones “clearly preferred by a majority” of voters, prior to the election, but the victors become more ideologically motivated after the election. Frey & Schneider (1978a,b, 1979; see also Schneider & Frey 1988) find support for this theory in German, U.K.,<sup>25</sup> and U.S. data. Pommerehne & Schneider (1980) find Australian government expenditure and transfers (1960--1977) related positively, and total tax revenues negatively, to electoral vulnerability. Schultz (1995) returns to this theme, finding strong evidence of electoral cycles in U.K. transfers policy conditioned by expected closeness of elections; Price (1998) finds similar results in exploring his nonlinear modification of Schultz’s argument.

Notably, when empirical specifications allow only unconditional electoral policy cycles, and/or fail to control electoral closeness, and/or analyze less-direct policies, the support for electoral policy-cycles is weaker, although still stronger than for electoral outcome-cycles. Alesina (1988), for example, finds some weak evidence of U.S. electoral cycles in transfers, as do Keech & Pak (1989) for veterans’ payments, both of which more-direct policies than macroeconomic stimulus. Maloney & Smirlock (1981) find that non-defense spending rises somewhat when new presidents take office, controlling for unemployment gaps; this suggests that spending is slightly more Keynesian in election years. Golden & Poterba (1980), contrarily, find electoral-cycle indicators and presidential popularity unimportant or

insignificant determinants of budget surpluses. That is, their monetary- and fiscal-policy models reveal correctly signed but insignificant coefficients on electoral-cycle indicators, and their transfers models do not find the expected correlations with the electoral cycle. Hicks & Swank (1992) find welfare spending in OECD democracies during 1960--1982 insignificantly correlated with pre-electoral indicators but highly responsive to participation rates, which may suggest conditionality. Thus, the evidence for electoral transfers-cycles is not unquestionable but is mostly strong and favorable, especially considering the electoral-cycle specification weaknesses that Haynes & Stone (1988, 1989, 1990, 1994; see also footnote 9) stress, which persist here, and especially when empirical models allow cycles to be conditional on expected closeness.

As already noted, Alesina and colleagues (footnote 7) report monetary expansion around, fiscal laxity before, and inflation surges after U.S. or OECD-country elections. Grier (1987, 1989) and, less certainly, Sheffrin (1989) also report U.S. electoral monetary cycles. Beck (1987) finds higher U.S. money growth around elections, yet no electoral cycle in monetary reserves or the Federal Fund rate, which suggests that fiscal and other policies more than monetary activism induce monetary and inflation cycles, at least in the United States. As elaborated below, Franzese (1999, 2002a,b) finds highly context-conditional post-electoral inflation surges as well as pre- and post-electoral transfers and debt surges (transfers stronger) in OECD data. Clark & Hallerberg (2000), Hallerberg (2002), and Hallerberg et al. (2001) also find context-conditional electoral cycles in, respectively monetary policy, fiscal policy, and both. Meanwhile, in developing democracies, scholars almost uniformly discover electoral cycles in many different policies (e.g., Ben-Porath 1975, Ames 1987, Edwards 1993, Krueger & Turan 1993, and Remmer 1993 find mixed support; for reviews, see Schuknecht 1996, 1999, 2000; Fouda 1997; Brender 1999; Gonzales 1999a,b, 2000; Moyo 1999; Grier & Grier 2000; Khemani 2000; Shi & Svensson 2001; Block 2001a,b). Block et al. (2001) offers a review. This pattern of support---almost unassailable for direct-transfers cycles, also strong in other policies and in inflation around or after elections, and weakest in real-outcome cycles---seems to favor Drazen's (2001) proposed active-fiscal-policy version of rational electoral and partisan cycles. That pattern and the remarkably strong support from developing democracies also suggest context-conditional cycles rather than fixed-magnitude, fixed-content cycles.

### **Rational, Prospective Citizens**

**ECONOMIC POLICY AND OUTCOME CYCLES** Viewing this pattern of electoral-cycle evidence---stronger in policies, especially more-direct ones, and stronger in nominal than in

real outcomes---economists, as noted above, naturally questioned the assumption of adaptive expectations and exploitable Phillips curves (i.e., Tufte’s “opportunity”). Economists observed that electoral cycles in these models consistently fool voters and economic actors (violating Lincoln’s famous adage), yet voters can easily foresee elections and policy-maker incentives. Thus, electoral cycles should not exist or should have no real effects if voters and economic actors are rationally foresighted. Before proceeding on that basis, however, note that if some economic actors apply adaptive expectations, then exploitable Phillips curves will exist in proportion to their share of the economy. Likewise, if some voters evaluate incumbents retrospectively, their vote share gauges incumbents’ incentives to leverage these Phillips curves to buy votes. Moreover, as next elaborated, if some performance-affecting incumbent characteristics persist over time and if voters cannot fully observe these characteristics, even rational prospective actors will evaluate retrospectively. Therefore, if, as many believe, some actors are more fully rational or informed than others (and other model assumptions hold), classical electoral-outcome-cycle models should have some, albeit irregular<sup>27</sup> or muted, validity.

In rational-expectations electoral-cycle models (Cukierman & Meltzer 1986; Rogoff & Sibert 1988; Rogoff 1990; Ellis & Thoma 1991a; Sieg 1997; Heckelman & Berument 1998; Lohmann 1998, 1999; Carlsen 1999; Faust & Irons 1999; Gärtner 1999; Gonzalez 1999a,b, 2000; for review articles or textbook treatments, see Nordhaus 1989, Terrones 1989, Alesina et al. 1997, Paldam 1997, Gärtner 2000, Persson & Tabellini 1990, 1994, 2000, 2002; Drazen 2000, 2001; Oltsers 2001), elected policy makers enjoy some information advantages over voters, possess some outcome-affecting characteristics that persist over time, and control some policies with which they can leverage their advantages to signal or to feign beneficial characteristics. In one model (Rogoff & Sibert 1988), incumbents of varying “competence,” defined as the efficiency with which they finance fixed public spending, can lower taxes before an election to signal or feign high competence, using less-visible borrowing or seignorage to cover any shortfall until after elections. Crucially, voters cannot observe competence directly but know it to persist and to be policy-maker specific. Under certain assumptions and parameterizations, this induces pre-electoral tax cuts and post-electoral inflation or debt hikes, not from very low-competence policy makers, but

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<sup>27</sup> That is, mixed-strategy equilibria involving random incumbent electioneering may exist.

<sup>32</sup> The typical result that more-competent incumbents electioneer more, being better able to distinguish themselves from challengers that voters in these models can only expect to be average, actually suggests that more-competent challengers incite *less* electioneering. This may offer some empirical leverage on (and does not bode well for) competence-signaling models.

increasingly over the middle-competence range and then decreasingly at higher competence levels.

In another model (Persson & Tabellini 1990), incumbents have information advantages over voters regarding exogenous macroeconomic shocks and control policies that can counteract such shocks. Some policy makers manage macroeconomic policies more competently, achieving greater real stabilization at lower nominal cost (inflation), and such competence persists but is unknown to voters. Under these conditions, prospective voters rationally evaluate incumbents retrospectively, preferring those who have recently delivered above-average mixtures of inflation and stabilization because (by Bayes' Law) the probability of high competence incumbents given recent strong performance is greater. Thus, voters expect better real outcomes if they reelect incumbents than if they elect random, unproven (i.e., expected average-competence) challengers. Accordingly, incumbents would like to signal or to feign competence with stimulatory policies around elections, and either all incumbents will electioneer in this way ("pooling equilibrium") or only the more competent will ("separating equilibrium").

In a third model (Rogoff 1990), incumbents of varying competence in converting public revenues into valued spending control more-visible public consumption and less-visible public investment. Again, under certain informational conditions, incumbents shift budgetary composition toward current consumption as elections near, in order to signal or feign competence; and, again, either pooling or separating equilibria obtain, with all or only competent incumbents electioneering. Rogoff (1990) also notes usefully that competence in such models might reflect the match of a policy maker's worldview to the political-economic relations governing reality, with this effectiveness of match between worldview and reality being the policy-maker specific quality that persists over time,

As others (e.g., Alesina et al. 1997; Drazen 2000, 2001; Persson & Tabellini 2000) have also summarized, the main observable difference between rational-expectations-equilibrium electoral cycles and the Nordhaus (1975)/Tufté (1978) variety of electoral cycles is that the former model predicts smaller and less regular cycles, especially in real outcomes. This could fit the stylized facts discussed above, as those reviewers noted. However, determining whether the comparative-historical record exhibits the correct degree of "smaller, less regular" cycles, even if that degree were theoretically known, would be empirically difficult. Moreover, many conditional-cycle considerations also imply less-regular, smaller electoral cycles, especially in an empirical record generated by studies that did not allow such conditionality. Likewise, another distinguishing feature of equilibrium electoral-cycle

models, namely that the magnitudes and natures of electoral cycles depend on incumbent competency, many may believe unobservable. (Recent advances in gauging challenger quality in studies of campaign-money effects on election outcomes might help.) In a rare direct analysis, Alesina et al. (1993) conclude that the correlations of economic shocks across administrations required for retrospective voting to be rational do not obtain in the U.S. political economy.

In sum, the evidence does not contradict rational-expectations competence-signaling theories of electoral cycles in economic policies and outcomes, and these cycles do seem less regular and smaller than naive classical models suggest. However, voter evaluations do not seem consistent with the rational retrospections that underlie these models, and conditional-cycles theories---which either rational or myopic models could incorporate consistently but generally do not---also predict smaller, irregular cycles or cycles that *seem* smaller or irregular if empirical models specify them, as most do, unconditionally. Most political economists, moreover, probably view the empirical world as populated by actors with varying information and rationality, which, as noted at the start of this section, likewise implies smaller and irregular cycles in either classical or rational-expectations settings. Thus far, therefore, the stronger case for general-equilibrium electoral-cycles models is more theoretical than empirical. It shows how to reconcile observed cycles with rational expectations but does not demonstrate that rational expectations explain observed cycles.

### **Further Discussion of Electoral Cycles**

This review finds that claims of insufficient empirical support for the existence of electoral cycles condemn empirical specifications at least as much as the theory itself. Voters' rational expectations and prospective evaluations probably do limit the degree to which incumbents manipulate economic policies---and, *a fortiori*, outcomes---for electoral advantage. Moreover, although important economic issues may hinge on whether theories fully or only partly incorporate rational expectations, from a political-economy perspective, this is only one limitation on such opportunism, and perhaps neither the most important nor the most interesting. (Exploring the economic issues surrounding rational expectations directly rather than simultaneously with the various political-cycle theories to be tested might prove more productive.) As stated above, the capacity and incentives for and the effects of electioneering should vary predictably across policies depending on context: international and domestic, political and economic, institutional, structural, and strategic context. In this light, competence-signaling models mainly offer further conditionality worthy of study if difficult to evaluate empirically.



Before discussing such context-conditional electoral-cycles further, the next section reviews partisan models, some issues in which, having been covered above, are addressed only briefly. First, one key issue underemphasized in electoral-cycle models demands attention.

Challengers play only the most indirect roles in all these models. Higher-quality challengers, for example, must lead incumbents to expect closer elections, so the mostly empirically supported prediction that closer elections generate more electioneering (Wright 1974, Tufte 1978, Frey & Schneider 1978a,b, Golden & Poterba 1980, Schultz 1995, Price 1998) also suggests that greater electoral manipulations will occur in elections with higher-quality challengers and in systems that generally produce such challengers. Likewise, higher challenger quality should modify incumbent incentives to signal competence, although the way the incentives change depends heavily on the exact informational assumptions.<sup>32</sup> Franzese (2002a) finds, for instance, that electioneering in transfers and in deficits occurs both the year before and the year after elections---in fact, electioneering is more pronounced and more certain the year after. Noting Tufte's (1978) observation that electoral campaigns often involve incumbent and challenger counter-promises of largesse, he suggests that the role of challengers may explain this. Incumbents can fulfill their pre-electoral promises and therefore must do so to maintain credibility; winners can and almost always do likewise<sup>33</sup> for like reasons; and, *ceteris paribus*, candidates who promise more with greater credibility will win. Therefore, the pool of pre-electoral policy makers will contain some incumbents who promised and/or delivered too little, or whose promises were insufficiently credible, and who therefore lost; whereas the pool of post-electoral policy makers will contain winners (returning incumbents and entering challengers) who promised, and so now must enact, greater largesse. The election serves as a filter for credibility promised largesse. Thus, especially if newly seated governments are most productive (another empirical regularity), post-electoral electioneering will be greater and more certain than pre-electoral. Note, finally, that this too could explain some weaknesses in many early studies, which compared only pre-electoral periods to all others, including immediate post-election periods. It could also explain the generally stronger findings for inflation cycles than other outcomes.

## **PARTISAN CYCLES (POLICY-SEEKING POLICY MAKERS)**

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<sup>33</sup> Pomper (1971), Rose (1980), Alt (1985), and Gallagher et al. (1995, ch. 13) all report strong electoral-promise redemption.

<sup>35</sup> Even typographic style and how best to misquote the Founding Fathers differ between parties (Tufte 1978, fn. 3, p. 73).

## **Adaptive, Retrospective Citizens**

**ECONOMIC-OUTCOME CYCLES** As with electoral-cycle theory, the basic tenets of partisan theory are simple. Candidates contest and voters adjudicate elections in partisan terms. The competing parties cultivate strong ties to different groups of voters and nurture reputations for policy making that favors those groups and accords with their ideologies. Parties and voters value these partisan reputations and ties, so incumbents conduct recognizably distinct partisan policies, yielding appreciably distinct economic outcomes. However, given Downs' (1957) famous result that two-party electoral competition causes platforms and policies to converge on the preferences of the median voter, scholars must first demonstrate that parties pursue differing outcomes, and that this translates into enacting differing policies in office.

Tufte (1978) argued that electoral calendars set the schedules and timing of policy but partisanship and ideology set its substance. Parties of the right favor low taxes, low inflation, and modest, balanced budgets; they oppose equalization and accept higher unemployment more willingly than inflation. Parties of the left favor equalization, low unemployment, and larger budgets with less emphasis on balance; they accept inflation more willingly than unemployment. In Tufte's judgment, 1976 U.S. Democrat and Republican platforms contrasted more than public opinion on economic issues, and the 1944--1964 platforms differed more on economic and labor issues than on foreign affairs, agriculture, defense, natural resources, and even civil rights. (Voters were divided similarly, though less sharply.)<sup>35</sup> Concern over inflation and unemployment, in particular, is highly cyclical and common to all voters, but persistent partisan differences are evident (Tufte 1978, Figure 4-1). His analyses of *Economic Reports of the President* and *Annual Reports of the Council of Economic Advisors* (Tufte 1978, Table 4.2-4) also show recognizable partisan patterns in the frequencies of dire references to inflation or unemployment. These divergent party views, he argues, are rooted in their supporters' socioeconomic differences (Tufte 1978, pp. 84--85, Table 4-5). He concludes that party ideologies and platforms differ; voters recognize and act on these differences; and parties generally fulfill their promises (Tufte 1978, p. 90).<sup>36</sup>

Hibbs' partisan theory (1977, 1986, 1987a,b, 1992, 1994)<sup>37</sup> similarly distinguishes left- and right-party policy and outcome priorities, stressing their relative inflation or unemployment aversion:

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<sup>36</sup> By Pomper's (1971) estimate, presidents fulfill an average 84% of their party's economic-policy platform promises.

<sup>37</sup> Hibbs 1977 introduces; 1987a most thoroughly expounds; 1986, 1987b, 1992, and 1994 extend and review.

Avoidance of inflation and maintenance of full employment can be most usefully regarded as conflicting class interests of the bourgeoisie and proletariat, respectively, the conflict being resolvable only by the test of relative political power in society and its resolution involving no reference to an overriding concept of the social welfare. (Hibbs 1987a, p. 1, quoting Harry G. Johnson)

The main losers from unemployment and recessions, Hibbs (1987a) shows, are those at the low end of the occupational and income hierarchies; and the tax-and-transfer system only partly mitigates this. Specifically, he notes that unemployment is universally regarded as a key indicator of macroeconomic health and individual hardship. Its aggregate costs are obvious; unemployment implies a waste of human resources, which implies lost real output/income. Specifically, 1950--1983 U.S. data suggest 1% higher unemployment reduces output growth 2.1% (Hibbs 1987a, p. 50), which translated in 1987 to over \$1,000 per household per year. (Hibbs also reports estimates that no more than 25% of this value returns to households as extra leisure.) More importantly, the divergent unemployment incidence over economic cycles across socioeconomic groups, especially class, race, and age, is striking. In 1960 (mild recession), 1970 (boom), and 1980 (recession), blue-collar exceeded white-collar unemployment by 5.1%, 3.4%, and 6.3%, respectively; minority exceeded white unemployment by 5.3%, 3.7%, and 6.9%, respectively; and unemployment among 20--24-year-olds exceeded that among 25--54-year-olds by 4.2%, 4.8%, and 6.1%, respectively (Hibbs 1987a, p. 53, Table 2.3).<sup>39</sup> Hibbs documents also the high individual costs of unemployment, and cites Brenner (1973, 1976) empirically linking unemployment rates to multifarious psychological, social, and medical problems that include family tensions, stress, mental health, suicide, homicide and other crime, and cardiovascular and renal disease. (Brenner's summary estimate is that 1% higher unemployment yields 30,000 more deaths per year.) Finally, Hibbs (1987a, pp. 57--61) shows that the tax-and-transfer system *partly* mitigates unemployment costs, replaces more lost income for lower income groups than higher, and, above the poverty line, functions about equally well for minorities and whites.

Although it works less well for minorities below the poverty line and less well for female

<sup>39</sup> Unemployment is also, but less, gender distinct. Higher female unemployment risk vanishes when the analysis controls for occupation, meaning that gender bias in unemployment risk stems directly from gender bias in occupational access or preferences.

<sup>42</sup> If aversion to inflation arises from the confusion of aggregate and relative price changes, then this aversion should be strongest in countries where the oil crises, which were relative-price shocks, caused more severe real costs along with inflation. Oil importers (e.g., Japan, most of Europe, the United States) should have more inflation-averse voters than do oil exporters (e.g., Norway, the United Kingdom, Canada).

than for male heads of households, it otherwise generally does (or did) exactly what its designers intended. The tax-and-transfer system probably also has some of the detrimental side effects its opponents have decried, but claims that it has failed its primary mission are demonstrably false. In sum, unemployment severely harms the aggregate economy, and workers, minorities, and youth face more severe and more severely cyclical unemployment risks.

Contrarily, there is almost no evidence that inflation rates per se, short of hyperinflation and distinct from relative-price movements and inflation variability, harm any aggregate real outcome. Hibbs (1987a, pp. 90--98) and many others find no evidence that inflation affects average personal tax rates or aggregate real tax revenues, aggregate real growth, or aggregate investment or savings (which suggests that the substitution and income effects of inflation tend roughly to cancel). Nor do they find that inflation shifts private investment from nonresidential to housing (Hibbs 1987a, pp. 107--117). Even inflation's distributional effects are generally small compared with unemployment's (Hibbs 1987a, pp. 77--89). Inflation may (statistically insignificantly) shift some income from the top two quintiles to the bottom two, but only appreciably harms the wealthiest 1%--5% of the population, presumably as asset holders. Indeed, the only strong deleterious effects of inflation appear in capital returns, profitability, and stock returns (Hibbs 1987a, pp. 98--107). Thus, notes Hibbs, popular aversion to inflation is largely psychological and/or arises from confusion of aggregate (nominal) with relative (real) price changes,<sup>42</sup> perhaps both partisan abetted. In sum (Hibbs 1987a, pp. 72--77), the main real aggregate costs of inflation arise from policy makers' reactions against it. At least in the postwar United States, these costs follow an empirical rule of 1% unemployment above the natural rate for one year reducing inflation by about 0.5%. Distributional effects, though generally small, appreciably affect only the wealthiest.

Therefore, objectively, the upper middle and especially the upper classes have relatively more to fear from inflation and less from unemployment than do the lower middle and especially the lower classes. The relevant comparison for partisan theory is that the ratio of unemployment aversion to inflation aversion among the lower class exceeds that ratio among the upper class. All classes surely dislike both unemployment and inflation, and one need not establish that either the lower or upper class suffers more from either outcome, but rather that lower/middle classes fear unemployment relative to inflation more than upper/middle classes do. Moreover, the relevant comparison is their actual distaste for, i.e., their perceived and not necessarily their objective costs from these two evils.

Hibbs (1987a, pp. 127--38, Figures 4.1--4.3) shows that economic issues, most prominently inflation and unemployment, typically dominate popular responses to Gallup's "most important problem today" question, although international and defense and/or domestic political and social issues occasionally surpass them. Further, Hibbs demonstrates that inflation and unemployment concerns respond to objective economic conditions intuitively. More crucially, he shows how relative inflation/unemployment concern varies across electoral groups, with Democratic, blue-collar, lower-income voters more unemployment-averse and less inflation-averse than Republican, white-collar, higher-income voters (Hibbs 1987a, pp. 138--41, Figures 4.5--4.7, Table 4.1). Thus, actual aversions to as well as objective costs of inflation and unemployment exhibit the required relativity.

Finally, Hibbs (1987a, pp. 142--84) shows that popular support for the U.S. president and his party depends on current, past, and perhaps anticipated future performance. He reports obvious partisan patterns in preferences for specific presidents, and several ancillary results regarding lag structures, weights on the degrees to which voters compare current incumbent performance to that of past administrations or to that of past administrations of the same party<sup>44</sup> honeymoons, and responses to events such as the Vietnam War and Watergate. His crucial finding is that Democrats penalize incumbents 1.1 times as much for unemployment as for inflation, whereas Republicans and Independents punish them only .65 and .49 times as much for unemployment as for inflation (Hibbs 1987a, p. 177). In sum, different groups of voters suffer disproportionately from unemployment or inflation; public perceptions reflect this objective difference; and popular and electoral approval of incumbents follow the same pattern, producing differing partisan incentives to combat unemployment or inflation.

Hibbs (1987a) suggests that scholars view the above relations as reflecting popular demand for economic policies and outcomes. These relations provide Tufte's (1978) "motive," discussed above regarding electoral economic-outcome cycles, for partisan economic-outcome cycles; an exploitable Phillips curve again provides opportunity and weapons. For supply (i.e., the policy motives derived from demand), Hibbs argues policy

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<sup>44</sup> Hibbs shows how to estimate empirical answers to some very precise questions regarding the electorate's reaction to economic outcomes: the rate at which voters discount past performance, the degrees to which voters compare incumbents to the performance of their party's past administrations or to which they compare the current to all past administrations, and the relative weights on unemployment and inflation.

<sup>46</sup> Economic models with certain combinations of multiple non-competitive markets, e.g. non-competitive labor and product markets, and/or with nominal contracts ("sticky" wages and/or prices) or other nominal rigidities can support new-Keynesian (as opposed to neoclassical) models (with much debate about how short is the short run, etc.).

makers seek to maintain comfortable support levels during their terms, to maximize votes at election time, and to serve their core constituencies' ideological and distributional goals. Constraints on these pursuits, mentioned but not elaborated by Hibbs, include central bank autonomy, executive-legislative relations, federalism, and economic structure and conditions (e.g., Phillips curve shapes, international institutions, global shocks). For weapons, Hibbs notes four basic options: monetary policy, fiscal policy, direct controls, and rhetorical persuasion. He stresses the first two. Rhetorical persuasion, though cheap and easy and therefore commonly used by policy makers, is relatively ineffective. Policy makers rarely resort to direct controls because they find them more costly and difficult to use (conflicting starkly with academic consensus), and their effectiveness is uncertain. Monetary policy and fiscal policy are more promising weapons. In the "new Keynesian" perspective, they can and do have sizable short-run impacts, although the government cannot do much about long-run conditions except through public investment (e.g., in education).<sup>46</sup>

Working from a roughly new-Keynesian basis, Hibbs' central arguments are that the two most important political influences on macroeconomic policy are partisanship and electoral incentives, and that partisanship is the more potent.

The economic interests at stake during inflations and recessions, the ways in which class-related political constituencies perceive their interests and respond in the opinion polls and in the voting booth to macroeconomic fluctuations, and the ways in which economic interests, preferences, and priorities of political constituencies are transmitted to macroeconomic policies and outcomes observed under the parties are the main themes of [partisan theory]. (Hibbs 1987a, p. 2)

Specifically, left parties seek, and will accept higher inflation to get, lower unemployment and higher growth; right parties seek, and will tolerate higher unemployment and lower growth to obtain lower inflation. Left parties will also expend greater effort toward equalization than right parties. Hibbs acknowledges that stable, long-run inflation-unemployment tradeoffs may not exist but stresses that stabilizing inflation and supporting low unemployment (and high growth) are often conflicting goals.

Faced with demand shifts, supply shocks, labor-cost push, and other inflationary events, political administrations repeatedly have been forced to choose between accommodating inflationary pressures by pursuing expansive monetary and fiscal policies, thereby foregoing leverage on the pace of price rises in order to preserve aggregate demand and employment, and leaning against such pressures by

tightening spending and the supply of money and credit, thereby slowing the inflation rate, at the cost of higher unemployment and lower growth. (Hibbs 1987a, p. 2)

Estimating partial-adjustment models from U.S. data, Hibbs (1977, 1987a) shows roughly long-run 1.5%--2% higher unemployment and 5.3%--6.2% lower real growth under Republicans than Democrats (1987a, p. 225, Table 7.3). Democratic administrations contributed about three fifths of the 1948--1978 reduction in 20/40 (the ratio of top to bottom-two quintiles shares) income inequality (1987a, p. 242, Table 7.6). Beck (1982b) raises some methodological and empirical concerns about these magnitudes, finding that Hibbs' (1977) results exaggerate differences between U.S. parties by about one third and that unemployment was actually higher under some Democrats than some Republicans (Hibbs 1983 replies), but Hibbs' basic conclusions emerge unscathed. Haynes & Stone (1994) also find partisan outcome cycles in the United States, again stressing that typical dummy-variable specifications assume more discrete policy and outcome shifts than are empirically likely, which may obscure actual cycles and, here, cloud comparisons of traditional and rational partisan theories (see below). Hibbs (1987b, 1992, 1994) finds appreciably distinct economic outcomes under left and right governments not only in the United States but also in broader samples of OECD democracies, as does Paldam (1989). Alesina and colleagues (footnote 7) concur on the existence of both U.S. and OECD partisan outcome cycles (see below). Alt (1985), Alvarez et al. (1991), and Beck et al. (1993) find partisan patterns in unemployment or growth in OECD countries that depend on institutional and strategic context (see below). In sum, evidence for partisan outcome cycles of worsening nominal and improving real and distributional outcomes under left governments generally emerges readily from U.S. and comparative data, although Clark and colleagues<sup>48</sup> find that more-sophisticated conditional-cycle explorations favor electoral more than partisan models (see below).

**ECONOMIC-POLICY CYCLES** A mammoth empirical literature addresses various aspects of partisan policy. For example, Imbeau et al. (2001) offer meta-analysis of 43 of over 600 publications they uncovered from, among other sources, Bartolini et al.'s (1998) database of 11,500 studies of European parties and party systems. Hibbs (1987a, p. 249, Table 7.7) finds that U.S. fiscal policy (cyclically adjusted deficits controlling for wars) and monetary policy (M1 money-supply growth) track presidential partisanship (and, to a lesser degree, House

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<sup>48</sup> Clark et al. (1998), Clark & Hallerberg (2000), Hallerberg et al. (2001), [\*\*AU: No Hallerberg et al. 2001 in Lit Cited.\*\*] Clark (2002), Clark et al. (2002).



and Senate partisanship), consistent with the outcome effects he has noted. Alesina and colleagues (footnote 7) likewise interpret the partisan monetary and fiscal cycles they find in U.S. and OECD postwar samples as capable of producing the outcome effects predicted by rational partisan theory (although others note some anomalies in this regard; see below). However, as one might expect with so many samples, methodologies, and specifications, the wider empirical record is mixed. In Imbeau et al.'s (2001) meta-analysis, 37 of the 43 studies address economic policy, spanning welfare, education, health, social-security, privatization, intervention, public-employment, spending, revenue, debt, deficit, and other economic policies to yield 545 correlations or regression coefficients. (Imbeau et al. graciously posted their IDEOPOL data to <http://www.capp.ulaval.ca/bases/bd6.htm>.) Of these, 395 (72.5%) sign as standard partisan theory predicts, with 135 (24.8%) significant at  $p \leq .10$ ; 145 (26.6%) have wrong sign, 45 (8.3%) significantly; 5 (0.9%) report no relation. Overall, this is a fair record, considering the simplicity of many of these studies (e.g., 58% bivariate). Moreover, as the Imbeau et al. (2001) study clarifies statistically, the strongest evidence of partisan policy effects comes from multivariate analyses<sup>50</sup> of post-1973 samples, examining government "size" in terms of revenue, spending, employment (especially), or social welfare effort (to a lesser extent). Such results may suggest that partisan cycles, like electoral cycles, follow a Ramsey Rule, with preferences for certain policies and a high degree of context dependence.

Wilensky (1976, 1981) finds many but often insignificant bivariate correlations of partisanship with various social, welfare, or fiscal policies in 19 OECD countries during 1965--1971. Hewitt (1977) finds slightly stronger signs of partisan effects on redistribution with controls in 17 OECD countries during 1962--1974. Cameron (1978) finds mildly or nearly significant partisan effects on total public revenues in an early cross-section, and an early time-series study by Pommerehne & Schneider (1980) finds Australian Liberal (right) and Labor (left) parties in 1960--1977 pursuing partisan spending and tax policies. Hicks & Swank (1984a,b) find stronger partisan cycles in social and welfare policies than in fiscal budgetary policies, and Swank (1988) finds that left parties spent more than right and center parties in the 1960s but less than center in the 1970s. Finally, perhaps most prolifically and representatively, Castles and colleagues report fully 183 correlations and regression coefficients relating partisanship to social, education, welfare, health, and total spending, of

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<sup>50</sup> Multivariate analysis probably serves as a proxy for appropriate methodological and specification sophistication. [\*\*AU: OK? OK]



which 166 (90.7%) have correct sign, 57 (31.1%) significantly so, and 16 (8.7%) have incorrect sign, 2 (1.1%) significantly so (Castles & McKinlay 1979a,b; Borg & Castles 1981; Castles 1981, 1982, 1986, 1989). Thus, first, the early record shows the strongest partisan ties to total spending or revenues, and stronger ties to social or welfare policies than to fiscal-deficit policy. Second, the motif of correct signs and near significance might suggest insufficient sample size or variation, inappropriate or inadequate controls, or mis-specification of a conditional relationship as unconditional,<sup>51</sup> or it might simply indicate that partisan policy differences are weak, as Clark and colleagues hold (footnote 46).

Later studies, often more sophisticated and including more post-1973 data in time-series cross-section form, are typically stronger, especially regarding government size. The strongest incorporate systematic institutional, structural, or context conditional predictions (see below). For example, like Cameron (1978) but stronger, Huber et al. (1993) find long-term left governance associated with government size, as do Blais et al. (1993, 1996), conditional on outstanding debt. Cusack et al. (1989) finds strong partisan effects on public employment. More recently, Persson (1999, 2002) and Persson et al. (2000) offer further broad support for partisan government size and macro-policy effects. For the United States, Beck (1982c) and Chappell et al. (1993) find partisan monetary effects via federal appointments. Several others (e.g., Jonsson 1995; Simmons 1996; Oatley 1999; Franzese 1999, 2002b) find partisan monetary policies in wider samples, conditional on domestic and international institutional and structural context (see below). Innovatively, Boix (1998) finds intuitive partisan differences in several supply-side policies (active labor market, privatization policies, etc.). Franzese (2002a) reports nearly significant partisan effects on transfers, even when controlling for median-voter income. He also finds significant partisan deficit effects, but those predicted by simple partisan theory emerge only in specific, extreme, and somewhat rare strategic contexts. Cusack (1997) finds partisan influences on public spending, which increasing international-economy linkages have weakened but not severed. Contradicting naive views that the left are unconditional deficit producers and the right are unconditional surplus producers, Cusack (1999) demonstrates that left governments use fiscal policy countercyclically and right governments use it procyclically---styles that conform to their respective supporters' interests---and that this difference, too, has weakened with increasing international exposure. Cusack (2000) finds partisan government fiscal and monetary policy, with which central banks coordinate under right but not left governments

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<sup>51</sup> Many critics suspect this mis-specification, or at least suspect that a conditional relationship was modeled as incorrectly or insufficiently conditional. The frequent resort to time-period-specific effects, for example, only imperfectly proxies for more systematic institutional, structural, strategic conditionality.

(see also Sieg 1997, Vaubel 1997). Garrett (1995, 1998), Swank (1992), and Hallerberg & Basinger (1998) study partisan effects on government's relative reliance on capital, income, and consumption taxation, finding that the left favors income over consumption taxation, but also, counterintuitively, that international exposure has induced greater capital-tax cuts from the left. Clark and colleagues (footnote 46) are more pessimistic. Even though they allow conditionality on various combinations of central-bank autonomy, exchange-rate regimes, and capital mobility, they can unearth little evidence of partisan monetary or fiscal policy, especially any simple relationship between left governments and budget deficits. As the above survey shows, many now share some of this skepticism (see also Alesina & Perotti 1995a,b, Hahm 1996, Hahm et al. 1996, Ross 1997, Boix 2000).

In general, the U.S. and comparative evidence most strongly supports partisan effects on the size of government, in terms of public employment, revenue, or spending. It also moderately supports partisan distinctions in some specific policy areas, namely social and welfare, tax-structure, and monetary policy. The evidence offers considerably less support for naive views of the left (right) as unconditional deficit (surplus) producers. In all cases, and perhaps especially in monetary and fiscal-deficit policies, the evidence seems to suggest that partisan governments' recourse to these policies depends heavily on their international and domestic political-economic institutional, structural, and strategic context. See Schmidt (1997) for an early, partial review.

### **Rational, Prospective Citizens**

**ECONOMIC POLICY AND OUTCOME CYCLES** In contrast to electoral cycles, no particular empirical puzzle motivated the introduction of rational expectations into partisan theory. As shown above, the evidence was solid for partisan cycles in real and nominal outcomes and sufficient if not unequivocal for some policy cycles that could produce those outcomes. Alesina's (1987, 1988) seminal "rational partisan theory" filled more-pressing theoretical needs, providing a framework logically coherent with modern rational-expectations economics, the central tenet of which is that fully expected macroeconomic policies, such as those assumed by traditional electoral or partisan policy-cycle models, are ineffective.

Alesina & Rosenthal (1995) and Alesina et al. (1997) collect and advance their 15 years of research (footnote 7) on the effects of democratic politics, i.e., primarily of central-government elections and partisanship, on macroeconomic policies and performance. These books examine "how the timing of elections... [and] the ideological orientation of

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<sup>53</sup> They report that results for 6 quarters versus 4 and 8 quarters differ little. The indicators are lagged 1 quarter for growth and 2 quarters for unemployment to reflect delays in outcome responses to policies.

governments...influence unemployment, economic growth, inflation, and various monetary and fiscal policy instruments” (Alesina et al. 1997, p. 1) in developed capitalist democracies. Alesina and colleagues contrast (a) “opportunistic” models of electoral cycles, in which politicians are motivated primarily by the desire to retain office and care little about policies or outcomes per se with (b) models of partisan cycles, in which politicians do care about policies and outcomes and exhibit strong partisan ideological differences. (They recognize, of course, the possibility that politicians care about both.) Within each of these types, they distinguish between (a) first-generation models, which relied on stable, exploitable Phillips Curves and relatively naive voters with nonrational expectations, and (b) subsequent iterations, which emphasize the rational expectations of all economic and political actors.

Alesina and colleagues have examined aggregate political and economic data over the postwar period from the United States separately and from many OECD countries together (including the United States). They conclude that the evidence remarkably consistently favors the later, rational-expectations models; that it indicates strong partisan effects but few discernible election-year effects on macroeconomic outcomes; and that it suggests both election and partisan effects on macroeconomic policies. Subsidiarily, they find that partisan policy and outcome effects are clearer in two-party/bloc than in multi-party/bloc systems; that governments in two-party/bloc systems adjust fiscally to deficit-inducing shocks more quickly than irregularly alternating coalition governments do; and that the net economic benefits of credibly delegating monetary authority to conservative policy makers (e.g., central-bank independence) are larger than would be expected in the absence of electoral and partisan policy-making cycles. The empirical case, however, may be less unambiguous than they claim.

In Chapters 2 and 3, Alesina et al. (1997) summarize the rational-expectations (RE) and non-RE versions of electoral- and partisan-cycle theories. In non-RE electoral theory, policy makers control policies that can exploit a stable Phillips curve, and voters naively and myopically reward incumbents who preside over strong economies (high growth, low inflation and unemployment). Policy makers thus regularly attempt to time their use of fiscal and monetary policies to exploit the delay between expansionary policies and inflationary consequences to secure high growth and low unemployment and inflation before elections, with a post-election inflationary effect. In RE versions, Phillips curves and voters are less exploitable. Instead, policy makers achieve similar electoral effects by exploiting (a) differences in the timing with which various policies become clear to rational voters and (b) private information on their own competence (e.g., their ability to provide more public goods

at less tax cost). If competence is random but policy-maker specific and persistent over time, voters will reelect incumbents who have recently shown competence. If voters can see some the benefits of some public policies before they can evaluate their full costs, then incumbents will try to signal or feign competence by providing more such public goods at lower taxes before elections, delaying the costs (inflation, other tax increases, or reduced spending) until after elections, when the relevant information will reach voters.

The implications of RE and non-RE opportunistic theory are similar, except that voter rationality will limit the size, regularity, or duration of electoral cycles in the RE version relative to non-RE version. In non-RE partisan theory, left policy makers target higher growth and lower unemployment and tolerate higher inflation than those of the right, who prefer the opposite. With exploitable Phillips curves, policy makers use their policy control to shift economic outcomes in the desired direction during their term. In RE partisan theory, only unexpected monetary and fiscal policy can create such real-economic effects, so when left (right) governments are elected, to the degree this was not completely foreseen, growth, employment, and inflation rise (fall). However, as time elapses, new economic actors can agree to new price and wage contracts expecting the higher (lower) inflation, so growth and employment return to their natural rates, while inflation remains higher (lower). Thus, Alesina et al. (1997) claim that RE and non-RE versions of partisan theory differ primarily in whether the real effects of partisan shifts in government persist or fade over the term of the government.

In an interesting political extension, Alesina & Rosenthal (1995) show how U.S. voters can leverage the division of policy control between presidents and Congress to achieve actual policies intermediate between the two parties' ideals. In on-year elections, voters can only base their balancing on expected presidential winners and congressional medians. In off-year elections, with presidential uncertainty resolved, they can balance with congressional votes more effectively, inducing the oft-noted midterm congressional losses of the president's party.

In seasonally adjusted, quarterly U.S. data on macroeconomic outcomes from 1947 through 1993, Alesina et al. (1997) find that an indicator equal to 1 (--1) in the first few quarters<sup>53</sup> of Republican (Democratic) administrations, and 0 after, empirically dominates a traditional indicator equal to 1 (--1) over whole administrations. They interpret the former specification as representing the shorter-term real effects in the RE model of the unexpected component of post-election policy. Inflation, contrarily, is permanently higher under left than under right governments in both the RE and non-RE models, and the data support that too.

The empirical dominance of the short-term dummy seems indisputable; yet the strong conclusion for RE models on this basis carries caveats.

First, the substantive difference in their reported results is not great (see Franzese 2000). Second, more important, rational expectations are not the only explanation for the shorter duration of partisan effects. As Alesina et al. (1997, p. 62) note themselves,

Democratic administrations, which are expansionary in the first half, observe by midterm a significant increase in the inflation rate. Because a high inflation rate may become a significant electoral liability, Democratic administrations contract the economy so that by the election year one observes a growth slowdown and a reduction in the inflation rate. Conversely, Republican administrations that had anti-inflationary recessions in their first half pursue low inflation and accelerating growth in the second half, a combination that may give them an electoral benefit.

In either RE or non-RE models, the described policy pattern, which would result from the midterm balancing that they predict for example, would yield the shorter-term outcome pattern. “Honeymoon effects,” the historically greater ability of administrations to enact policy changes in their first few months than later, would also produce this pattern under either theory. So would any diminishing returns from stimulation and anti-inflation policies. Third, and worst for RE partisan theories, Alesina et al. (1997, p. 87) report substantively and statistically stronger real-growth partisan cycles before 1972, the Bretton Woods (fixed exchange-rate) era, than after; yet they also find that the inflation differences across right and left administrations emerged only after 1972 (p. 90). Since RE partisan theory holds that the inflation surprises induced by elections cause the short-term real partisan cycles, this is suspicious.

Meanwhile, they report little to no evidence of low unemployment ( $\tilde{t} \approx -1.15$ ) or higher growth (wrong sign,  $\tilde{t} \approx -.58$ ) before elections or of higher inflation after elections ( $\tilde{t} \approx +.31$ ). Unfortunately, they do not report results with controls for real-supply shocks, nor do they attempt to distinguish pre-- from post--Bretton Woods eras, as they did for the partisan theories. As noted above, Clark and colleagues (footnote 46) find stronger electoral outcome cycles with these refinements, and Alesina and colleagues (footnote 7) themselves find stronger post-electoral inflation cycles in such studies, as do several others who allow such conditional inflation cycles (see below). Seasonally adjusted data are also somewhat problematic in the United States, since the occurrence of congressional elections every other November and presidential elections every fourth November could reduce the size of U.S. electoral effects by 25% to 50% (depending on adjustment method).

In U.S. policy, Alesina et al. (1997) explore money growth, nominal-interest rates, budget deficits, and transfers. They find weak evidence of partisan differences in money growth ( $\tilde{t} \approx 1.1-1.2$ ), though stronger in a 1949--1982 sample ( $\tilde{t} \approx 1.8-2.4$ ), and stronger evidence of partisan differences in nominal-interest rates ( $\tilde{t} \approx 2.2-3.3$ ).<sup>54</sup> They again find little sign of pre-electoral effects on monetary policy ( $t < 0.5$  in all cases). However, they do not report differences by exchange-rate regime and, oddly, they lag the partisan indicator 2 quarters. The latter seems problematic because they assume real effects to lag 1--2 quarters and to arise from the gap between expected and actual nominal outcomes or policies. Empirically, the real effect emerges *before* monetary-policy or inflation changes, suggestive of Drazen's (2001) active-fiscal/passive-monetary cycles (see also Beck 1982c, 1987; Berger & Woitek 1987, 2002).<sup>55</sup> Furthermore, if Bretton Woods dampened partisan differences in monetary policy, as their and others' results suggest, then their stronger 1949--1982 (than post 1982) monetary-policy results indicate a narrow window of distinct partisan U.S. monetary policy, only or primarily during 1973--1982. Finally, Alesina et al. (1997) find little pre-electoral effect on deficits ( $\tilde{t} \approx .3$ ) or transfers ( $\tilde{t} \approx .4-.7$ ), and little partisan effect on transfers ( $\tilde{t} \approx .7$ ), although these reduce data to fiscal years rather than quarters and ignores post-electoral effects. However, they do find statistically significant effects of right administrations in increasing deficits ( $\tilde{t} \approx 2.1$ ).<sup>56</sup>

Alesina et al. (1997, chs. 2 and 3; see also footnote 7) clearly establish that the real effects of partisan U.S. administrations follow a short-term pattern, but the RE explanation for that pattern is less fully established by this evidence than the authors claim. First, little substantive difference emerges in the estimated effects. Second, many other explanations for short-term patterns are at least as consistent with evidence and intuition (including at least one of their own). Third, based on Alesina et al.'s own evidence, the monetary- and fiscal-policy pattern, especially across pre-- and post--Bretton Woods samples, cannot explain the outcome pattern within the RE framework. Likewise, the lack of evidence for either outcome or policy effects of U.S. elections is weakened by the failure to consider exchange-rate regimes, by the seasonal adjustment of the outcome data, and by the complete ignoring of

<sup>54</sup> This difference may reflect higher risk premia for left administrations, rather than a policy-tool choice.

<sup>55</sup> Even ignoring the timing issues, the Phillips curve slopes needed to produce the estimated partisan real cycles from the estimated monetary surprises are larger than many believe likely (gratitude to J. Londregan for this insight).

<sup>56</sup> **This last** apparently stems solely from the Reagan and Bush I administrations, regarding which **they** point to theories that predict right governments will increase debt to reduce future left governments' fiscal maneuverability. [**\*\*AU**: Antecedent(s) of "this last" and "they" is/are not clear. **\*\***] Early empirical indications for such theories are not promising though. Franzese (2002a) finds statistically significantly the opposite of what those theories predict, and Lambertini (1999) [**\*\*AU**: No Lambertini in Lit Cited. **\*\***] finds insignificance.

congressional elections (fiscally, Congress is at least as influential as the president). Moreover, others have shown (see above) that electoral effects occur when incumbents are willing to risk being caught at such cynical maneuvering, i.e., when elections are expected to be close; and that electoral effects occur immediately before as well as after elections. The latter could reflect continuing differences between calendar-year-measured electoral data and fiscal-year-measured economic data, or policy-implementation momentum, or the impact of challengers, whom both RE and non-RE opportunistic theories ignore (Franzese 2002a). Thus, the absence of electoral-cycle findings likely reflects the inadequacies of the political theory underlying these empirical versions of the broader theoretical models as much as it reflects any actual absence of electoral effects.

Alesina et al. (1997, ch. 5) also consider that RE partisan theory predicts partisan real-outcome effects to be proportional to the surprise of the election outcome. (This point was originally explored empirically in an unpublished paper by Hibbs, Carlsen, and Pedersen, which eventually became Carlsen & Pedersen 1999.) Cleverly applying option-pricing theory to measure the electoral surprise, Alesina et al. find that measure to correlate with unemployment in monthly U.S. data, most strongly when using 24- to 36-month-long surprise measures ( $t \approx 3.5-3.8$ ). They consider this correlation conclusive support for their theory, but again, one may remain agnostic. First, the longer-duration finding further diminishes the substantive difference between RE and non-RE versions. Second, they test these surprise measures only against their absence--i.e., the alternative hypothesis is zero partisan effect--rather than exploring whether the surprise measurement improves on the simple indicator. Moreover, the separate results reported for the surprise measure and for the permanent-partisan-effect measure say little about which dominates because the shift to monthly data for the former triples the sample and so would yield higher  $t$  statistics in many circumstances. Third, the theory actually states that the degree of electoral surprise multiplied by the expected difference in inflation between incumbent and challenger produces the real effects. The empirical model implicitly assumes that difference to be equal in all U.S. elections. This is false, of course, and produces biased estimates if, for example, the probability of victory for the left or right relates to the ideological distance between them, which it would in any reasonable model (including, e.g., Alesina & Rosenthal 1995). The direction of the bias is hard to predict, and the small number of presidential elections in the

sample suggests that the impact on estimated results could have been large. Poole (<http://k7moa.gsia.cmu.edu/default.htm>) offers data from congressional voting records of most presidential candidates, which one could use to derive the requisite incumbent-challenger distance measures. Fourth, the complications noted above---e.g., the missing policy links behind the observed outcome cycles and the effects of congressional influence and exchange regime---also plague this estimation. The results are perhaps supportive but warrant more-cautious conclusions.

Alesina et al. then (1997, ch. 6 and 7) return to the dummy-variable specification to explore partisan and electoral cycles in outcomes and monetary and fiscal-budget policies in a broader sample of OECD democracies. They again find no evidence of pre-electoral growth or unemployment effects, although now some post-electoral inflation effects emerge, and again they find that shorter-term partisan cycles dominate longer-term ones.<sup>58</sup> They also find the strongest partisan effects in two-party/bloc countries, as is intuitive in any partisan model (see, e.g., Powell 1982, Alt 1985), as well as some indication of pre-electoral tax manipulation and weaker evidence of pre-electoral spending manipulation. Most reasons for cautious interpretation mentioned above recur here, plus some new ones. For example, Alesina et al. (1997, p. 196) find no significant partisan effects on real interest rates, which implies that real effects of partisan monetary-policy differences must originate in wage rigidity and differences between expected and actual inflation. Yet, partisan inflation differences are statistically weak and are concentrated in a post--Bretton Woods/pre--European Monetary Union window, whereas partisan real-outcome differences are not. Policy effects consistent with producing RE partisan cycles again do not emerge whereas short-term real partisan cycles do, so the source of the latter remains in doubt.

Next, Alesina et al. (1997, ch. 8) extend the standard theory of how central bank “independence” (CBI), i.e., autonomy plus conservatism, reduces the inflation biases of discretionary monetary-policy control but raises output variation by sacrificing the use of monetary-stabilization policies. They show that, since CBI also mitigates partisan monetary cycles, which are destabilizing, the theoretically expected correlation of CBI and output variability is ambiguous. They conclude that CBI should lower inflation, at no on-average real costs, as usual in the standard model, but with less output-variability cost than typically simplified versions of that model predict. Here, though, they offer no evidence to support

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<sup>58</sup> Alesina & Roubini (1992), following a similar procedure but estimating the models country by country, find seven countries favorable to RE [\*\*AU: same as “RE”]\*\* partisan theory (the United States, Australia, Denmark, Germany, France, New Zealand, and the United Kingdom); seven others have insignificantly correct sign; and two (Canada and Italy) show no significant coefficients in any regressions.



their claim that the way CBI reduces electoral and partisan variance in monetary policy explains the lack of CBI correlation with output variability. The cited evidence for the lack of real effects of CBI emerges from mere cross-sectional correlations of postwar-average real outcomes with postwar-average CBI in 18--21 OECD countries. Insignificance of simple correlations in such samples hardly establish that the true effects are zero in all contexts.

Most important, strong theoretical and empirical challenges to the CBI model from which this claim derives have recently emerged. First, the political authorities who might delegate monetary policy to conservative agents also dislike inflation. If the governments also control structural-reform policies that have real benefits, which would lower discretionary inflation biases, then delegation to conservative monetary agents diminishes the incentives of the political principals to undertake such structural reforms and thus has real RE-equilibrium effects on average. Second, the standard model inconsistently assumes policy makers dislike inflation although no other economic actor does. If any sizable private actor also dislikes inflation, then CBI has real effects in equilibrium. Third, CBI alters the real- and relative-wage effects of nominal-wage increases differently; and fourth, likewise, the effect of CBI on optimal nominal settlements differs across traded and public sectors. Either of these differences will induce on-average real effects of CBI. Fifth, if CBI affects domestic- and import-price inflation differently, this is a relative-price and therefore real-equilibrium effect. Franzese (2002c) reviews these emerging critiques, most of which indicate that CBI's real effects vary with labor-market institutional structure. The available data, queried in a way that allows the real effects of CBI to vary with institutional structure, supports such critiques. Postwar-average cross sections would miss this evidence (Franzese 2002c).

Last, Alesina et al. (1997) explore the effects of single-party versus coalition governments and of government partisanship on public debt. They find that coalition governments delay fiscal stabilization, whereas single-party governments adjust more quickly but produce sharper partisan fiscal cycles (see also, e.g., Powell 1982, Alt 1985, Roubini & Sachs 1989, Grilli et al. 1991). Thus, they find a trade-off between too little action with low variability and too much action with high variability. These results bring few caveats, except that the postwar OECD data also support many of the other (mostly noncompeting) political-economic explanations of public-debt evolution in developed democracies that Alesina et al. dismiss more lightly here. Alesina & Perotti (1995b) review these theories; Franzese (2002b, ch. 3) offers and empirical exploration.

In sum, Alesina and colleagues' (footnote 7) rational partisan theory and associated empirical work demonstrates important partisan effects on macroeconomic policies and

outcomes. If it leaves the mechanisms and explanation for the form of these effects inconclusive, political economists may take that as an exciting challenge. Even electoral-cycle theory, which emerges scathed, retains cause for continued research. Alesina and colleagues (footnote 7) set the stage for political scientists to revisit these venerable theories. Rational-expectations (RE) revolutions rekindled economists' interest in political cycles and advanced the field greatly, but parallel advances in political theory were relatively neglected. Sadly, since Tufte and Hibbs, many political scientists seem to have thought the political side of electoral and partisan cycles resolved with only the incorporation of those RE advances remaining, which is false. For instance, policy makers have many policies at their disposal; they are differently constrained in the use of those policies by, for example, international (e.g., exchange-rate) and domestic (e.g., government-structure) institutions, and those policies are differently effective under these and other institutions (e.g., labor-market institutions, alternative configurations of capital mobility and exchange-rate fixity). Political scientists can, should, and are starting to offer further insights on what policies incumbents will manipulate for electoral and partisan purposes under what conditions. These early efforts are reviewed below, but first, let us consider other contributions to RE partisan theory.

### **Further Discussion of Partisan Cycles**

Other empirical studies of RE partisan theory report more-mixed results. Sheffrin (1989), for example, finds signs of U.S. monetary cycles, but not significantly consistent with RE partisan theory in the United States or elsewhere. Klein (1996) estimates the duration of economic cycles from 100+ years of U.S. data and finds certain political events associated with ends of slumps and booms, consistent with, but not directly testing, RE partisan theory. Carlsen (1999) gauges nominal rigidities and electoral surprises, whose combined magnitude should track that of RE partisan cycles, and compares such measures directly with those analogously derived from Hibbs' partisan theory; the results are weakly positive for U.S. inflation cycles, supporting both versions. Carlsen (1998), though, finds negatively for U.S. real outcomes, and Carlsen & Pedersen (1999) report mixed results when comparing RE with classic partisan cycles. They find clear support for RE partisan cycles in the United Kingdom and some support in Canada and Australia, but U.S. data support standard partisan theory, and results in Sweden and Germany are inconclusive. Finally, Faust & Irons (1999) note that, whereas political econometricians routinely find presumed monetary-driven partisan and/or electoral cycles, macroeconometricians continue to debate the size, timing, and existence of monetary effects. Faust & Irons ask, therefore, whether (a) political-cycle

models mis-specify and so mislead or (b) their results might indicate that elections and partisan shifts offer valid exogenous instruments for estimating monetary-policy real effects. They confirm Alesina and colleagues' (footnote 7) "distinctive first two years" result but find that it persists even when the analysis controls for partisan monetary policies, economic conditions, and other political effects. This finding suggests that perhaps election-induced monetary surprises do not cause the short-term nature of the cycle.

Others stress more-theoretical limitations in basic rational partisan theory. From the start, Rogoff (1988) questions why, if elections have such sizable real effects, bargainers could not simply defer signing contracts until after elections or sign election-outcome-conditional contracts. In fact, Garfinkel & Glazer (1994) find two-year or shorter contracts do exhibit post-electoral kyphosis in the United States. This contracting pattern suggests bargainers perceive sufficient electoral economic uncertainty to merit shifting contract schedules, but the bargainers' endogenous reaction that produces the contracting pattern also mutes the real cycles that electoral surprises in monetary policy can induce. Moreover, Ellis & Thoma (1991b) note that, because parliamentary governments may change at any time, not just at elections, partisan surprises are more continuous and irregular in parliamentary democracies. Ellis & Thoma (1995) find current-account, real-exchange-rate, and terms-of-trade cycles that support their model of open-economy parliamentary democracies. This could reflect cycles in international-oriented policies directly, but certain combinations of domestic-oriented monetary and fiscal policies could also generate these effects indirectly. Heckelman (2001) further develops a similar model wherein rational economic agents face uncertainty regarding the timing of elections and the party that will emerge victorious should an election occur. This continual electoral uncertainty also has real economic effects, but the size and direction of those effects depend on (a) which party holds power in the current and previous period, (b) time elapsed since the last election, and (c) party popularity. Here, left governments spur (and right governments dampen) real output throughout their electoral term, and these partisan differences increase until the next election. Adolph (2001) shows how strategic partisan government responses to conservative central bankers (monetary policy makers) and wage/price bargainers induce permanent partisan effects even in RE models. The mechanism operates through public-policy side payments that governments can offer bargainers to sway their settlements, depending on the central banker's conservatism. Drazen (2001), as noted above, questions the monetary-policy mechanism in RE partisan theory, showing how an active-fiscal/passive-monetary (AFPM) model can produce, with

fully rational and prospective actors, policy and outcome cycles more consistent with the pattern of evidence sketched above.

In partisan cycles, as in electoral cycles, the incentives for, capacity for, and effects of “partisaneeering” should vary predictably from policy to policy and across contexts characterized by differing international and domestic political-economic institutions, structure, and strategic situation.

## **CONDITIONAL ELECTORAL AND PARTISAN CYCLES IN ECONOMIC POLICIES AND OUTCOMES**

To some significant degree in all modern democracies at all times, candidates compete in elections and voters evaluate them in partisan economic terms. Thus, partisan, elected policy makers have strong incentives to enact partisan and electorally motivated policies, aiming to produce outcomes that will buy votes and curry favor from their constituencies. Therefore, electoral and partisan cycles in policies and outcomes should be ubiquitous features of democratic policy making. As discovered throughout this review, however, electoral and partisan cycles in policies and outcomes tend to generate greatest theoretical interest and insight and to receive strongest empirical support when researchers recognize their context conditionality. This concluding section offers an overview of the issues surrounding such conditional electoral and partisan cycles.

We begin by parsing my statement that the incentives for, capacity for, and effects of electioneering or partisaneeering should vary predictably from policy to policy across “domestic and international political-economic institutional, structural, and strategic contexts”.

First, incentives to electioneer or partisaaneer (Tufte’s “motive”) may vary predictably from policy to policy across domestic political institutional contexts. Some policies or outcomes can purchase votes or curry partisan favor more effectively than others, and how these policies or outcomes rank in such efficacy may vary with political-economic institutions, interest structures, and strategic context. Recall our Ramsey Rule that, subject to boundary conditions, partisan incumbents will use all effective instruments in proportion to their relative efficacy. This Ramsey Rule implies cycles of varying magnitude and regularity in all policies cum outcomes, as well as cycles in policy composition (e.g., Chang 2001) and outcome mixes (e.g., Tufte 1978). For example, we discovered above that incumbents seem more prone to manipulate direct transfers than macroeconomic policies, at least for electoral purposes, and perhaps more prone to manipulate the timing of policy implementation than

policies themselves. Coalitions of incumbents may find it easier to influence timing than to change policy if the collective-action problems (e.g., Goodhart 2000) they must overcome to effect a timing change do not outweigh the veto-actor problems (e.g., Franzese 2002a, Tsebelis 2002) they must overcome to change policy. Moreover, where political-institutional systems produce unified, strong single-party governments (e.g., India, Japan, and perhaps the United Kingdom), the manipulation of election timing seems more accessible and effective than the manipulation of policies or of their timing (compare Thompson & Zuck 1983; Ito & Park 1988; Ito 1990; Alesina et al. 1993; Chowdhury 1993; and Smith 1996, 2000). Likewise, general-interest redistributive policies such as transfers may better serve partisan and electoral goals in multi-member-district systems, but special-interest distributive policies such as public works might better serve those interests in single-member-district systems (see, e.g., Persson & Tabellini 2000, Chang 2001). Similarly, incentives to electioneer per se, and perhaps relative to the incentive to partisaneer (Schneider & Frey 1988), vary with features of strategic context, such as the expected closeness of elections (Wright 1974, Tufte 1978, Frey & Schneider 1978a,b, Golden & Poterba 1980, Schultz 1995, Price 1998). Any institutional, structural, or strategic conditions that reduce incumbents' effective electoral accountability (see, e.g., Powell & Whitten 1993) will also mute their incentives to manipulate (e.g., Shi & Svensson 2001). Electioneering and partisaneeing incentives may also vary across elections, depending on the share of policy-making power at stake for incumbents and their allies (Tufte 1978). All democratic systems divide policy making among multiple elected (and nonelected, bureaucratic) actors. Thus, democratic systems that concentrate elections of important policy makers chronologically (e.g., Westminsterian systems) should induce sharper electoral and partisan cycles than systems that diffuse them (Powell 1982, Alt 1985, Goodhart 2000, Franzese 2002a). Scholars might also fruitfully explore conditionality upon interest structures or combinations of interest structures and the strategic context of such variation in electoral and partisan incentives. Hicks & Swank (1992), for example, find that policies depend on incumbent and opposition partisanship and strength. Franzese (2002a) also finds strategic-context-conditional partisan fiscal policies. Specifically, only the more electorally insecure right (left) run surpluses (deficits) that accord with naive views of partisan fiscal policies, and the fairly secure right (left) governments run deficits (surpluses). These results oppose one interesting strategic-debt theory (Persson &

Svensson 1989) and are orthogonal to another (Alesina & Tabellini 1990, Tabellini & Alesina 1990, but perhaps support a third (Aghion & Bolton 1990).

Without claiming that the above exhausts possible systematically conditional arguments regarding varying incentives, we proceed to consider variation in policy makers' abilities to manipulate policies or outcomes for electoral or partisan purposes. As reviewed above, equilibrium models of political cycles emphasize the severe limitations rational expectations imposes on affecting macroeconomic outcomes, especially real outcomes. To determine characteristics of political-economic environments that induce more forward-looking and better-informed citizens, therefore, suggests one possibility for systematic conditional argumentation, although probably a hard one to implement. Other central issues, better explored in the literature, surround the allocation of policy-making control across multiple actors and internal and external constraints on policy maneuverability. For example, Blais et al. (1993, 1996) show that prior accumulated debt limits partisan fiscal-policy maneuverability; Acosta & Coppedge (2001) show that degrees of unified incumbent power, as gauged by government seat-share and party discipline, augment maneuverability; and Corsetti & Roubini (1997) show that the private or public ability to borrow abroad likewise magnifies political deficit biases. Tsebelis (2002), meanwhile, elaborates how multiple veto-player policy makers with diverse preferences inherently limit policy maneuverability in general. In different ways, Alt (1985) and Franzese (2002a) explore the implications of such logic for fiscal policies under coalitional and divided governments (see also Roubini & Sachs 1989, Grilli et al. 1991, Alesina & Perotti 1996, Perotti & Kontopoulos 1998). Crucial here is that veto players do not cause policy (e.g., debt or spending) per se but rather retard its adjustment rate.<sup>61</sup> Beyond hysteresis, incumbent cohesion and strength, access to external resources, and veto-actor constraints, incumbents' abilities to manipulate policies hinge also on various delegation, agency, and bargaining issues in "multiple hands on the wheel" scenarios of shared or constrained policy control.<sup>62</sup> In monetary policy especially, many have considered whether and how central-bank autonomy, fixed exchange rates, and/or capital

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<sup>61</sup> Methodologically, therefore, veto-actor measures should [**\*\*AU: OK??\*\* OK**] enter policy equations multiplicatively with adjustment parameters (e.g., lagged dependent variables), not linear-additively (see Franzese 2002a, ch. 3). That more veto-players retard adjustment rates is also the logical contrapositive of Powell's (1982) argument, and the Alesina et al. (1997) evidence, that wholesale alternation political systems tend to act too much too often.

<sup>62</sup> Franzese (1999, 2002b) offers a useful empirical formulation for such scenarios, including probably all principal-agent relations. In abstract, specify the agent's policy-reaction function,  $g(\mathbf{X})$ , the principal's,  $f(\mathbf{Z})$ , and some function,  $1 \geq h(\mathbf{I}) \geq 0$ , reflecting the theoretical arguments. These arguments will often stress institutional, structural, strategic contexts that determine the costs (monitoring, enforcement, opportunity, etc.) that the principal must pay to induce the agent to follow  $f(\mathbf{Z})$  instead of  $g(\mathbf{X})$ . Then, in most strategic models, equilibrium policy will be  $y = h(\mathbf{I}) \cdot g(\mathbf{X}) + \{1 - h(\mathbf{I})\} \cdot f(\mathbf{Z})$ , which will be empirically estimable by nonlinear least-squares or maximum likelihood for sufficiently distinct  $\mathbf{I}$ ,  $\mathbf{X}$ , and  $\mathbf{Z}$ .

mobility may hinder domestic policy-maker autonomy or otherwise dilute the expression of electoral or partisan cycles in policies or outcomes (e.g., Lohmann 1992, 1997; Jonsson 1995; Simmons 1996; Boix 1998, 2000; Garrett 1998; Franzese 1999, 2002b; Oatley 1999; Way 2000; Clark and colleagues, see footnote 46). Hallerberg & von Hagen (1998) consider the similar implications of fiscal-policy contracts or delegation. These empirical models of electoral and partisan policy and outcome cycles that recognize such institutional and structural constraints on policy-maker maneuverability typically produce strong results. Franzese (1999), for example, finds not only that central-bank autonomy mitigates electoral or partisan inflation cycles (as do, e.g., Jonsson 1995, Simmons 1996, and Way 2000) but also that it mitigates in equal proportion the inflation effect of all other political-economic factors to which elected governments would respond but conservative central banks would not. Notice, finally, that policy-maker abilities to manipulate different policies will be differently constrained or abetted by the above considerations; thus (to invoke the Ramsey Rule again), one can expect that (a) electioneering and partisaneering instrument choice will vary accordingly and (b) policy- and outcome-compositional as well as policy- and outcome-level cycles will occur.

Again, the above hardly exhausts the set of systematic ways domestic and international political-economic institutions, interest structures, and strategic contexts may condition policy-maker abilities to partisan-electioneer. However, let us proceed to consider the systematic variation in effectiveness across policies and contexts. From the earliest political-cycle models (e.g., Tufte 1978, Hibbs 1977), scholars recognized that especially macroeconomic policies and outcomes can have varying efficacy as electioneering and partisaneering tools under differing international and domestic political-economic contexts. However, until recently, analysis was limited to comments that, for example, Phillips curve slopes can vary and should induce varying magnitudes of electoral and partisan policy and outcome cycles if they do. Recently, scholars have considered how the conduct and effects of electoral and partisan policies might be conditioned by (a) labor-market organization and corporatism and (b) various combinations of international exposure, capital mobility, and exchange-rate fixity.

Alvarez et al. (1991) argue and show empirically that partisan governments produce differing outcome cycles depending on labor-organizational structure (i.e., corporatism), although they later (Beck et al. 1993) weaken some empirical claims. Simmons & Clark (1997), however, find fewer signs that corporatism modifies left-government relations to any of 24 economic policies. In analyzing variation in fiscal (deficits) and monetary (interest-



rate) policies during 1965--1995 across OECD democracies, Boix (2000) considers partisan cycles potentially conditional on both labor-market and international institutional structures. He shows that parties have affected, separately and in interaction with labor-market organization, the conduct of fiscal and monetary policies. Still, their impact has varied over time, mostly as a function of financial liberalization and the exchange-rate regime.<sup>63</sup> Garrett (1998) also considers international constraints on partisan policies. He argues first that some policies are more market-subverting and others more market-supporting and second, with some empirical support, that international exposure constrains market-subverting more than market-supporting policies and may even foster the latter. In short, policies have differing effects, and thus are differentially used, under differing international institutional-structural conditions. Other authors stress that the effects of partisan or electoral fiscal, monetary, and other policies may depend on central-bank independence (CBI) (e.g., Cusack 2000) or on the combination of CBI and labor-market structure (e.g., Adolph 2001).

Clark and colleagues (see footnote 46) offer the fullest and most sustained studies of context-conditional electoral and partisan cycles. Clark et al. (1998) find that CBI and loss of national policy autonomy (i.e., fixed exchange and mobile capital) each constrain the occurrence of electoral real-outcome cycles in OECD countries, finding evidence for cycles only when neither constraint is present. Clark & Hallerberg (2000) argue that although Clark et al.'s (1998) constraints bind monetary policy, they do not constrain fiscal policy. They show that, when capital is mobile, electoral cycles in fiscal policy tend to occur only with fixed exchange rates (with or without an independent central bank). They also show that electoral cycles in monetary supply are likely only if neither of Clark et al.'s (1998) constraints is present. They also find, as noted above, no support for partisan monetary or

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<sup>63</sup> Monetary policy was stable and relatively similar across countries in the 1960s; it loosened considerably after the first oil shock but quickly tightened again in the early 1980s. Real interest rates peaked in the mid-1980s and then declined slowly. Fiscal policies became expansionary in the 1970s, but most OECD countries trended toward fiscal consolidation afterward. Within these overall trends, conservative governments generally pursued more restrictive macroeconomic policies, keeping real interest rates above the OECD average and, except for the mid-1970s/early 1980s and the mid-1990s, roughly balanced budgets. Social-democratic cabinets in corporatist countries generally implemented very similar monetary policies to conservative-led countries throughout the past three decades, with fiscal policies as tight as under conservative governments, except in the 1970s. At that time, these countries embraced strongly counter-cyclical budgetary measures to address the oil-shock--induced economic slump. Under socialist administrations in decentralized economies, which were less common before the mid-1970s, both monetary and fiscal policies became sharply expansionary in the 1970s. Keynesian demand management reversed in the 1980s, however. Real interest rates converged to the OECD average by the mid 1980s. Fiscal discipline took much longer to achieve and quickly waned with the recession of the early 1990s. The substantial cross-national variation in the 1970s, when partisan differences were significant, followed by the 1980s' rapid convergence, was rooted in the evolving international economy. Until the early 1980s, widespread capital controls and floating exchange rates provided policy makers considerable autonomy to respond to stagflation. As international financial markets grew exponentially and capital controls lost viability, the socialist-led Keynesian expansions of the 1970s became unfeasible by the mid 1980s.

fiscal policy cycles, Mundell-Fleming<sup>64</sup> conditional or otherwise (contra, e.g., Oatley 1999). Hallerberg et al. (2001) show that the Clark & Hallerberg (2000) results hold also for post-transition Eastern European economies. Clark's (2002) book re-examines the Clark et al. (1998) data, expecting, from Clark & Hallerberg's (2000) game-theoretic reanalysis, that elections would have zero real effects only with independent central banks and flexible exchange rates (given mobile capital) because (with mobile capital) flexible exchange rates limit fiscal-policy effectiveness and an independent central bank controls monetary policy. Under every other combination of exchange rates and degrees of CBI (given mobile capital), survival-maximizing incumbents retain at least one instrument, so real cycles are likely (see Clark 2002, Table 29). Specifically, following Mundell-Fleming and assuming capital mobility, fixed exchange rates make fiscal policy effective and monetary policy ineffective and leave independent central banks with few effective countervailing actions. With flexible exchange rates, fiscal policy is ineffective, but if the central-bank is dependent, incumbents can use monetary policy for pre-electoral expansion.<sup>65</sup>

In short, Clark and colleagues (footnote 46) might join in paraphrasing Twain: "Rumors of electoral-cycle theory's demise were greatly exaggerated." Similarly exaggerated, they might add, were rumors of partisan-cycle theory's unassailability. And that, in conclusion, may serve as a spirited call for comparative and international political economists to return to the venerable field of electoral and partisan cycles in economic policies and outcomes, a field rich with opportunities to explore how international and domestic, political and economic institutions, structures, and strategic contexts condition the conduct of democratic politics and policy making.

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#### **LITERATURE CITED**

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<sup>64</sup> The Mundell-Fleming conditions of international-economic theory indicate what combinations of capital mobility and exchange-rate regimes produce fiscal or monetary policy effectiveness.

<sup>65</sup> Clark (2002: ch. 3,5) tests for partisan cycles in monetary and fiscal policy and macroeconomic outcomes, allowing the expected modifying effects of exchange-rate regime and CBI, and finds them insignificant.

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