Electoral Economics in New Democracies: Affecting Attitudes About Democracy

By

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Abstract

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

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1 Introduction

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

The obvious question is: What accounts for the existence of a political budget cycle in new democracies relative to older democracies? The general perception in the literature is that pre-election manipulations reflect an attempt of incumbent leaders to increase their reelection prospects. Shi and Svensson suggest that a stronger political cycle may reflect higher rents that incumbents perceive from remaining in office or a higher share of less well-informed voters (presumably making it easier or less politically costly for an incumbent to engage in pre-electoral fiscal manipulation). However, Brender and Drazen (2005b) look at voter response to deficit spending in a sample of 74 democracies (old and new) over the period 1960-2003 and find no evidence that deficits help an incumbent get reelected in any group of countries, *including* new democracies! (In developed countries and old democracies, election-year deficits actually reduce the probability that a leader is reelected, while in less developed countries or new democracies, there is no significant effect either way.) This finding, when combined with our earlier work, thus suggests that the political deficit cycles in new

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

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

democracies may reflect something other than the incumbent's attempt to gain votes at the expense of his election opponents. That is, one must look elsewhere for an explanation.

A crucial feature of many countries that have recently made the transition to democracy is that democracy is not fully consolidated. Lack of consolidation refers to a situation in which some crucial political groups, or the public at large, lack full commitment to the democratic process. Such a lack of widespread commitment to democracy makes it more vulnerable to anti-democratic elites. As Linz and Stepan (1996, p.5) put it, consolidation refers to

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

If not, democracy is viewed as not yet consolidated, that is, still fragile.[3] When newness of democracy implies possible fragility, our basic question of what accounts for political budget cycles in new democracies then becomes: *How does greater "fragility" of democracy in new democracies affect fiscal policy in election years? What about fragility may lead to larger electoral fiscal cycles relative to consolidated democracies?*

Our basic argument is as follows. Voters in recently democratized countries are concerned about economic performance and may not be fully convinced that democracy leads to good economic results. This perception leads democratic governments in these countries to expend resources before elections in the attempt to convince voters that "democracy works", with a resulting increase in expenditures and deficits that may be significant. We view "democracy works" to mean the orderly functioning of the economic system under democracy, rather than a more narrow sense, such as the delivery of high economic growth.

The plan of the paper is as follows. In the next section we discuss conceptual issues underlying fiscal implications of democratic consolidation. In section 3 we present some regularities consistent with our approach. Section 4 presents a formal model, while section 5 considers implications of our approach for the magnitude of fiscal expenditures to consolidate democracy. Section 6 presents conclusions.

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[3]There are different views whether consolidation (or lack of it) refers simply to the *ability* of anti-democratic groups to overthrow democracy, or also includes any ideological *preference* for democracy. Acemoglu and Robinson's (2005) approach is that the ability of the elites to overthrow democracy is central, since their economic status gives them a clear preference against democracy. The alternative approach is represented, for example, by Diamond (1994) who writes: "democracy becomes truly stable only when people come to value it widely not solely for its economic and social performance but intrinsically for its political attributes."

2 Fiscal Implications of Democratic Consolidation

We organize our discussion of the relation between problems of democratic consolidation and election-year effects around two groups of "actors" in the process of democratization: the "elites" and the "masses". This follows the literature (such as Acemoglu and Robinson [2005]), which, especially for the analysis of the transition to democracy, stresses the role of class interests. Identifying groups whose support is important in consolidation will give us a framework for understanding the structure of fiscal policy at critical points such as election periods. In this section, we also discuss some other general issues.

2.1 Elite interests and capabilities

Moore's (1966) book on the role of the landed upper classes and the peasantry in the emergence of parliamentary democracy in England, France, and the United States is considered a pathbreaking work on group or class conflict and the origin of democracy. Rueschemeyer, Stephens, and Stephens (1992) is representative of this strand of the literature in putting the benefits and costs that different classes would experience at the center of their analysis of democratization.

> "It is a central thesis of our theoretical framework that democratization was both resisted and pushed forward by class interest. It was the subordinate classes that fought for democracy. By contrast, the classes that benefited from the status quo nearly without exception resisted democracy."

Though there is disagreement about whether socioeconomic class is the defining group characteristic, democratization is generally seen as reflecting the conflicting interests of those groups or classes that would lose from the transition to democracy versus those who would benefit and were in favor of democracy.[4]

In understanding the role of classes in the dynamics of democratization, the *interest* of groups in advancing or hindering the transition to democracy must be supplemented by their *ability* to effect their interests. There is thus a focus on the role of elites, those with special political position or power. For example, in Rustow's seminal article (1970, p. 356) it is argued that democracy "is acquired by a process of conscious decision at least on the part of the top political leadership... A small circle of leaders is likely to play a disproportionate role." Similarly, Huntington (1984, p. 212) argued that

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[4]For example, Acemoglu and Robinson (2005) argue that the view that political conflict is always along the lines of class is too narrow, but they follow the approach that the conflict of interests among definable groups is key to the process of democratization.

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"democratic regimes that last have seldom, if ever, been instituted by mass popular action. Almost always, democracy has come as much from the top down as from the bottom up; it is as likely to be the product of oligarchy as of protest against oligarchy." The key implicit assumption here is that the "masses" are always in favor of democracy, so the question of their role in the process is not one of their interests. We return to this below.

This focus on elites has carried over to much of the discussion of consolidation of newly democratic regimes.[5] The citizenry supports democracy, while it is antidemocratic elites (oligarchs, the military, *etc.*) who have the interest and perhaps the ability to subvert or overthrow democracy. Under this approach, it is the elites who constitute the principal threat to democracy and who must be appeased or placated in ensuring that democracy, is not overthrown.[6] If one begins with the premise that the citizenry are unconditional supporters of democracy, then policies aimed at consolidating democracy should be aimed solely at the elites.

The implications of this view for fiscal policy are immediate. Expenditure increases or tax breaks should be directed to the elites. (See chapter 7 of Acemoglu and Robinson [2005] for an excellent formalization of this approach.) If, as we argue, elections are crucial points of democratic vulnerability, pre-electoral fiscal policy in new democracies should be concentrated more on (anti-democratic) elites than in established democracies. The impact of such policies on the public discussion may be large; their impact on the aggregate budget deficit would presumably be much smaller if the elites themselves are less numerous.

2.2 Public attitudes

In contrast to the literature summarized in the previous subsection, we do not agree with focussing primarily on elites in understanding policies aimed at democratic consolidation in fragile democracies. In so doing, we are consistent with another strand of the literature focussing more on the masses and their attitudes towards democracy. Mainwaring (1992), for example, has argued that

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[5] For example, as Acemoglu and Robinson (2005) put it clearly and concisely:

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

[6] O'Donnell and Schmitter (1986) however note the very low actual occurrence of anti–democratic coups.

the approach of, for example, Rustow or Huntington, "misses one of the essential features of many transitions to democracy: that they involve a dynamic interaction between elites and masses." Similarly, Diamond (1994) has argued that the process of democratization, "particularly the pressure to complete the process [has] typically come from the 'resurrection of civil society,' the restructuring of public space, and the mobilization of all manner of independent groups and grassroots movements."

One way to interpret this is to question the *ability* of the elites to overthrow democracy on their own. That is, anti-democratic elites may be generally unable to successfully overthrow democracy without support from the citizenry (if only their lack of active opposition to reversion). We argue this to be the case, where some degree of support from citizens is crucial to the overthrow of democracy. Hence, the survival of democracy depends on the creation of a "coalition", with the degree of support of citizens crucial.

This approach then forces a reconsideration of the assumption that the interest of the masses is unambiguously in favor of democracy; otherwise it will never be possible to overthrow democracy. Evidence suggests that it is inaccurate to consider the citizenry as being unconditionally committed to democracy. In contrast to an established democracy, in a fragile democracy, there may be incomplete acceptance of democracy not only by the elites, but *also* by the masses. As indicated by the World Values Survey (see section 3 below), new democracies are distinguished from older democracies by a significantly greater proportion of individuals who express uncertainty about the value of democracy.[7] We will argue that if the support of the citizenry is not unconditional, the implications for fiscal policy in election years may be significantly different than if it is only the elites whose support is uncertain.

Conditional support on the part of the citizenry is consistent with the focus in the literature on the importance of *public attitudes* about the efficacy of democracy.[8] Efficacy clearly has economic dimensions and if citizens do not believe that democracy is able to solve economic problems, this may be fatal for democracy.[9] In new democracies the efficiency of the new political system, and not just

[7]We do not find this inconsistent with the view that the masses are the stronger supporters of the transition to democracy, for two reasons. First, the phenomenon may be thought of as disillusionment with democracy if it fails to produce results as positive as was expeted. Second, though the masses may be mostly in favor of democracy, it is the possibility of a significant fraction of them combining with the elites or avoiding resistence, and the implications for fiscal policy, that concerns us.

[8]Linz and Stepan (1996) provide a wide-ranging survey. Consider, for example, their discussion of Spain. "In our theoretical discussion of democratic consolidation, we distinguished the attitudes of the general citizenry from the behaviour of nationally significant groups and the constitutional reality of whether the democratic government was de jure sovereign in the policy sphere. In the Spanish case, the first component to become fully congruent with consolidation was public opinion. By 1978 Spanish public opinion was strongly democratic, and it has remained so ever since." (109)

[9]It should be noted that the importance of good performance for regime survival does not mean that perceptions of the efficacy of democracy and support for democracy are perfectly correlated. Linz and Stepan, in fact, argue that a new democracy may suffer a decline in citizen perceptions of democracy's socioeconomic efficacy but an increase in belief in the democratic system. (They cite the case of Spain over the period 1978-1981.)

its legitimacy, becomes a crucial issue. As Linz and Stepan (p. 80) put it

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

Przeworski, *et al.* (2000) similarly argues on the importance of economic outcomes.

Whether the perception of democracy's lack of efficacy leads to a crisis in legitimacy also depends on whether key groups perceive a [nondemocratic] alternative. As the transition to democracy often requires some acquiescence by anti-democratic groups, Linz and Stepan, for example, argue that "economic crises will tend to lead to democratic breakdown in those cases where groups outside or—more fatally—inside the government increasingly argue that nondemocratic alternatives of rule are the only solution to the economic crisis."[10]

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

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

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[10] They also cite the different interwar experiences of the Netherlands and Norway (where democracy did not break down) versus Germany and Austria (where it did), even though they all faced severe economic crises. "What made the crisis of the economy a crisis of the political system in Germany and Austria was that strong groups on the right and the left had regime alternatives in mind and thus attacked the regime. Politically motivated system blame, more than the economic crisis per se, caused the German and Austrian breakdowns."

the "only game in town" partly by belief and partly by elite calculation of the cost of compliance versus the cost of mobilization for other governing alternatives. (italics ours)

Hence, to summarize: 1) the role of elites must be supplemented by the behavior of the masses, who in fact are crucial in the consolidation process; 2) masses are not unconditional supporters of democracy, so they must be brought on board. This suggests constraints on policy which may be different than a view of consolidation focussing solely on elites.

As with the case of elites, some of the implications of this strand of thinking for fiscal policy when democracy is fragile are obvious. Economic policy cannot ignore the citizenry. Moreover, a key concern of the general public, it is argued, is the efficacy of democracy, *i.e.,* the ability of democracy to "deliver" on the economic front. That is, government may need to target voters based on their forming beliefs about the efficacy of democracy on the basis of economic outcomes. This leads government to increase expenditures and deficits before elections in the attempt to convince voters that "democracy works", with these expenditures going primarily to citizens rather than elites.

2.3 Why election years?

The argument that problems of democratic consolidation may help explain political deficit cycles in new democracies raises an obvious question: Why should the policy effects that are implied by "fragility" and "performance" be manifest especially in election years? That is, why does the possible fragility of democracy imply a difference in election-year versus non-election-year policies?[11]

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

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[11]Note first that if the null hypothesis is that fragility implies higher expenditures in both election and non-election years, one is asking is there a benefit of "unsmoothing" expenditures towards election years, implying election-year deficits.

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

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

[Place Table 1 Here]

2.4 Newness versus fragility

Our basic argument is that newness of democracy implies fragility which in turn implies high election-year expenditures (and deficits). We want to stress quite strongly that in our approach fragility alone is *not* sufficient to explain election-year effects; it is the combination of fragility and newness that is key to political deficit cycles in new democracies. Newness implies incomplete information about how the economic system will function under democracy (and how democracy itself works). Hence, running deficits to pay salaries to government workers (for example), that is, to strengthen the public's perception of a well-functioning system, will not be seen as electoral manipulation as easily as when voters have more experience with democracy and "election-year" economics. As voters gain more experience with the democratic electoral system, using fiscal policy to "grease the wheels" of the economic system may be increasingly less effective in affecting voter perceptions, and hence may be less likely to occur.[12]

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

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

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

3   Some Regularities

As discussed above, there is ample evidence of deficit cycles in new democracies. Hence, our starting point is in asking what other regularities we can see about fiscal policy in new democracies. Two principal findings of the empirically-oriented literature about new democracy are of interest.

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

Note further that the transition to democracy is often associated with large structural changes in the economy. This was particularly noticeable in the formerly socialist economies of Eastern Europe but also in Southern Europe and in some Latin American countries.[14] The twin transitions

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

[14] Of course, one may then argue that the political deficit cycle in new democracies reflects the economic upheaval

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

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

rather than the political implications of democratic fragility. To address this possibility in our orginal paper we did two things. First, for the formerly socialist economies (FSEs), we excluded all the elections that took place in the first two years following the transition from communism. Second, we tested for the political cycle both including and excluding the FSEs in the sample and found the same new democracy effect for the existence of statistically significant political deficit cycles. See Brender and Drazen (2005a).

that the development of information sources about fiscal performance and the means to deliver them to the public had a substantial effect on the response of citizens to such information. Therefore our argument does not require that in a new democracy individuals are less informed about all aspects of politics for the difference in information to make electoral manipulation possible.

[Put Tables 2 and 2A Here]

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

4   A Framework of Analysis

We now turn to modeling the relation between election-year fiscal policy and fragility of democracy[16], where the central question is: *What effects does the possibility of reversion to nondemocracy have on fiscal policy in an election year, a critical point of vulnerability?* That is, when democracy is new and not consolidated and voters are inexperienced with the electoral system, how will fiscal policy differ from the case of a fully consolidated democracy?

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

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

4.1 Affecting Attitudes Towards Democracy

We begin by making clear a key conceptual assumption on how we view economic policy affecting support for democracy. We assume that the effect is solely (or primarily) on the *probability* that citizens or elites assign to democracy being superior to nondemocracy, rather than on the utility they associate with one system or the other. That is, we view the key problem that citizens face **as** an inference problem of deciding whether democracy "works", depending on their observation of economic outcomes. Government expenditures can therefore increase their support for democracy by inducing them to increase the probability they assign to democracy "working" (in short, is "good") rather than by increasing the value they associate with democracy *per se*. This does not mean that citizens have not formed beliefs about democracy but that, given their attitudes, their willingness to support (defend) democracy would depend on their perception of its ability to deliver a functioning economy in the particular country.

The ineffectiveness of government expenditures in affecting the utility associated with democracy unless they affect the perceived probability that democracy "works" may reflect, for example, the inability of the government to make binding commitments to future expenditures, so that only current utility is affected. In our view, this distinction is not semantic, since it implies that government policy will have no (or only minor) effect on support for democracy if the prior that democracy is superior is close to either 0 or 1. (See the discussion at the end of section 4.4.3.) The first applies to the elites, so that their support for democracy cannot be materially affected by government expenditure (in contrast to the work of Acemoglu and Robinson [2005], where expenditure on elites is critical). This argument is crucial to our result that expenditures to support democracy are aimed at the masses. The second applies to established democracies, where a prior belief by all that democracy is unambiguously superior implies that the posterior is also unity, independent of any expenditures the government may undertake.

4.2 The Basic Argument

Our basic argument can be summarized as follows:

1. Overthrow of democracy requires elites having sufficient support (or lack of opposition) from citizens disenchanted with democracy.

2. Elites would always prefer non-democracy to democracy, and cannot be "bought off." Hence, fiscal policy to preserve democracy is directed primarily at citizens (in sharp contrast to the Acemoglu and Robinson's (2005) modeling of fiscal policy in democratic consolidation as directed at the elites.)

3. Citizens form their beliefs based on economic outcomes, that is, their perception of how well the economic system functions.

4. Fiscal policy is thus directed at those things that convince citizens that democracy "works."

5. The public's limited experience with the democratic system (and in many cases with the reformed economic institutions and structures) makes them perceive improved performance before an election as an indicator that democracy works, rather than simply pre-electoral manipulation.

4.3 Elites

Though there may be many veto players in a new democracy, for simplicity we model this with only a single elite. Our basic point about elites – that they cannot overthrow democracy without the support of the "masses" – is unaffected by the existence of more than one elite. Hence, as in Acemoglu and Robinson (2005), there are only two groups – an anti-democratic elite and the citizens. Overthrow of democracy requires the elite to "initiate" the process with sufficient popular support (or lack of opposition). Consistent with the oft-stated hypothesis that regime change requires a "leader" (here the elite as the "avant garde" of the anti-democratic revolution), combined with a mass of followers.

If the anti-democratic elite knew for sure that it could overthrow democracy, it would always find it optimal to do so.[17] This follows from assuming that the current (democratic) government cannot credibly commit to post-electoral transfers or expenditures. Hence, at a critical point (that is, before an election) the elite considers only what they are currently given. We further assume that pre-electoral transfers in themselves cannot be made large enough to induce elite not to act if they are confident of success. What then stops the elite from overthrowing democracy? What stops them is perception of low probability of success (and high cost of failure), where probability of success is inversely related to ϕ, the fraction of the public who support democracy (see section 4.4.2 below.)[18]. Hence, democracy survives if the elite finds it preferable not to attempt to overthrow it when comparing the expected costs and benefits of trying to overthrow it.

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[17]Defining the "elite" as a group that prefers ND (non-democracy) net of the costs of overthrowing democracy (as in A-R) raises a semantic problem, in that net of the costs of overthrowing democracy, any group would conceivably want a regime in which they rule. Saying they prefer ND inclusive of the costs of overthrowing democracy changes the nature of the constraint to one in which all the focus is on "buying them off" and none on the interaction between support by the voters and the cost to the elite of overthrow.

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

Our basic points may be made by simply concentrating on the election period (as a "critical support point"). All information from previous periods being summarized in a prior probability that democracy is "good" or "working" (this prior is 0 for the elite and $0 < \pi < 1$ for the public). Denote by ξ the probability of a successful overthrow, where

$$\xi = \xi\left(\phi\right) \tag{1}$$

with $\xi' < 0$, $\lim\limits_{\phi \to o} \xi = 1$ and $\lim\limits_{\phi \to 1} \xi = 0$.

The elite support democracy if and only if

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

where

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

$W^D =$ welfare of elite under democracy

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

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

We assume that: a) $W^A > W^D$ (for any feasible policies followed by a democratic government); and, b) $W^D >> W^{FC}$, representing the great cost to the elite of a failed coup.

We may rewrite (2) as

$$W^D \geq W^A - \left(1 - \xi\left(\phi\right)\right) \left(W^A - W^{FC}\right) \tag{3}$$

so that $\left(1 - \xi\left(\phi\right)\right) \left(W^A - W^{FC}\right)$ can be thought of as the expected cost of a coup attempt.

Equation (2) is the key constraint a government must satisfy if it is to prevent an attempt to overthrow democracy.[19] Given the assumptions that $\lim\limits_{\phi \to o} \xi = 1$ and that $W^A > W^D$, government policy cannot ignore citizens, to whom we now turn.

4.4 Citizens (Voters)

A citizen's basic decision is whether or not to support democracy. Non-support may take many forms: not voting; demonstrating against democracy or the government; or, not opposing coup attempts. Conversely, support for democracy may take the crucial form of opposing anti-democratic

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[19]Note that this approach allows for democracy to survive even if there is a coup attempt, as long as it fails. In reality, governments may want to buy off elites so that they make no attempt. Using policy to ensure that Φ is high enough that a coup is not attempted would have a similar effect.

elements, that is, the "elite" at critical points where the success of these elements depends on their degree of support. Following our analysis on the ability of the "elite" to overthrow democracy depending on the fraction of citizens ϕ who support democracy being small enough. (See equation (2) above), we concentrate on determinants of ϕ.

Although all citizens face the same decision problem, we assume that citizens may differ from one another in two respects. First, they may differ in the welfare they perceive if democracy is superior ("good") to nondemocracy and in the welfare they associate with a reversion to nondemocracy. Second, they may differ in the probabilities they assign to democracy being "good" or "bad". For modeling simplicity, we assume that all citizens are influenced by the same expenditures in forming their inferences about democracy. In practice, different citizens will be affected by different programs. This may reflect numerous factors – geographic differences, rural versus urban allocations, and the socioeconomic, demographic, and ethnic distribution of the population. Since our basic argument may be illustrated using only a single type of expenditure, we abstract from this for now, but return to the conceptual point in section 5 below.

4.4.1 The decision rule

If citizen i assigns a probability $1 \geq P \geq 0$ that democracy is good for outcomes, he supports democracy if

$$PV_i^G + (1 - P) V_i^B \geq V_i^A \tag{4}$$

where

$V_i^G = i$'s expected welfare under democracy if he perceives democracy is good for outcomes;

$V_i^B = i$'s expected welfare under democracy if he perceives democracy is bad for outcomes;

$V_i^A = i$'s expected welfare under autocracy (non-democracy).

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

Equation (4) with equality defines a critical value $\hat{P}_i$ for citizen i such that he supports democracy if

$$P \geq \hat{P}_i \equiv \frac{V_i^A - V_i^B}{V_i^G - V_i^B} \tag{5}$$

and does not support if $P < \hat{P}_i$.

4.4.2 Public support for democracy

The distribution of values of V_i^G, V_i^B, and V_i^A in the population induces a distribution of $\hat{P}_i$ via equation (5). Denote the CDF of $\hat{P}_i$ by $F\left(\hat{P}_i\right)$. The fraction of citizens who support democracy for a value P is then simply

$$\phi \equiv F\left(P\right) \tag{6}$$

that is, the fraction of citizens with $\hat{P}_i \leq P$. The key observation here is that the higher is P, the greater is the fraction of citizens who support democracy.

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

4.4.3 The basic inference problem

Since the efficacy of democracy is unobserved, a natural framework is to use Bayes' rule. Suppose that in an election period, individuals form the posterior $P(\cdot)$ that democracy is good for outcomes on the basis of observed economic performance ("salaries and allowances are paid", "electricity works", etc.) and their prior using Bayes' rule.

Consider an "event" Z that can have two outcomes: "salary paid" or "salary not paid", $Z = S$ or $Z = X$. Let $\delta = \Pr\left(Z = S \,|\, \text{democracy is "good"}\right)$ and $\beta = \Pr\left(Z = S \,|\, \text{democracy is "bad"}\right)$, where $\delta > \beta$. Let $\pi = $ prior that democracy is "good" prior to observing the event S or X. The posterior P that democracy is good conditional on the observed outcome may then be written:

$$P\left(S\right) = \frac{\pi\delta}{\pi\delta + (1 - \pi)\beta} \tag{7a}$$

$$P\left(X\right) = \frac{\pi(1 - \delta)}{\pi(1 - \delta) + (1 - \pi)(1 - \beta)} \tag{7b}$$

We interpret "events" or "outcomes" not simply as general macroeconomic outcomes, but as specific events, such as paying salaries. What is important for our argument is that the outcome of an event may be affected by fiscal policy.

Equations (7) have a number of implications:

a) $P\left(S\right) \geq P\left(X\right)$ iff $\delta > \beta$, which follows from definition of δ and β.

b) In an established democracy ($\pi = 1$), outcomes have no effect on support for democracy: $P\left(S\right) = P\left(X\right) = 1$.

b') $\pi = 0 \Longrightarrow P(S) = P(X) = 0 -$, outcomes also have no effect on support for democracy.

c) In a fragile democracy $(0 < \pi < 1)$, a bad outcome lowers support for democracy.

To summarize, good performance (that is, $Z = S$ rather than $Z = X$) may be quite important in inducing the belief that democracy is good (that is, in increasing the posterior P) when prior beliefs in democracy (*i.e.*, π) are weak. One is then lead to ask: what actions can the government take to increase the probability of good outcomes? We concentrate on the use of fiscal policy.

4.5 Fiscal Policy

We now consider how fragility of democracy (low π) affects election-year deficits, where election years are taken as points of high vulnerability of democracy. (See the discussion in section 2.3.)

4.5.1 Government choices

Our key assumption here is that the government can devote resources to increasing the probability of a good outcome of event Z. We model this simply by assuming that the probability μ of a good economic outcome is monotonically increasing in government expenditure g. That is:

$$\mu(g) \equiv \Pr(Z = S \,|\, g) \tag{8}$$

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

Moreover, suppose, as is consistent with the distinction between new and established democracies, lack of experience with election-year economics (or lack of transparency) in the former implies that citizens do **not** associate the observation of outcome S rather than X with manipulation by the government (that is, individuals must believe that δ and β represent the true conditional probabilities that the outcome $Z = S$ will be observed.) Hence, Bayes' rule for forming the posteriors $P(X)$ to $P(S)$ is valid.

Using (8), one can then derive the probability that citizens assign to democracy being good conditional on the government's choice of g, namely:

$$\begin{aligned} P(g) &= \mu(g)\,P(S) + (1 - \mu(g))\,P(X) \\ &= \mu(g)\,(P(S) - P(X)) - P(X) \end{aligned}$$

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From (7), one has that

$$P(S) - P(X) = \frac{\pi(1-\pi)(\delta-\beta)}{(\pi\delta + (1-\pi)\beta)(\pi(1-\delta) + (1-\pi)(1-\beta))} > 0 \qquad (10)$$

so that $P(g)$ is monotonically increasing in g. From (6), this implies that ϕ is monotonically increasing in g as well.

4.5.2   The Government's Objective

The government has to make a choice of how to allocate fiscal expenditures across time, trying to insure its survival, but also not running such a large deficit in the election year that, if re-elected, it is unable to govern. We think of the government's problem as minimizing the cost of preserving democracy (where we ignore the attempt to win votes relative to opponent in order to focus on the implications of fragility) or, given tax revenues, to minimize the deficit consistent with democratic survival.[20] We choose this approach for a number of reasons. From a modeling strategy perspective, since our interest is in explaining the increase in deficits in election years in new democracies, we don't want to "build in" high expenditures or deficits. Having the government's objective be choosing the lowest level of expenditure consistent with preserving democracy should make clear this is not the case. From an empirical perspective, Brender and Drazen (2005a) find no evidence that deficit spending helps incumbents in new democracies get re-elected and some evidence that deficit spending over the term is punished depending on how the sample of incumbents is constructed. Hence, if incumbents see no direct electoral benefit to deficit spending (and see that it may be punished), it seems reasonable to argue that they want to keep the deficit as low as possible consistent with regime survival. An attempt to keep election year deficits as low as possible – while preserving democracy – may be further rationalized if leaders realize that democracy may also be jeopardized after the elections when measures to bring expenditures back to a sustainable level would need to be taken. Although the risk for a collapse is largest in an election year, the leaders may also wish to keep the probability of a collapse after the elections to the necessary minimum.

In our model with only one type of expenditure associated with democratic survival the government simply chooses the level of g consistent with satisfying the democratic survival constraint (2)

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[20]An alternative is that the government maximizes the probability of democratic survival subject to a maximum allowable deficit. Our focus on how fragility of democracy (low π) affects deficits implies that the formulation in the text is more natural. Moreover, the key result – targeting expenditures to the public rather than the elites – will hold under this alternative.

with equality, subject to (6) on the relation of public support to expenditure g.[21] The critical value of ϕ to ensure democratic survival is:

$$\begin{aligned} \phi &\geq \xi^{(-1)}\left(\frac{W^D - W^{FC}}{W^A - W^{FC}}\right) \\ &\equiv \phi^{CRIT} \end{aligned}$$

This gives the fraction of the population that must support democracy so that elites do not try to overthrow it. The associated level of expenditures consistent with the survival of democracy is then given by combining equations (11), (6), and (9). This implicitly defines the critical level of expenditures, denoted g^*:

$$F^{(-1)}\left(\phi^{CRIT}\right) = \mu(g^*)\left(P\left(S\right) - P\left(X\right)\right) - P\left(X\right)$$

where $P\left(S\right) - P\left(X\right)$ is defined by (10).

Our modeling of the democratic survival problem is obviously extremely stylized, but it illustrates the basic problem of a new democratic regime concerned about the survival of democracy when public support is critical. If the public is not convinced about the ability of the democratic regime to maintain a functioning economy, the government may face the need to devote resources to making the citizens not turn against democracy. One could extend this simple model in the direction of greater realism, by, for example, further exploring uncertainty on the part of the government on the extent of expenditures needed to increase the probability of democratic survival. Our concern in this paper is in a very specific application of this type of a framework, namely, what may be true about the magnitude of expenditures to consolidate democracy. We now turn to this issue.

5 When will expenditure on the "masses" be large?

There are two basic parts of our argument that the political deficit cycle in new democracies reflects high net expenditures on voters to keep them from turning against democracy in an election year. First, net expenditures in new democracies will be directed toward the public in general rather than toward the elites. We assumed this in the model for two reasons. First, as discussed in section 2.2, we believe that consolidation of democracy is *not* addressed simply by catering to elites. Public

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[21]If there were different groups h in the population who were affected by different types of public expenditure g^h, the government's problem would be to choose the vector of g^h to hit the critical value ϕ^{CRIT} at the lowest expenditure level.

attitudes are crucial and the public must be "brought on board". Second, in explaining the "new democracy effect" found in Brender and Drazen (2005a) we do not think that expenditures directed solely at elites would be of sufficient magnitude to explain the observed effects.[22] That is, any model that would explain the data must, in our opinion, focus on the public, and clarity of exposition led us to concentrate on that.

Some evidence that high expenditures in election years in new democracies are not primarily directed at the elites may be seen in Table 3, where we look at the composition of the increase in expenditures in the election year in the 20 new democracies that had the largest such increase in the sample used by Brender and Drazen (2005a). Countries are ordered by the overall growth in expenditure in the election year (in percent of GDP) relative to the previous year, indicated by the number in parentheses after the election date. For each country the table compares the fraction of the *increase* in public expenditures that was due to each of 4 spending categories (with the share of each category in total spending in the year before the election in the left-hand column in each category). A larger figure in the right-hand column than in the left-hand column in each category indicates a more than proportional share of that item in the election-year spending expansion. Overall, it seems that the increase in public spending in election years tended to be proportional to the composition of spending before the election year with the share of social spending (welfare transfer payments, education and health) unchanged on average.[23] The detailed composition of the increase in spending suggests that it was mostly transfer payments, agricultural subsidies to restore food supplies, or payment of arrears to utility suppliers that accounted for the increased spending in the election years. While not offering an unequivocal proof, these expenditures can more intuitively be classified as spending on the masses than on elites.

[Put Table 3 Here]

The second part of our argument is that these expenditures will be large, in the sense of being able to explain the magnitude of the deficit cycle. It obviously makes no sense to measure the size of fiscal expenditure and the deficit as "proof", since this is what we are arguing the fragility of democracy can explain. Looking at types of expenditure that we would associate with democratic

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

[23]The noticeable outlier Ethiopia reflects the combined effects of the war with Eritrea and famine which required higher military spending and agricultural subsidies.

consolidation (along the lines of Table 3) is also uninformative, as the aggregate nature of the data makes it impossible to associate a given expenditure with consolidation with any confidence.

What we do instead is to use the model to help understand why these expenditures may be large. The model highlights three determinants of the magnitude of expenditures needed to consolidate democracy. We list and discuss them in turn, asking what are the conditions for democratic fragility to imply large (election-year) expenditures g^*.

First, from (11) (and the underlying (3)) we see that the level and sensitivity of ξ, the probability of a successful overthrow of democracy as perceived by the elites, to ϕ, support for democracy by the masses, is important. A low level of ϕ (that is, a high level of ξ) in the absence of government action, as well as a low sensitivity of ξ to ϕ (so that a large increase in ϕ is needed to reduce ξ significantly) will lead to higher level of expenditures g. Intuitively, if the public begins with a weak belief in democracy and this implies that anti-democratic elements think an anti-democratic coup has a large chance of success, government expenditure on consolidation will be high.

In Table 4, we give more detail on the political and economic situation in which high election-year expenditures were undertaken in each of the 20 incidents listed in Table 3. Although our characterization of a specific case may be subject to alternative judgements, we believe that they accurately depict the general phenomena. Consistent with the view that high expenditures may reflect weak public belief in democracy (and the implied threat to democracy from anti-democratic elements), we find that 7 of the 20 campaigns in Table 3 (that is the campaigns in new democracies where the largest increases in expenditures took place) were carried out where there was the perception of a substantial threat to democracy (Turkey 1977, Cyprus 1973, Spain 1982, Ethiopia 1999, Jamaica 1976, Fiji 1982 and Nepal 1985) and 7 others in what was seen as an environment of a serious sociopolitical crisis (Brazil 1989, Greece 1981, Bolivia 1993, Turkey 1991, Mongolia 1997, Fiji 1977 and Spain 1979). Additionally, in Cyprus in 1983 the elections took place immediately after the declaration of independence by the northern part and amidst fears of an pending Turkish invasion.

[Put Table 4 Here]

Second, the analysis indicates that the difference between $P(S)$ and $P(X)$ (that is, the difference between the posterior P that democracy is good conditional on observing a good economic outcome versus observing a bad economic outcome) is crucially important. Using (10) we see from the numerator that $P(S) - P(X)$ will be large when the prior that democracy is good is close to $\frac{1}{2}$ (so that $\pi(1-\pi)$ is maximized) and when $\delta - \beta$ is large, that is, when citizens believe that the difference in

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the probability of a good economic outcome when democracy is "good" and when it is "bad" is large. That is, observed events will be important to citizens in drawing inferences about whether democracy is good when they do not have strong beliefs *ex ante* in either direction and when they believe that outcomes may be quite different if democracy is superior or not. This is likely to occur when democracy is new and to fade as citizens gain more experience with the democratic environment, in line with the findings in Brender and Drazen (2005a).

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

A somewhat rough indication that manipulation is less observable in new democracies can be drawn from Table 5. In this table we compare the data on public expenditure as reported in the IFS in the year subsequent to the one for which the data are reported with the latest available data for the same year.[24] We find that in new democracies the level of expenditure reported immediately after the election year were 1.6 percent lower than finalized data; it was lower by only 0.3 percent in non-election years. In contrast, in established democracies initial reports for election years were 0.1 percent higher than the final data, compared to 0.4 percent in non-election years. While a comprehensive analysis of the differences in the quality of reporting in various groups of countries is beyond the scope of this paper, these figures are suggestive that new democracies provide a lower quality of data to their citizens in election years.

One issue that we did not model explicitly, but may be quite important in explaining the magnitude of expenditures associated with democratic consolidation is the dispersion of the population in terms of the specific expenditures that would affect the perception that "democracy is good." The greater of the dispersion of the population in this respect, the larger may be the expenditure needed

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[24] For example, we compare the data for Spain in 1982, as reported in the 1983 IFS, with the data for Spain in the same year as reported in the 2005 IFS.

to generate sufficient support. As discussed above, for modeling simplicity, we considered all citizens as being influenced by the same expenditures, while in practice various groups will be affected by different programs. For example, revamping power supplies by paying arrears to the electric company may be an expenditure that affects the attitudes of a large share of the population in a relatively developed and densely populated country, but much less so a regionally divided less developed one. To the extent that amounts spent by the government on each program reach only a limited part of society, larger expenditures may be required to generate sufficient support. In fact, regional conflicts were an important factor in some of the new democracies in Table 4.

6 Concluding comments

New democracies as a group are characterized by significant election-year increases in public expenditures and deficits not observed in established democracies. Though conventional wisdom is that high expenditures or deficits may help an incumbent get re-elected, Brender and Drazen (2005b) find no evidence that deficits help an incumbent get reelected in any group of countries, including new democracies. This suggests that the increases in spending in election years observed in new democracies may reflect something other than the incumbent's attempt to gain votes.

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

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

We have argued, however, that fragility alone is not sufficient to explain election-year effects. For good economic results to convince the public that "democracy works", such results cannot be seen

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

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

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

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

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

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

[1]Countries are defined as new democracies until the 4th democratic election campaign.
[2]A downfall of a democracy is defined as a shift from a positive score in the democracy/autocracy scale in the POLITY IV dataset of the University of Maryland.
[3]Defined as a decline of 5 or more points in the democracy/autocracy scale, starting with a positive level.
[4]Starting from a positive level.

Table 2: Differences in Attitudes and Preferences Between Citizens in New and Established Democracies [1]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 2A: Differences in Attitudes and Preferences Between Citizens in New and Established Democracies[1]

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

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

[2] The income level of the individual in his country on a scale of 1-10, where 1 is the lowest level.

[3] Probit equations.

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

Table 3: The composition of Expenditure increase in Election years

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

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

Services and Infrastructure: Economic Services: Fuel & Energy, Trasportation & Communication

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

Table 4: Main Developments Before the Elections in the New Democracies with the Largest Expenditure Expansions before the Elections

Brazil_1989**	Hyperinflation. A new constitution in 1988 which decentralized power to local governments and reduced resources of the central government. Accusations of corruption.
Turkey_1977*	Economic crisis and terror lead to a threat of a military coup (which occurred in 1980). High inflation and unemployment rising to over 20 percent.
Greece_1981**	Pressure due to the poor economic performance after democratization that reflected developments in the global economy. This came after strong performance before democratization.
Bolivia_1993**	Labor strikes and hunger strikes against privatization and demands for wage increases.
Turkey_1991**	The Gulf war, Kurdish migration and the possibility of a victory (which materialized) of the Muslim party, created a political crisis. Part of the increase in expenditures, though, is related to the direct transportation cost due to the embargo on Iraq.
Hungary_2002	The increase reflected an ambitious program of housing subsidies, due to social pressures, and infrastructure.
Cyprus_1973*	Greek -Turkish clashes and a conflict among the Greeks due to claims that the government is too accommodating towards demands of the Turkish population. A coup took place in the following year.
Estonia_1995	A return of agricultural subsidies after years of cuts, reflecting a victory of the rural party in the March elections. Substantial cost of 6 programs for the rural Russian-speaking population.
Spain_1982*	The elections took place after the failed coup in 1981. Deep economic crisis with surging unemployment. Expenditures rose through expansionary wage agreements and transfers. Unemployment particularly was perceived as evidence that democracy failed.
Ethiopia_1999*	War with Eritrea and drought required large defense expenditures and agricultural subsidies.
Jamaica_1976*	A bloody struggle between the Prime Minister's supporters and the labor party. Political violence reached a new peak in January (compared to previous years) and remained high until the December elections. Emergency rule was declared and 500 opposition members were arrested without trial for a substantial period. The economy was in a crisis with inflation and unemployment rising, and the US tried to topple the government.
Cyprus_1983***	Declaration of independence by the Turkish part. Expenditures emphasized roads and agriculture.
Mongolia_1997**	Political crisis with a government from one party and a president from the other. High inflation continuing from the first half of the 1990s. Declining copper prices required a cut in fiscal spending but the privatization of urban housing required a reform that would allow the rural population to benefit from the social system.

Brazil_1998	A rise in social security allowances and pensions due to early retirement from the public sector.
Uruguay_1994	The elections focused on social and pension reforms that were rejected by the public in a referendum. The fear from a victory of the left and consequent military response was in the background.
Fiji_1977**	Two campaigns in the same year against the background of a conflict between native Fijians and the Indian population. A split of the Fijian vote was responsible for the need to repeat the elections. Expenditures were raised on education and transfer payments to calm the Eastern Fijians.
Argentina_1999	Rising social security and interest expenditures. Menem lost the election after years of dominance.
Nepal_1995*	Communists won after a pressure of demonstrations, but new elections were called and the Maoist party was banned from participation. This triggered a military and political crisis that resulted in later years in temporary suspensions of democracy.
Spain_1979**	Poor economic performance - after the good years before democracy. The UCD did not dissolve, despite differences in opinion, in order to preserve democracy. The army was perceived a threat to democracy in light of agreements with the Basques and the permission to the communists to participate in the elections.
Fiji_1982*	Rising tension between nationalist Fijians from the richer west and the traditional East. An economic crisis due to falling commodity prices raised tensions on income distribution issues and hostility against the Indian population.

*-Immediate threat to democracy. **- Serious political crisis. ***- External threat.

Table 5: The Accuracy of Reported Expenditures in New and Old Democracies[1]
(In percent of the initially reported expenditures)

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

[1] figures are the difference between the first figure for the level of central government expenditure that appered in the IFS within a year after the end of the reported year and the latest available figure for the same year. Countries that did not have a published figure in the IFS within a year from the end of the fiscal year are exvluded. A negative figure indicates that the initial figure was smaller than the final one.
Data cover the years 1960 -1995.