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The African political business cycle: varieties of experience

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Abstract: We seek to understand both the incidence and the impact of the African political business cycle in the light of a literature which has argued that, with major extensions of democracy since the 1990s, the cycle has both become more intense and has made African political systems more fragile. With the help of country-case studies, we argue, first, that the African political business cycle is not homogeneous, and occurs relatively infrequently in so-called 'dominant-party systems' where a pre-election stimulus confers little political advantage. Secondly, we show that, in those countries where a political cycle does occur, it does not necessarily cause institutional damage. Whether it does or not depends not so much on whether there is an electoral cycle as on whether this cycle calms or exacerbates fears of an unjust allocation of resources. In other words, the *composition* of the pre-election stimulus, in terms of its allocation between different categories of voter, is as important as its size.

The African political business cycle: varieties of experience

1.Introduction

The idea that governments may wish, for political reasons, to stimulate the economy before an election and thereby amplify the business cycle is frequently documented in the literature on industrialised countries (Kalecki, 1943; Nordhaus, 1975; Mosley,1978; Rogoff, 1990) and has spread, with democratisation, to emergent and developing countries. It has been discovered that the cycle often does not 'behave' in the same way in developing countries as in industrialised countries. For example, the policy instruments used to stimulate the economy in pre-election periods may be instruments such as the minimum wage or increased government expenditure on public works, rather than fiscal and monetary policy (Treisman and Gimpelson, 2001). Where, as in several countries of Africa, there is an incumbent 'dominant party' (or dominant coalition), which is far ahead of rival parties in its share of the vote (for example, Botswana, Uganda, South Africa), that may reduce the incumbent's incentive to administer a pre-election boost to the economy (Schultz, 1995) and the political business cycle may be less violent or even non-existent (Remmer, 1993)[2].

A further key inter-country difference, particularly in an African context, is that poor developing countries have weaker states than industrialised countries. Block (2002) argues that in the context of democratisation the need to apply a pre-election boost for political reasons may impose severe strains on economic stability, especially if institutions are weak. With reference to a panel of 44 countries over the period 1980-95, Block warns that:

> Africa, along with many countries in Latin America and the former Soviet Union, is currently engaged in long-term processes of economic and political reform. Yet, Africa is unique in the intensity of these dual challenges, as well as in its relatively limited institutional development. It is, in short, a context not only particularly ripe for political business cycles, but also one in which such cycles may imply particularly acute problems for the compatibility of economic and political reform. The electorally motivated macroeconomic interventions found in this paper directly undermine ongoing economic reform programs, which are predicated on reducing deficits, restraining money growth and inflation, and liberalising foreign exchange regimes and capital markets. Are economic and political reform friends or foes? (Block, 2002: 224)

This is a timely warning, and the literature has revealed a number of cases where the economic cycle in Africa has been amplified by the democratisation of politics (Tarawalie et al. 2012; Sackey and Compah-Keyeke, 2012, Ebeke and Olcer 2013). However, Block's caveat concerning Africa's 'relatively limited institutional development' is, we argue in this paper, very important. In fact, institutional development is highly variable across Africa, being in some places minimal but having in other places developed in a way, often under the stimulus of good relationships with aid donors, which has strengthened the state's developmental capacity and democratised it at the same time. It is our contention that whether or not this institutional development has occurred is crucial in determining the impact of the political business cycle; and that this impact is reflected in the allocation of the pre-election boost between sectors and purposes which are or are not seen as fair and equitable. Our basic argument is that economic instability arising from a political business cycle will be mitigated if, first, donors enable post-election deficits to be indulged on soft terms rather than to lead to shortage; and second, pre-election booms are spent on measures which seem to increase 'fairness', and prevent the cycle in the budget deficit from turning into a cycle in personal disposable income also. Thus, whether economic and political reform are 'friends' or 'foes' in Block's sense depends, we argue, on the degree of institutional development and specifically on the inter-sectoral composition of the pre-election boost, if there is one.

Our aim in this paper, then, is to examine the incidence of political business cycles in Africa in a manner which seeks to do justice to these inter-country variations in political and economic environment. Our aim is first to understand whether an election-cycle mechanism is present in Africa, and if so where; secondly to understand the process through which the political business cycle is transmitted; and thirdly to understand the impact of the cycle, with particular reference to our hypothesis that the impact of the political cycle depends, as discussed above, on the composition of public expenditure between different interest groups. Section 2 presents the sample and illustrates some of the variations of experience by means of country case studies. In section 3 we examine the proposition that the political business cycle causes the quality of governance to deteriorate, and inflicts institutional damage: in particular, we suggest that the impact of the cycle may depend on the composition of any pre-election boost in expenditure. Section 4 concludes and presents implications for policy.

2. Evidence of election-cycle effects in Africa

We wish first of all to understand whether an election-cycle mechanism is present in Africa, and if so where. We therefore begin with a model in which the government varies its macro-economic policy instruments (I_t), notably the budget and the money supply, in an expansionary direction in pre-election years ($PREELE_{i,t}$), but is then forced to cut back on expenditure after the election in order to re-establish fiscal balance and prevent a run on the reserves[3]. We expect that this pre-election stimulus will be greater in those cases where the ratio of aid to GDP ($AIDGDP_t$) is high, since aid has the ability to loosen the recipient government's budget constraint and increase its freedom of manoeuvre (in particular to provide a pre-election boost), and greater also in those cases where there is no 'dominant party' ($D_{i,t}$) since, as discussed above, there is more incentive to offer a pre-election boost if the outcome of an election is uncertain and such a boost will influence the outcome of the election. Therefore we estimate, for a sample of 51 African countries, the following the following single-equation model[4] :

$$\begin{aligned} I_{i,t} = {} & \alpha_{0i} + \alpha_1 ELE_{i,t} + \alpha_2 PREELE_{i,t} + \alpha_3 AIDGDP_{i,t} + \alpha_4 GDPG_{i,t} + \sum \beta_i I_{i,t-j} \\ & + \sum \varphi_t D_{i,t} + \sum \phi_i I_{i,t-j} * ELE_{i,t} + \mu_{i,t} \end{aligned} \qquad (1)$$

where:

I_t = policy instrument subject to variation in an election year;
$ELE_{i,t,}$ = a dummy variable taking the value 1 in an election year and 0 in a non-election year;
$PREELE_{i,t}$ = a dummy variable that equals 1 in a pre-election year, and zero otherwise;
$AIDGDP_{i,t}$ = the value of aid disbursements as a proportion of GDP;
$D_{i,t}$ = Dummies for presence of a dominant political party, and for positive growth in AIDGDP in the year following an election.
$GDPG_{i,t}$ = GDP growth;
j = length of lag applicable to pre-election stimulus;
μ = random error term.

This specification reproduces the essence of the original Nordhaus (1975) 'opportunistic' political business cycle model, in which the incumbent government stimulates the economy before an election in order to maximise its share of the vote at election time, The policy instruments considered are the budget deficit (total government revenue less total government expenditure), and money supply, both expressed as shares of GDP. The aid-to-GDP ratio is added to the model to reflect the dependence of expenditure on aid flows, as discussed above. Table 1 shows a summary of the variables we use in our analysis.

Table 1: Summary of Variables

Variable description	Obs	Mean	Std Deviation	Data Sources
Budget deficit (ratio of GDP)	721	-3.31	5.16	World Bank, *World Development Indicators* CD-ROM
Election year dummy	1262	0.13	0.34	The African Elections Database; Quality of Government Dataset
Pre-election fiscal stimulus (D = 1 if the government runs a budget deficit prior to a presidential election)	1479	0.06	0.24	The African Elections Database; Quality of Government Dataset
Pro-poor expenditure	99	14.193	4.756	IMF, *Government Expenditure Statistics Yearbook, various issues*
Government effectiveness (KK measure)	661	-0.711	0.623	Worldwide Governance Indicators
Tax to GDP ratio	385	18.469	8.747	World Bank, *World Development Indicators* CD-ROM
ICRG bureaucratic quality	910	1.404	0.94	International Country Risk Guide
Aid to GDP ratio	1317	12.43	13.21	World Bank, World Development Indicators CD-ROM
GDP growth rate	1360	3.60	7.32	World Bank, World Development Indicators CD-ROM
Dirty elections (D=1 if elections deemed dirty)	1423	0.69	0.46	Database of Political Indicators (DPI)
Money supply (ratio of GDP)	1291	27.97	18.40	World Bank, World Development Indicators CD-ROM
Pre-election monetary stimulus (Dummy = 1 if the government allows money supply to growth in excess of GDP growth prior to a presidential election)	1261	0.05	0.23	The African Elections Database; Quality of Government Dataset & World Development Indicators CD-ROM

We estimate equation (1) using the variables in Table 1, and the results are presented in Table 2, using a fixed effects (FE) estimator.[5] The equation is estimated separately for the sample as a whole and for countries without dominant parties. Dominant parties are defined as those parties that manage to attain more than 60% of the vote in a given national election. Across the sample as a whole, the expected fiscal pre-election stimulus is strongly significant (at the 1% level) as a predictor of the budget deficit, even in the 'no dominant party' group where we expect electoral competition to be more intense (at the 5% level of statistical significance).

The monetary pre-election stimulus is statistically significant for the full sample after controlling for country fixed effects (at 1% level of significance). On this evidence, it appears that political business cycles in Africa are triggered by both fiscal and/or monetary expansion prior to elections. Where there is greater political competition, incumbent parties are more inclined to increase the deficit level prior to an election than they are likely to increase money supply. This could be because it is easier to reverse a deficit than it is to control inflation arising from excessive monetary expansion. As noted by Block (2002) there appears to be evidence that the African election cycle is variable across, and possibly even within, African countries, and below we investigate the possible causes of this variance with the help of country case studies.

Table 2: Preliminary evidence of election cycle effects

VARIABLES	Budget deficit Full sample (1)	Budget deficit No dominant Party (2)	Money Supply Full sample (3)	Money Supply No Dominant Party (4)
Lagged Budget deficit	0.359***	0.139		
	(0.093)	(0.194)		
Election year dummy	1.133	-0.462	0.794*	0.245
	(0.686)	(1.496)	(0.447)	(1.117)
Fiscal pre-election stimulus	-1.647***	-2.079**		
	(0.323)	(0.996)		
Dirty election dummy	0.810	3.012**	-0.190	0.793
	(0.656)	(1.294)	(0.511)	(1.104)
Dirty election dummy x Aid/GDP	-0.052**	-0.251**		
	(0.024)	(0.119)		
Aid growth in post-election year dummy	0.153	0.524	-0.455	-2.327*
	(0.583)	(1.789)	(0.420)	(1.180)
Election dummy x Aid/GDP	-0.010	-0.011	-0.004	0.003
	(0.023)	(0.037)	(0.004)	(0.017)
Election dummy x budget deficit	0.487***	0.297***		
	(0.098)	(0.105)		
Aid/GDP	0.017	0.070	0.026	0.095**
	(0.032)	(0.068)	(0.021)	(0.041)
GDP growth	0.035	0.045	-0.148***	-0.173***
	(0.035)	(0.072)	(0.035)	(0.061)
Lagged GDP growth	0.062**	0.048	-0.021	-0.021
	(0.029)	(0.072)	(0.054)	(0.063)
Lagged M2/GDP			0.827***	0.709***
			(0.052)	(0.110)
Monetary pre-election stimulus			1.714***	0.625
			(0.530)	(0.505)
Election dummy x M2/GDP			-0.012	-0.015
			(0.014)	(0.021)
Time fixed effects	0.085**	0.197*	0.034	0.183**
	(0.040)	(0.112)	(0.028)	(0.087)
Constant	-3.692***	-6.431***	4.591***	2.984
	(0.932)	(1.882)	(1.393)	(2.182)

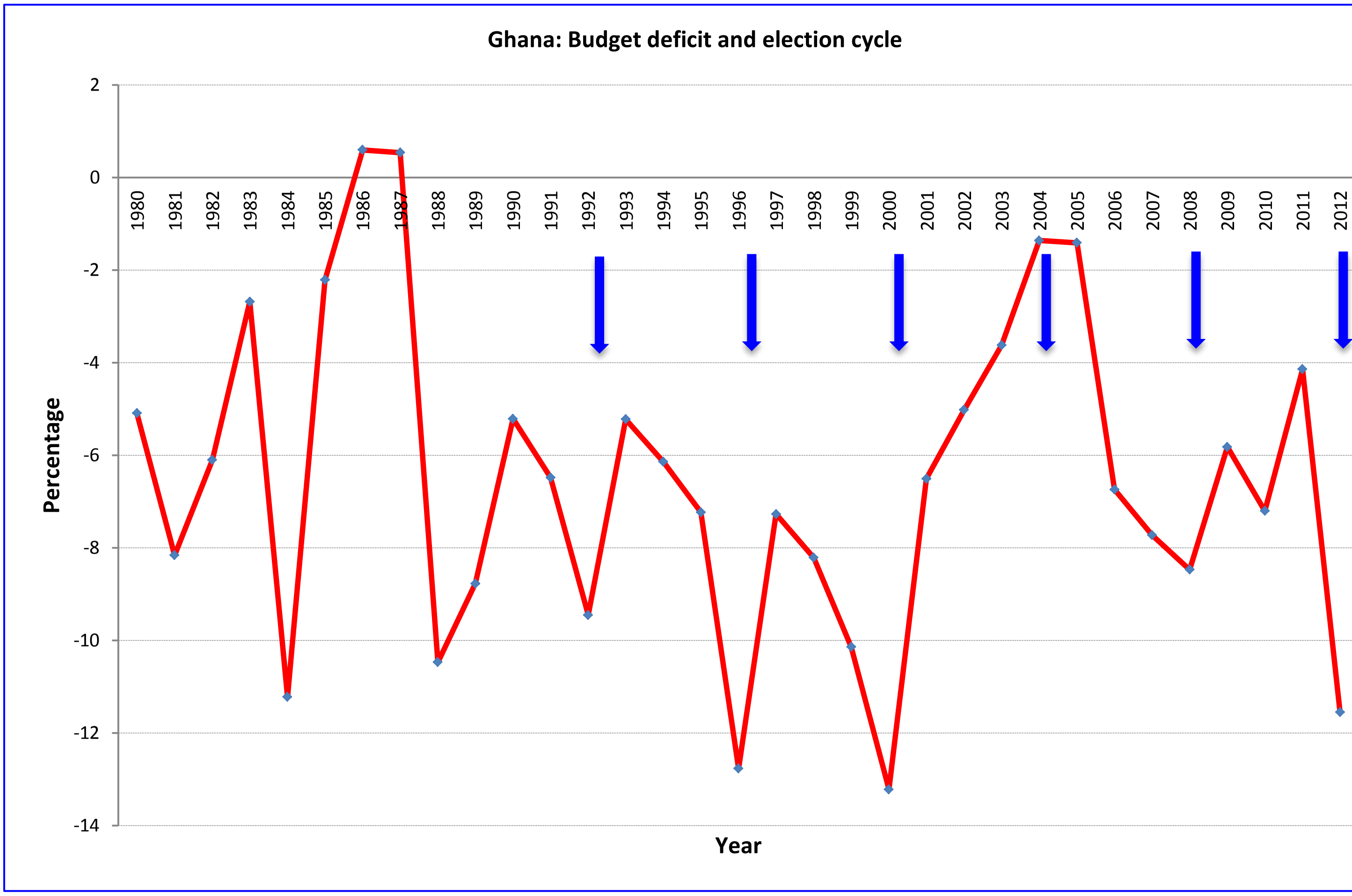
Observations	541	163	975	315
R-squared	0.337	0.132	0.681	0.567
Number of countries	37	23	48	38
F	39.68	7.373	42.81	19.67

Robust standard errors in parentheses. We only report the variables with some statistical significance (*** p<0.01, ** p<0.05, * p<0.1).

Sources: election timings from Quality of Government Dataset; aid per capita from World Bank, World Development Indicators CD-ROM;fiscal dominance from Adam and McConnell (2006), Table 5; dominant party status from Salih (2003) and Quality of Government Dataset.

Our case-studies relate to Ghana, Zambia and Kenya - all countries in which multi-party competition for the presidency has been active since the beginning of the 1990s, i.e. there is currently no 'dominant party'[6]. The course of the political business cycle between 1980 and the present in these countries is depicted in Figure 1. There is an active cycle in Ghana and Zambia – in the sense that in each election year there is a noticeable increase in the budget deficit, most of it triggered by variations in government spending rather than in the tax ratio. In Kenya, no cyclical increase in the budget deficit is observable, except in 2007. In Ghana, as Figure 1 shows, this trend towards macro-economic instability has recently got worse, and the 2012 pre-election boom (right-hand end of the graph) is a great deal worse than that for the 2004 and 2008 elections (although not as bad as in 1996 and 2000).

Figure 1: Budget deficits and election cycles in case study countries


Ghana: Budget deficit and election cycle
Percentage
2
0
-2
-4
-6
-8
-10
-12
-14
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
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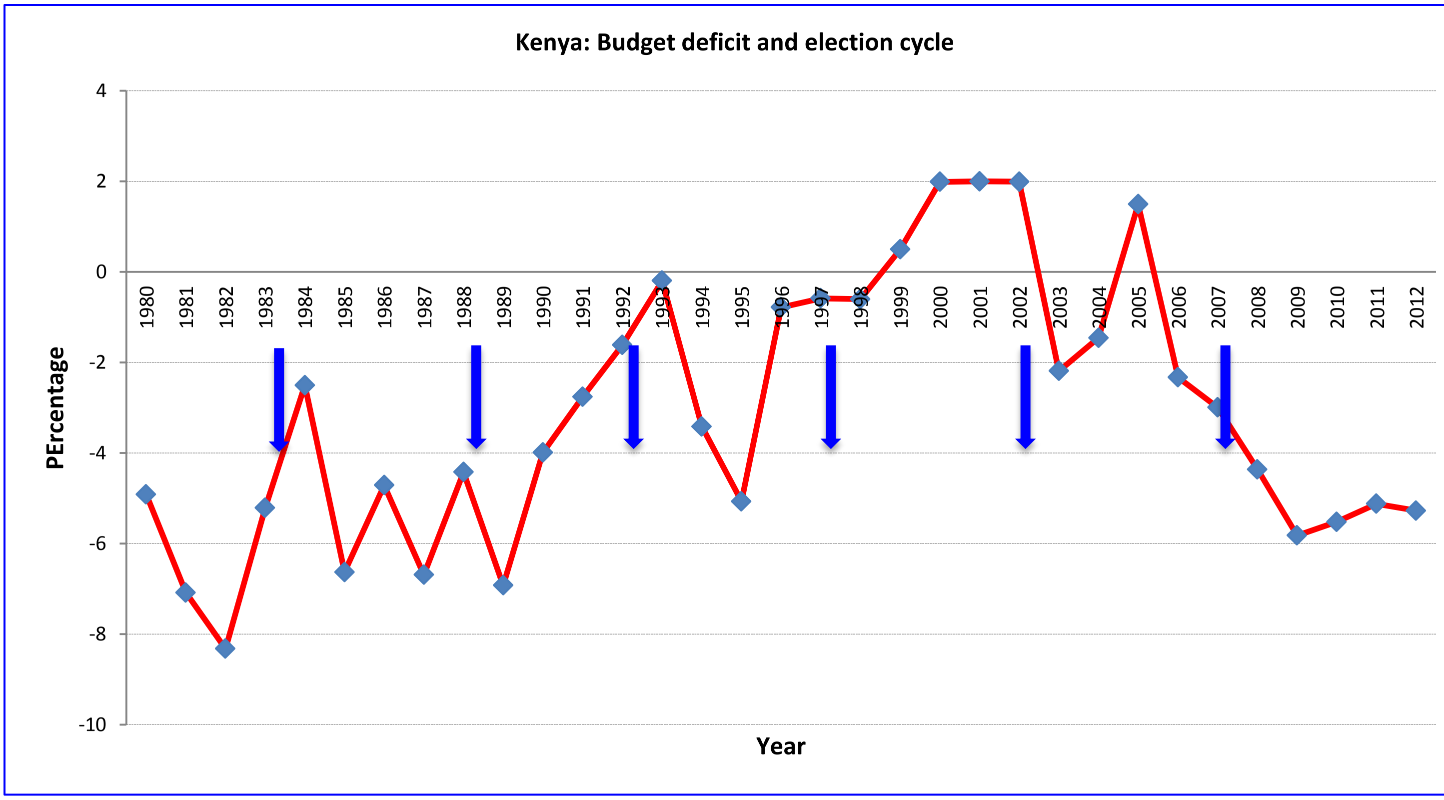

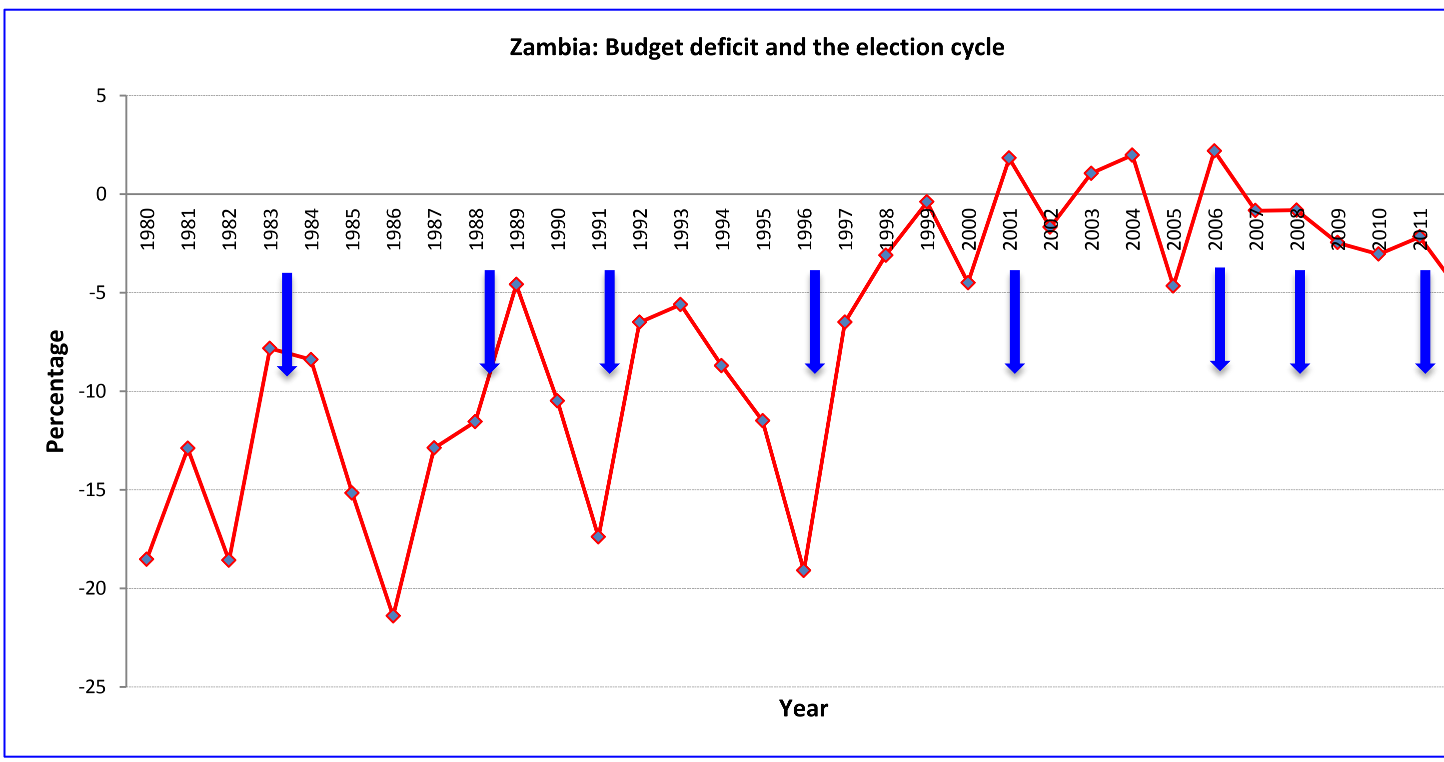

Data sources: Quality of Government Dataset and World Development Indicators 2012

Note: The blue arrows mark election years

However, there are some puzzles still embedded in these data, not the least of which is that Zambia and Kenya, which made strenuous attempts to rid themselves of their fiscal deficits over the period 1990 to the present, experienced strained and unstable relationships with aid donors over the period[7], whereas Ghana, whose fiscal control was much looser and which lived with an inflation rate averaging over 20% over the entire period, enjoyed an excellent and stable relationship with aid donors over the same period, interrelated with its anti-poverty performance – indeed, Ghana halved its headcount poverty level between 1991 and 2006 (Nuamah, Teal and Awoonor-Williams, 2010)[8], a performance matched only by Uganda across the whole of Africa. We may be able to understand these puzzles if we bring into the story characteristics going beyond the formal observance of democratic and fiscal orthodoxy – in particular, the *quality* of governance and of the pre-election boost that was applied in each of these cases.

Ghana is perhaps the country that in the whole of Africa, since 1992, has made the most strenuous efforts to consolidate its advances in democratic practice, achieved *inter alia* through reforms in electoral practice, involvement of foreign observers in monitoring of elections and a drive to increase the electoral participation rate (Fridy, 2007; Branch and Cheeseman, 2008; Whitfield, 2009). Each of the six elections since 1992 has been tightly contested between the National Democratic Congress (NDC) and the New Patriotic Party(NPP), both of which have their roots in structures of regional and ethnic loyalty established in colonial times. At each of these six elections (won by the NDC in 1992 and in 1996, the NPP in 2000 and 2004, and by the NDC again in 2008 and 2012) there is a perceptible pre-election boost in the budget deficit, as may be observed from Figure 1 (Government of Ghana 2011; Tarawalie et al. 2012; Sackey and Compah-Keyeke, 2012)[9], and in each election the incumbent parties, respectively rooted in the (Ewe-speaking) south-east and the (Ashanti) south-centre of the country, have aimed their pre-election boost outwards from these 'safe seats' towards regions and interest-groups in which they perceive themselves as having the biggest chances of picking up uncommitted votes. Very early in the 1990s, the poor Northern region was courted by the NDC, which connected it to the electricity grid and divided it into two administrative regions (Upper East and Upper West regions), since which time this area has become fairly safe for the NDC (Fridy (2007), Abdel-Gafaru(2012))[10]; this leaves Greater Accra, Central and Western Regions as the key constituencies of swing voters for which the two main parties have contested (Fridy, 2007, especially maps on pp. 287 and 288; André and Mesplé-Somps, 2009; Whitfield 2009; Abdul-Gafaru 2012). Of these regions, Central and Western contain quite a high proportion of low-income people[11], and the fact that a high proportion of the pre-election expenditure increase in each of these years went to the health, education and social protection sectors, which have a high propensity to reach low-income groups (Table 3 below) enabled the pre-election stimulus to be more effectively targeted both on 'floating voters' and uncommitted voters who in many cases had not previously voted or had voted for minor parties (Fridy, 2007, Whitfield 2008, Gyimah-Boadi 2009) – to the benefit of the incumbent party – and on low-income groups[12] – to the pleasure of the aid donors[13]. Delighted both by the improvements in governance and by the rapid fall in poverty from

1991 onwards, the donors decided to condone Ghana's persistently slack macro-economic performance (especially in 2012 when claims on the budget were inflated by expected new revenues from offshore oil and when, because of low commodity prices, correction of the budget deficit proved hard to achieve)[14] and in return have rewarded the Ghana government with high and stable aid flows, within the framework of the IMF's Poverty Reduction and Growth Facility (Table 2). However, Ghana's aid status is now changing: in recent years, Ghana has been promoted from low-income to lower-middle-income status, and at the time of writing (early 2015) a stand-by facility, on commercial terms, is being negotiated with the Fund.

The case of *Kenya* is in many ways opposite. As Figure 1 shows, no election-year budgetary boost by the incumbent party is perceptible in any year except 2007 (part of which is explained by the fact that the Central Bank of Kenya enjoys a high degree of independence, which has enabled it to exercise a restraining influence on aggregate demand and thence on all elements of expenditure). Judged both on the quality of elections and on the level of corruption, Kenya's governance record was poor throughout the presidency of Daniel Arap Moi from 1978 to 2002; the gradual realisation of this by aid donors eventually motivated them to cool their previously warm relationships with the Kenyan administration. The 2002 election, won by the Kikuyu-led National Rainbow Coalition (NARC; subsequently Party of National Unity, PNU) under the former finance minister Mwai Kibaki, promised progress in terms of inter-ethnic fairness, electoral propriety and a diminution of corruption, but before any of these advances had been properly embedded, or accepted as such by donors, they were thrown into reverse (Branch and Cheeseman 2008:15), and a claim by the opposition that the December 2007 elections (the one instance in which a pre-election fiscal boost is visible in Kenya) had been rigged led to widespread rioting between supporters of the two main parties in January and February 2008, with over 1000 deaths. As a result, a clear opportunity to create a Ghana-type situation of competition between two parties drawing their support from a national, rather than an ethnic or regional, base was thrown away. The fact that the most recent general election, in March 2013 (narrowly won by the Jubilee Coalition, the successor to the NARC and PNU) passed off much more peacefully clearly represents a new opportunity for evolution towards the kind of democratic competition for power that is visible in Ghana. But in important ways, the political atmosphere of Kenya still diverges greatly from that of Ghana: whereas the party structures of present-day Ghana are rooted in a seventy-year-old tradition, the Kenyan parties are still 'coalitions of convenience,… not designed to deliver substantive change' (Hawke, 2013:5) and in particular not designed to deliver, at election times or otherwise, the kind of radical redistribution of income and opportunity, enabling political parties to transcend purely ethnic loyalties, that has been achieved in Ghana. Hence, in spite of recent rapid economic growth, poverty has fallen much less than in Ghana (Table 3), and the dialogue with donors has been much less warm.

Zambia represents an intermediate case. During the early 2000s the ruling Movement for Multiparty Democracy (MMD) lost its dominant-party status in face of a determined challenge from, in particular, the Patriotic Front (PF) led by Michael Sata. During this period there was also an improvement in the quality of elections, and the

2006 and 2008 elections were substantially cleaner than those of the 1990s and early 2000s (Larmer and Fraser, 2007; Cheeseman and Hinfelaar, 2009: 69-70). As inter-party competition became more intense, so, as in Ghana, both parties found themselves seeking to transcend the existing ethnic base of their parties by competing for the support of uncommitted groups – the principal battleground, in Zambia, being urban workers on the Copperbelt. Within this zone, Sata's Patriotic Front made a particular pitch for the loyalty of a 'coalition of the dispossessed…putting the living conditions of the urban poor at the heart of political debates' (Cheeseman and Hinfelaar, 2009: 64). Especially during the run-up to the 2006 election (and within the pre-election boost of that year), the response of President Levy Mwanawasa's MMD was to seek to emulate Sata's populist appeal and in particular many of his more popular policies, including the idea of a windfall tax on copper, an increase in the royalty on mineral rights[15], a series of tax cuts and an attempt to capture the support of rural interests, especially through subsidies on fertiliser and other inputs, not very successfully targeted on lower income groups, 'which Mwanawasa accepted were a direct response to "criticism over high taxes during the election campaign"' (Cheeseman and Hinfelaar, 2009: 65). After losing the 2008 presidential election, forced by Mwanawasa's death, Sata's populist approach finally triumphed, and Sata's Patriotic Front narrowly won the 2011 presidential election, moving back towards the middle of the road, increasing the progressive mining royalty but not restoring the windfall tax, and toning down much of his anti-multinational and anti-Chinese rhetoric in the process (Cheeseman and Hinfelaar, 67; Mineweb, 2013; *Zambian Economist,* 2013a, 2013b)[16].

Moreover, the adoption of this quasi-Ghanaian approach to inter-party competition, focussed on the uncommitted urban poor, has not yet achieved anything like Ghana's degree of success in broad-based, poverty-reducing development. Although the data are disputed, there is as yet no firm evidence that even after several years of growth poverty levels have come down from their very high levels of the 1990s. Observing this, and apparently not yet completely convinced that good governance has come to stay, the trusting donor-recipient relationships that are apparent in Ghana, although improving in recent years (DFID, 2012) have not yet arrived in Zambia, and aid flows are as a consequence lower and more unstable (Chiripanhura and Mosley, 2013). Indeed, the ratio of aid to GNP has more than halved, from double figures to less than 5%, since the millennium.

It is therefore possible to observe important differences between the ways in which the operation of two-party democracy has become embedded in a process of pro-poor institutional change in the three case-study countries. Our argument will be that these differences are important for the way in which the political business cycle works in Africa. We argue that these differences are driven by three inter-related factors. Firstly the quality of governance and institutions, and second, the composition of public expenditure in general and the pre-election stimulus in particular, both impact on a third key causal factor, interrelationships with aid donors. We thus have the beginnings of an explanation of how the possible negative institutional impacts of the business cycle, about which Block and others have expressed concerns, may vary across cases. In the next section, we attempt a formal test of these ideas.

3. Institutional impact of the political business cycle

Several commentators on Africa, as discussed above[17], have worried that the political business cycle might impose breaking strains on institutional capacity and possibilities for sustained reform. In particular, they have worried that pre-election surges in spending might prove difficult to reverse, thereby presenting African governments with an unpleasant choice between surrendering to the cycle and thereby wrecking fiscal discipline, or alternatively re-imposing that discipline so drastically that the state collapses into anarchy (which was the outcome of the political business cycle process, for example, in Sierra Leone in the 1980s)[18]. Africa still has, of course, a high density of fragile states[19], suggesting that the risk of increased state vulnerability from this cause is real; and of course, well short of state collapse, there is a good deal of evidence suggesting that increased volatility has welfare costs (Ramey and Ramey, 1995: Hudson and Mosley, 2008). Thus, if an amplified political business cycle increases overall volatility within a fragile economic system, and if increased overall volatility damages institutions, then there is cause for worry.

Do these worries apply in practice? Our case-study evidence suggests that even in those cases where the political business cycle aggravates fiscal instability, it may not damage institutional quality if aid donors are willing to finance pre-election booms on easy terms and if the boom is then channelled into egalitarian, 'pro-poor' purposes. Specifically, in Ghana, a progressive orientation of public expenditure and a proactive determination to consolidate democratic electoral processes motivated donors to provide aid on terms which prevented the very active, indeed increasing over time, political business cycle in the *budget deficit* from turning into a cycle in *personal disposable income.*[20] In Zambia, these trends also became apparent but much later in the day, in the mid 2000s, leaving donors agnostic about whether true improvements in governance were under way, so that the cycle in the budget deficit was mirrored in a cycle in personal disposable income. In Kenya, there is generally very little evidence of any cycle, and donors at most times had a poor relationship with the government, so that on the one occasion that a cycle did threaten institutional damage, in 2007, the donors were in no mood to put a protective safety-net around the economy, and one of the results was violence which took the Kenyan state to the edge of breakdown.

On this view, the sequence of actions around the time of an election is important in determining the consequences of the cycle. Governments, we argue, send *signals* to internal and external interest-groups (including aid donors) by means of their public expenditure allocations concerning the interest-groups which they identify with and concerning the principles by which they intend to arbitrate between conflicting claims (Hudson, Lenton and Mosley, 2011). These signals can be conveyed by shifts in expenditure around election time from budgets which are not easy to target on swing voters to those which are[21], and amongst those which are targetable we identify, as a group both politically uncommitted and important for political stability, the urban poor. Those African governments which have reoriented their public expenditure patterns and in particular their pre-election stimulus in a pro-poor direction, and moved towards fairer electoral processes, as Ghana and Zambia did in our illustrations, may be interpreted as sending a signal that they are attempting, in their expenditure allocations, to go beyond the ethnic and regional loyalties of their 'heartlands'[22], and to allocate expenditure on broader principles of equity.

Our hypothesis is, therefore, that in those cases where an election cycle is visible, its impact on the economy depends on the context of government behaviour around the election. Specifically, we expect that negative impacts of the political business cycle on institutions will be insignificant in those cases where the pre-election stimulus is 'progressive', in the sense of being directed in a manner that is generally pro-poor in intention rather than being aimed at the well-being of a specific ethnic or regional group, and where it is 'clean', in the sense of being unaccompanied by ballot-rigging. But they may be serious in those cases where a pre-election boost is perceived as aggravating rather than easing existing inter-personal and inter-ethnic unfairnesses in the distribution of power and assets.

In Table 3, we examine this hypothesis in relation to an enlarged case-study group of eight African countries for which relevant data are available, including the three case-study countries of the previous section. The size of any pre-election boost is measured in the extreme left-hand column of the table. We wish to test the hypothesis that this will be influenced firstly by institutional quality, and secondly by the context in which elections are conducted. The dependent variables measuring 'institutional quality', in columns 4 to 8 of the table, are five:

(1) A 'state fragility index'. This is conceived as a measure of exposure to conflict in relation to the capacity of state institutions to manage that conflict. The capacity of state institutions to manage and anticipate conflict is taken from the POLITY IV index[23] and measured on a seven-point scale, where 7 denotes 'extreme incapacity/fragility'' and 0 denotes 'high institutional capacity/little or no fragility' on that index of state capacity. Adding the exposure index to the state capacity index produces a 10-point 'composite fragility scale', with 10 the upper extreme and 0 the lower extreme, which is the measure reported in Table 3.
(2) Tax capacity, measured in terms of the tax/GDP ratio. This measure of institutional capacity has been widely used in quantitative studies (e.g. Moore 1999, Brautigam and Knack 2004). It has the merit of distinguishing those cases in which governments are deterred by fear of political opposition or

incapacity of tax-collecting institutions from broadening the tax base from those cases in which these obstacles can be overcome.

(3) The ‘pro-poor institutions index’. This is a measure of the capacity of economic institutions not only to function effectively but also to develop, and in particular to enable low-income people to access key markets, including labour, capital and infrastructure. It is constructed (Mosley 2012, Table 6.1) as the average of the following indices: (i) access to microfinance as a proportion of the population; (ii) participation in rural labour markets as a proportion of the population; (iii) access to rural infrastructure as a proportion of the population; (iv) the Leftwich-Sen-te Velde ‘state-business relations index’ (Leftwich et al. 2008), conceived as a quantitative measure of the extent to which the state is supportive of private economic institutions.

(4) A measure of government effectiveness (the Kaufmann-Kraay or KK indicator)[24] that measures how effective a government is in formulating and implementing policies.

(5) The International Country Risk Guide (ICRG) bureaucratic quality measure, which is part of a composite index measuring ‘institutional quality’ of a country (Knack and Keefer, 1995). The bureaucratic quality measure has a high correlation with the government effectiveness measure above (77%).

In addition, we hypothesise that the impact of the pre-election boost will be determined by the political context of elections, for which we provide measures in columns (2) and (3) of Table 3. Column (2) specifies the ‘pro-poor expenditure ratio’, defined as the ratio of health, plus education, plus social expenditure, less military expenditure, to total expenditure. The first three expenditures in this ratio are typically intensive in the labour of low-income workers and in addition have many low-income consumers (especially in the case of primary health and education); military expenditure by contrast is capital-intensive and its level is associated with an increase in the probability of conflict[25] (Nafziger and Auvinen 2000: Tables A 3.1 to A3.4). We therefore reason that a large pre-election boost which *increases* the ratio of pro-poor expenditure to total expenditure will be treated as a signal of commitment by incumbent governments to allocate public money in a manner that is broadly equitable rather than reflective of existing ethnic and regional partisanship (which will strengthen loyalty to public institutions), whereas a pre-election boost which *decreases* the ratio of pro-poor expenditure to total expenditure will do the opposite[26]. Our other measure of electoral context, in column (3), is a measure taken from the Worldwide Governance Indicators index, of whether the elections for our selected countries were ‘clean’ or ‘dirty’, in the sense of being characterised by electoral irregularities and rigging[27].

Table 3: Election cycles and their institutional consequences

	Election-cycle characteristics			Dimensions of state fragility, 1990 to 2008					(9)Average aid/ gross national income ratio 1990-2008 (IMF Poverty Reduction and Growth Facilities(PRGF)in parentheses)	(10) Poverty headcount,1990 to 2008
	(1)Election -year deficit as % of mean budget deficit	(2)'Pro-poor' content of expenditure in election year	(3)Dirty/ clean elections	(4)State fragility index	(5) Tax/ GDP ratio	(6)Pro-poor institutions index	(7) ICRG Bureaucratic quality measure (1990-2008)	(8) Government effectiveness (KK Indicator), 1996-2011		
Ghana	156.4	8.0	Clean since 1992	7 → 5	11 → 22	106 → 185	2.7 → 2.5	-0.11 → 0.03	Average 9.1% (on falling trend;Two PRGFs)	51 → 27
Zambia	185.0	6.0	Dubious until 2001, clean thereafter	7 → 5	19 → 17	..	1,0 → 1.0	-1.06 → 0.65	Average 19.5% (on falling trend)	68 → 60
Kenya	77.6	5.6	Dirty except in 2002	7 → 4	18 → 18	100 → 128	3.0 → 2.0	-0.34 → -0.54	Average 7.0% (on falling trend)	42 → 46
Botswana	183.3	13.2	Clean	3 → 2	..	..	3.0 → 2.0	0.47 → 0.53	Average 3.8% (on falling trend)	30 → 13
South Africa	79.5	6.9	Fairly clean since 1994	3 → 2	21 → 22	..	4.0 → 2.0	0.88 → 0.37	Average 0.3% (on falling trend)	24 → 16
Ethiopia	152.0	1.8	Mixed; notably dirty in 2005	6 → 6	7 → 15	..	0 → 1.5	-1.28 → -0.4	Average 9.8% (on rising trend)	63 → 37
Nigeria	127.3	0.4	Generally dirty	7 → 6	11 → 10	..	2.0 → 1.0	-0.98 → 1.12	Average 1.1%(on rising trend)	54 → 62
Uganda	88.8	3.5	Moderately clean	6 → 6	5 → 12	100 → 164	0 → 2	-0.73 → -0.51	Average 12.1% (on falling trend; Two PRGFs)	56 → 33
Sample average (n=8 countries)	131.6	5.2		5.8 → 4.5	11 → 17	..	1.97 → 1.75	-0.39 → 0.29	7.8%	49. → 37

Sources and notes.

(column 4) State fragility index: This is conceived as a measure of exposure to conflict and the capacity of state institutions to manage that conflict. Exposure to conflict is transcribed from the PRIO ucdp_loc index on the scale 3=war, 2= intermediate conflict, 1= minor conflict, 0 = no significant civil conflict. The capacity of state institutions to manage and anticipate conflict is taken from the POLITY IV index[28] and measured on a seven-point scale, where 7 denotes 'extreme incapacity/fragility'' and 0 denotes 'high institutional capacity/little or no fragility' on that index of state capacity. Adding the exposure index to the state capacity index thus produces a 10-point 'composite fragility scale', with 10 the upper extreme and 0 the lower extreme, which is the measure reported in the table.

(column 6) Pro-poor institutions ratio: is constructed (Mosley et al 2009: Chapter 6, table 6.1) as the average of the following indices: (i) access to microfinance as a proportion of the population; (ii) participation in rural labour markets as a proportion of the population; (iii) access to rural infrastructure as a proportion of the population; (iv) the Leftwich-Sen-te Velde 'state-business relations index' (Leftwich et al. 2008), conceived as a quantitative measure of the extent to which the state is supportive of private economic institutions.

(column 10) Poverty headcount: from World Bank, *World Development Indicators* CD-ROM.

The political business cycle mechanism is only found in some countries, which are shaded in the first column of Table 3. The main inference that we derive from examining these countries is that *the political business cycle will damage institutional development if and only if government policy is perceived as aggravating existing inequities.* In Ghana, Zambia and Botswana, where the pre-election stimulus is strong, pro-poor expenditure in election years is high and elections (in Zambia since 2001) are 'clean', state fragility *decreases* and institutional development *improves* over the measurement period. In Nigeria, where the pre-election stimulus is strong and the pro-poor expenditure ratio very low, state fragility and institutional development as a whole worsen as indicated over the measurement period[29]. In the four cases mentioned above, this argument applies to both the 'state fragility' and the 'tax capacity' measures of institutional development. This conclusion is further supported by the scattergrams presented as Figure A1 and the regression presented as Table A2 of the online appendix, which report no evidence of a damaging effect of the electoral cycle on institutions.

4. Conclusions

The African political business cycle emerges from this analysis as country-specific, and not universal. In some countries, under dominant- party systems, there is no need for it, since the incumbent can reasonably expect to be able to win elections without it; and in others, where the central bank is able to impose binding constraints on budgetary expansion, it is not feasible. Averaged across all African countries, a pre-election stimulus, we find, is still a feature of the political landscape. But there are wide variations around this central tendency, which it has been the main purpose of this paper to investigate.

In the context of fragile economic systems, which most African countries are, the fear has been expressed that the extension of democracy, specifically by means of the political business cycle, might damage institutional development and make the state more fragile still. Across the sample as a whole, we find that this fear is unfounded. There are individual cases, (such as Nigeria in Table 3), where the qualitative evidence suggests that a negative relationship between pre-election stimulus and measures of institutional development is apparent but across the sample as a whole, no significant relationship is perceptible between the pre-election stimulus and institutional quality, whatever measure of institutional quality is used[30].

In Africa at least, we argue, the course of the political business cycle appears to be intimately connected with the perceived fairness according to which the political game is conducted, and also with the perceived equity with which state expenditures are allocated. Donors have the power, through their aid allocations, to influence both of these. We predict that where the composition of the pre-election stimulus is pro-poor, institutional damage from a pre-election stimulus is unlikely to result. In terms of our measures of institutional quality, this prediction is fulfilled.

In those cases where, with the help of reforms in electoral procedure, elections have become more transparent and the allocation of state resources has become more pro-poor (Botswana and Mauritius in the 1970s and 80s; more recently, with donor support, Ghana, Rwanda, Mozambique and Zambia) the surges in expenditure which occurred prior to elections can be seen as an institutional asset rather than a liability, as they have been mainly pro-poor expenditures, which have then become embedded in the budget thanks to donors bestowing their blessing, and not had to be cut back in the post-election years . Indeed, in several poorer LDCs where the right chemistry forms between donors and recipients, a virtuous circle can be observed in which aid donors, favourably impressed both by improvements in anti-poverty performance and in governance, help to counter-balance the political business cycle by establishing stable long-term aid contracts, of the Poverty Reduction and Growth Facility (PRGF) type.

In Africa, as the literature has stressed, the political business cycle has the potential to impose additional strains on already vulnerable institutions. This represents a distinctive threat to institutional capacity, not often encountered in industrial countries. Yet, in many African countries, we find that these risks have not materialised. Rather those countries have been able, often in synergy with aid donors, to improvise institutional buffers against those risks. One of those buffers – the design of pro-poor expenditure patterns, which send a ‘distributional signal’ to interest groups – is an innovation that, potentially, may also have relevance outside Africa.

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[2] However, dominant parties vary in character, and those which are more open and more aware that their dominant-party status may in the future be contestable (such as the Partido Revolucionario Institucional (PRI) in Mexico) may indeed engage in political business cycles. The paper by Bogaards(2007) applies this argument to the relationship between dominance and election outcomes in Southern Africa.

[3] See Drazen (2004) chapter 8. This is in essence the same model as that estimated by Block (2002), except that the ratio of aid to GDP is used in (1) as an independent variable in place of aid disbursements.

[4] Details of the sample, methods and data are provided in Table A1 of the on-line appendix.

[5] Our preliminary analyses included estimating equation (1) by OLS. The OLS results of the model can be provided on request.

[6] In this sense, and in the sense that per capita income levels are around the African average for all countries in the case-study sample, this selection of countries may be seen as representative of the group of countries 'with an incentive to conduct a political business cycle' which we wish to examine in depth. However, the case-study sample consists entirely of Anglophone former British colonies, and excludes franc-zone countries, who by virtue of being tied to a fixed exchange rate may be more limited in their scope for pre-election fiscal stimuli.

[7] Between 1990 -2 and 2012, Zambia halved its budget deficit (the Easterly ea_gbds measure in the World Bank World Development Indicators) from 10.5 to 4.5 per cent, whereas Ghana's increased, from 10.4% to 11.5% . However, the aid donors' behaviour was not related to these improvements in budgetary discipline. Ghana is the only country of the three to have a Grade 1 CPIA (Country Policy and Institutional Assessment) rating from the World Bank, and Ghana was the only one of the three countries to achieve during the 2000s PRGF (Poverty Reduction and Growth Facility budget support credit) from the IMF and World Bank. Very likely as a consequence, Ghana's aid flows (table 2 below) were more stable than those of the other two countries..

[8] From 51% to 26%; it has now fallen further, to 23% (Vibeghana, 2013)

[9] The Government of Ghana (2011; figure 1, p2) estimates that on average, over the period mentioned, 'in election years the fiscal deficit was on average 1.5 percentage points higher than the year before'. It should be noted, however , that this recent literature on the Ghanaian political business cycle is not unanimous, and the paper by Sackey and Compah-Keyeke finds that the increase in the budget deficit around election time is not statistically significant.

[10] The NPP did make some gains in the Northern regions in the 2000 and 2004 elections, but not enough to enable them to win those regions back from the NDC, even in those years when they won the presidential elections (Nugent, 2001).

[11] The proportions below the headcount poverty line (P_0) in 2006 are given as 21% for Western Province, 19% for Central Province, but only 6% for Greater Accra. Ghana Government (2014), table 3.3, p.14.

[12] Ehrhart (2010, page 4) also identifies taxation, specifically reductions in excise duties on petroleum, as being a factor by which the votes of the uncommitted Ghanaian poor were sought just before the 2008 election.

[13] The donors had been repeatedly nagging donors to target their social welfare budgets more effectively on the poorest (see for example Wodon, 2012). However, other influencing voting behaviour also come into play at the more recent elections (2008 and 2012); in particular, accusations of corruption in the NPP;the global economic crisis and its effects on personal income (both of which worked to the detriment of the incumbent NPP in 2008) and, more regionally specific, the NPP's casual and high-handed treatment of the concerns of local fishermen, who alleged poaching by foreign trawlers, caused it to lose the marginal Central Province, which it had previously held, to the NDC in 2008 and 2012 (Gyimah-Boadi, 2009).

[14] Ghana's macro-economic performance was classified by Adam and O'Connell within the 'pre-stabilisation' category, with inflation over 20% at the beginning of the 2000s (Adam and O'Connell 2006, table 5.1). On the Ghana government's handling of the 2012 budgetary over-run, see IMF(2014)

[15] These increased taxes on natural resources were explicitly aimed at increasing investment in the social service sector (Cheeseman and Hinfelaar 2009: 65). This linking of export taxation and social services expenditure, explicitly framed as a gesture towards greater fiscal equity, is very reminiscent of similar 'neo-developmentalist' initiatives in Latin America during the 2000s – notably in Argentina, Bolivia, Uruguay and Venezuela – where

export taxes have also been aimed at deriving a political dividend from a fairer reallocation of the country's natural resources (Grugel and Riggirozzi 2009: Chapter 1).

[16] The copper windfall tax, abolished by the MMD government between 2008 and 2011, was restored in the amended form of an increase in copper royalties by the Sata government in 2012, with the proceeds once again directed towards health and education in low-income areas (Mineweb, 2013). At the most recent election, held in January 2015 following Sata's death, there was again vigorous multi-party competition, amid which the MMD, the previously dominant party, fell away to a small percentage of the vote.

[17] See page 4 above; see also Chua (2004) who 'goes as far as to suggest that elections in most African countries should be postponed until a suitable socio-economic context can be developed'. Branch and Cheeseman (2008:22).

[18] For the detail of the Sierra Leone case, see Weeks (1991)

[19] On the Polity IV map, which provides a measure of 'state fragility', 19 out of 22 countries classified by Polity IV as having 'high' or 'extreme' levels of fragility are in Africa. The index is displayed at http://www.systemicpeace.org/polity/polity4.htm.

[20] Ghana was a relatively rare case of donors achieving a countercyclical pattern of aid flows. Empirically it has been common for donors to provide aid in a manner which amplifies rather than damping the cycle (Bulir and Hamann 2003, 2008, Hudson and Mosley 2008)

[21] Many thanks to Vera Troeger for emphasising this point to us. For a model which also argues that compositional effects may be important in determining the effectiveness of the pre-election boost, see Drazen and Eslava (2010). Our own approach was conceived independently of the Drazen-Eslava model and uses a different measure of 'favoured composition of government expenditure' from theirs. In our model, the 'politically sensitive expenditures' which are prioritised ahead of an election are pro-poor expenditures; in theirs, infrastructure expenditures are prioritised (Drazen and Eslava 2010: (14)).

[22] That is, in Ghana, the Ewe provided the traditional heartland of the NDC and the Ashanti of the NPP), and in Zambia, varied ethnic groups of the Copperbelt region provide the heartland of the MMD and the Bemba the heartland of the Patriotic Party.

[23] The Polity IV index is displayed at http://www.systemicpeace.org/polity/polity4.htm.

[24] This is available at www.govindicators.org.

[25] The index which Nafziger and Auvinen use to assess the risk of civil war combines the ratio of military expenditure to GNP, as defined above, with a dummy variable for military government into a measure which they call 'military centrality'; this, in their dataset, is positively and significantly associated with the likelihood of conflict.

[26] Although we argue here that pro-poor expenditure is a useful signal of the perceived fairness of government expenditure, it is by no means perfect, as intentions to allocate money fairly are often frustrated by imperfect execution. As Keefer and Khemani (2005: (2)) argue, 'broad public services most important to the poor – health and education – are also the services most vulnerable to those distortions'.

[27] This indicator is not ideal as a measure of quality of democracy, and in particular it interrelates, in dominant party systems, with the character of the dominant party, as discussed on page (5) above.

[28] The Polity IV index is displayed at http://www.systemicpeace.org/polity/polity4.htm.

[29] For a discussion of the 2007 Nigerian election in this context, see the paper by Rawlence and Albin-Lackey (2007). Nigeria is one of the African countries where the quality of growth, in the sense of the failure of growth to bring about poverty reduction, has been worst: over the last ten years, growth has run at an average of 6.5 per cent per annum, but poverty has increased, by up to 25% according to some measures (Mosley, 2013)

[30] For a recent analysis arriving at the same conclusion, but using a broader range of measures of institutional capacity, see the paper by Prichard(2014).