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Younger parties, bigger spenders? Party age and political budget cycles

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ABSTRACT

We identify a new explanation for political budget cycles (PBCs): politicians have stronger incentives to increase spending around elections in the presence of younger political parties. Previous research suggests that PBCs should be larger when voters are uninformed about politician characteristics and politicians are less credible. Research on political parties suggests that older parties are more likely to attenuate problems of both information and credible commitment. The effects of party age are robust to controls for numerous other political characteristics of countries. In particular, the arguments and evidence here illuminate a mechanism underlying recent robust findings that PBCs are larger in younger democracies: party age fully accounts for these effects.

Political budget cycles have long preoccupied scholars. Because the welfare effects of public spending should not depend on the timing of elections, the fact that spending rises around election time is an explicit indication of a potential divergence between political incentives and social welfare maximization. This divergence underlines the importance of the question we address here: why are political budget cycles more pronounced in some countries than in others?

Important recent research has shown that political budget cycles are largest in young democracies. What is it, though, about young democracies that especially biases political incentives towards the distortion of election year spending? One possible answer relates to the ability of citizens to solve the collective action problems that prevent them from holding politicians accountable for their public policy choices. Political parties are the main vehicles for solving those problems. We present evidence that politician incentives to increase pre-electoral spending are rooted in political parties and, in particular, the age of parties: political budget cycles are significantly larger when political parties are younger. This effect is not a consequence of the correlation of party age with the age of democracy, country income, years since independence, nor of several political and electoral institutions. On the contrary, our results suggest that new democracies tend to experience larger political budget cycles because they have younger parties.

In the discussion that follows, we first outline plausible mechanisms through which party age might influence political incentives to engage in political budget cycles. In theory, political budget cycles have been linked to incomplete voter information about politician characteristics and the inability of politicians to make credible post-electoral spending commitments. We refer to a growing literature on political parties to suggest that older political parties are likely to exhibit organizational characteristics that attenuate each of these. The remainder of the paper presents evidence, robust across a

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wide variety of specifications and estimation assumptions, that political budget cycles are contingent on the age of political parties.

1. Literature review: political budget cycles, political parties and party age

Our empirical findings are the first to link political party characteristics – specifically, party age – to political budget cycles. As with earlier research on the age of democracy, it is not possible to test specific mechanisms through which party age influences political incentives to engage in pre-electoral spending. We can, however, following the literature on democratic age, point to plausible channels through which party age might matter. Prior research suggests that political budget cycles are large where information asymmetries are great and political credibility is low. In this section, we summarize research that points to features of political parties that address both of these issues and are more likely to be found in older political parties.

The first theories of political budget cycles, advanced by Rogoff and Sibert (1988) and Rogoff (1990), explain cycles as a consequence of imperfect voter information about candidate competence. Incomplete information generates a moral hazard problem because voters observe actual government spending with a lag, hindering their ability to judge the competence of politicians. It also creates an adverse selection problem, since politicians know their own competence and voters do not. Voters can neither observe competence nor all components of the budget, allowing incumbents to use fiscal expansions to signal to voters an increase in administrative efficiency. Later models of political budget cycles eschew the adverse selection element and focus exclusively on moral hazard (see Shi and Svensson, 2006, Alt and Lassen, 2006a, Saporiti and Streb, 2008, and Hanusch 2012, a,b, all drawing on Lohmann, 1998). Political candidates do not know their own competence, but all actors know that competence changes over time, so more recent signals of competence are more accurate than earlier signals. Accordingly, all incumbents have an incentive to exploit imperfect information about the budget and to abuse fiscal policy before elections in order to appear competent.

Other theories maintain the focus on information, but move away from competence. Brender and Drazen (2005, p. 1273) argue that in "new" democracies "fiscal manipulation may work because voters are inexperienced with electoral politics or may simply lack the information needed to evaluate fiscal manipulation that is produced in more established democracies." Their model is consistent with the increasing availability of fiscal information in established democracies, which was not the case when the first models of political budget cycles emerged. Alt and Lassen (2006a,b) show that more transparency reduces the political budget cycle. Alternative theories include Brender and Drazen (2007) where new democracies are more vulnerable to coups, particularly at election time, so incumbents use election-year spending to convince voters about the ability of elected officials to deliver benefits to them.[1]

One central function of parties, though, is exactly to provide voters with information about candidates that would otherwise be costly for candidates to provide (e.g., Cox and McCubbins, 1993; Aldrich, 1995; Snyder and Ting, 2002; Ashworth and Bueno de Mesquita, 2008). Snyder and Ting (2002) summarize substantial evidence that voters infer the policy positions of candidates from party labels. The problem for parties, however, is that candidates with extreme positions or low competence may seek to mask these attributes behind the party label. Parties can solve this problem if they are organized to screen candidates for desirable attributes.[2]

Not all parties screen candidates for competence and policy preferences, however. There are no systematic data that track which parties serve this information function and which do not, so we cannot test directly whether political budget cycles are a function of these party characteristics. However, it is plausible that those that do not screen are also likely to be shorter-lived (Keefer, 2011). Parties that rely on charismatic leaders to mobilize electoral support are not only less likely to screen for competence and policy preferences; they are also unlikely to survive the departure of their founding leaders. Parties that depend on the clientelist networks of individual politicians to attract voter support are also likely to be ephemeral: it costs individual candidates little to leave one clientelist party and start another, since their individual characteristics, rather than their party affiliation, constitute the primary basis of their appeal to voters. In contrast, the electoral appeal of parties that screen for competence and policy preferences depends more on the party and less on the particular candidates and party leaders in place. Their departure is consequently less likely to trigger party collapse. Younger parties, therefore, are less likely to mitigate the information asymmetries that can trigger political budget cycles.[3]

The inability of politicians to make credible pre-electoral commitments to post-election public policies also creates incentives to trigger political budget cycles. Vote-buying is one important manifestation of this. In some countries, vote-buying is a large expenditure that occurs, by definition, in election years. According to the 2005–06 wave of

[1] Some results in the literature are consistent with the argument that voter information matters for political budget cycles. Brender (2003) emphasizes the importance of information about fiscal policy as a key mediating factor in political budget cycles. Shi and Svensson (2006) find that political budget cycles are larger when their composite variable, capturing both radio penetration and freedom of broadcasting, is higher, which also reduces the scope for a "fiscal illusion". Hanusch and Keefer (2013), as explained below, also eschew the requirement of a "fiscal illusion" for political budget cycles to emerge.

[2] Snyder and Ting do not explicitly analyze candidate qualities, such as competence, that are preferred by all voters (so-called "valence" characteristics). However, the model and evidence in Galasso and Nannicini (2011) make clear that parties also take care to allocate more competent candidates to the most competitive districts.

[3] Khemani (2004) and Drazen and Eslava (2010) emphasize a different information problem: politicians are uncertain about the identity of pivotal voters. As elections draw closer, incumbents grow more certain and are more willing to direct resources to them. Younger parties – with less electoral experience – are less likely to accurately identify pivotal voters and, therefore, be more prone to election year spending.