Multiparty Competition Founding Elections and Political Business Cycles in Africa

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Introduction

How do political structures affect the selection of economic policies? This is one of the central questions arising out of recent work on the political economy of development. In the 1990s, its significance was driven home by research and development experiences in Africa. Investigations revealed that African governments' policy choices mattered, and furthermore, we needed to understand the political structures that produced them. Such issues are particularly critical to the extent that politically-motivated economic policies may conflict with the objectives of economic reform.

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"Political business cycle (PBC) theory" provides a useful analytical window into these issues. [i] PBC theory suggests that incumbent politicians facing election may have incentives to create business cycles timed around elections, typically pumping up their economy prior to the election to improve their chances of re-election, resulting in post-election recessions. The extent to which this is true, however, likely depends on context. Competitive elections may generate stronger incentives to manipulate. Strong institutions and savvy electorates may reduce incumbents' capacity to do so. Elections in nascent democracies - such as commonly found in Africa - provide opportunities to test these conjectures. They vary in terms of their degree of competition. Furthermore, initial elections are likely to differ from later ones because incumbent authoritarian leaders are less constrained and uncertainty surrounding electoral choice is higher. Thus, studying elections in these countries may provide new insights to previously ignored empirical questions and may help illuminate the connections between political institutions and economic policy. Such illumination is

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particularly important given the emphasis of late on democratization in developing countries.

With these questions in mind, we extend the empirical testing of political business cycles theory in two ways: first by explicitly testing the effect of the absence of multi-party competition on the realization of political business cycles, and second by allowing the magnitude of political business cycles to vary as a function of whether a given election is the country's *first* competitive election. Sub-Saharan Africa, with its rapid increase in the incidence of elections with multi-party competition (Bratton and van de Walle, 1997) as well as its relative lack of institutional development, provides the ideal testing ground for our proposed extensions of the empirical testing of political business cycle theory. Indeed, our results strongly confirm not only the existence of political business cycles in Africa, but the importance of considering explicitly the introduction and effects of multi-party electoral competition in empirical analysis.

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Political business cycles are by their nature dynamic processes, yet empirical testing has ignored temporal effects across elections. In the developing world - Africa in particular — with its many nascent democracies, this question takes on added significance. There are various reasons why founding elections may be associated with special circumstances around political business cycles.[ii]

First, in transition elections, we would expect authoritarian leaders to have greater discretion in manipulating pre-electoral economic policies. From the standpoint of incumbent politicians, initial competitive elections offer the incentive to deter entry by future challengers. By raiding the state coffers to shower constituents with pre-electoral spending, incumbents may attempt to scare off potential challengers and solidify their bases of support before the opposition has any influence on the policy-making process. Furthermore, in founding elections, they may face fewer institutional constraints in the form of legislatures, independent central banks, and a free press, thus making available a potentially wide range of fiscal and monetary policies as tools of manipulation.[iii]

Moreover, as countries introduce competitive, multi-party elections, both incumbents and voters are thrown into a new world of uncertainty. The uncertainty driving political business cycles has a temporal as well as an institutional component. There are differences in voter's information sets between founding elections and later elections. Voters may be the least "savvy" to electoral manipulation in the first election,

providing incumbents with additional incentives to induce cycles. With no prior experience to temper their assessments relating prospective performance to pre-electoral performance, voters can evaluate candidates on only the available evidence - the pre-electoral surge in spending. This reasoning suggests a secondary hypothesis: *"We should see evidence of larger opportunistic political budget cycles in "founding elections."* Between 1980 and 1995 (the period of our analysis) African countries experienced 22 founding elections. With these hypotheses in hand, we move to a discussion of data and empirical testing.

Data

Table 1 presents descriptive statistics for the macroeconomic aggregates used in the analysis. The dependent variables with which we test for political business cycles include real GDP growth, government consumption (as a share of GDP), nominal money growth, and nominal exchange rate devaluation. Detailed definitions and sources of these data are provided in the footnotes to Table 1.

Table 1
Quantified Estimates of African Digital Divide Parameter, 44 Sub-Saharan African Countries (1980-95)

Variable	Mean	Std. Dev.	N [a]
Real GDP Growth	0.029	0.049	305
Govt. Cons/GDP [b]	16.54	7.24	628
Real Money Growth [c]	0.0005	0.304	383
Exchange Rt. Growth [c,d]	29.13	56.00	364
War [e]	0.171	281	660

a. N indicates the maximum number of country-year observations available.
b. Government consumption: IFS, line 91f; GDP: IFS, line 99B.
c. Excludes CFA-zone countries. 2 outliers omitted from real money growth sample.
d. Annual growth of official exchange rate (IFS, line af). 3 outliers omitted.
e. Obtained from World Bank source.

The second political variable is an indicator of electoral contestability, introduced by Ferree and Singh (2002). This scale measures the level of competition that occurs during the executive selection process. Unlike other commonly used measures (i.e., Gastil's political and civil liberties indices) that aggregate many considerations into an overall score, the executive scale captures a single, highly central component of electoral competitiveness - the presence or absence of competition within or between parties. While other factors also affect competition (for example, freedom of the press), they are more difficult to measure. Thus, the scale opts for specificity and clarity over trying to capture and test all aspects of competition that might matter.

> **"We should see evidence of larger opportunistic political budget cycles in founding elections."**

Ferree and Singh identify six levels as follows:

- Level 1 — No executive exists
- Level 2 — Executive exists but was not elected
- Level 3 — Executive is elected, but was the sole candidate
- Level 4 — Executive is elected, and multiple candidates competed for the office
- Level 5 — Multiple parties were also able to contest the executive elections
- Level 6 — Candidates from more than one party competed in executive elections

For the purposes of this analysis, the relevant distinction is between Level 6 (multiparty elections) and Levels 3 and 4 of the scale (single party elections). There are 33 multiparty elections in our data set and 32 single party ones. Table 2 provides a mapping between election dates and the executive scale levels. The combination of election dates and the scale of electoral competitiveness permit

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Table 2
Presidential Elections in Africa (1980-1995)

Country	Presidential Election Dates (Executive Scale Rating)
Angola	None
Benin	24 March 1991 [6]
Botswana	None
Burkina Faso	1 December 1991 [3]
Burundi	31 August 1984 [3]; 1 June 1993 [6]
Cameroon	4 April 1980 [3]; 14 Jan 1984 [3]; 24 April 1988 [3]; 11 Oct 1992 [6]
Cape Verde	17 February 1991 [6]
Central African Republic	15 March 1981 [2]; 25 Oct. 1992 [3]; 22 August 1993 [6]
Chad	None
Congo	2 June 1992 [6]
Côte d'Ivoire	12 October 1980 [3]; 27 Oct 1985 [3]; 28 Oct 1990 [6]
Djibouti	12 June 1981 [3]; 24 April 1987 [3]; 7 May 1993 [6]
Equatorial Guinea	15 August 1982 [3]; 25 June 1989 [3]
Ethiopia	None
Gabon	9 November 1986 [4]; 5 December 1993 [6]
Gambia	4 May 1982 [6]; 11 March 1987 [6]; April 1992 [6]
Ghana	3 November 1992 [6]
Guinea	9 May 1982 [3]; 19 December 1993 [6]
Guinea-Bissau	7 August 1994 [6]
Kenya	26 Sept 1983 [3]; 21 March 1988 [3]; 29 December 1992 [6]
Lesotho	None
Liberia	15 October 1985 [6]
Madagascar	7 November 1982 [4]; 12 March 1989 [4]; 10 February 1993 [6]
Malawi	17 May 1994 [6]
Mali	9 June 1985 [3]; 26 April 1992 [6]
Mauritania	24 January 1992 [6]
Mauritius	None
Mozambique	27 October 1994 [6]
Namibia	7 December 1994 [6]
Niger	10 December 1989 [3]; 27 March 1993 [6]
Nigeria	6 August 1983 [6]; 12 June 1993 [2]
Rwanda	19 December 1983 [3]; 19 December 1988 [3]
Senegal	27 February 1983 [6]; 28 February 1988 [6]; February 1993 [6]
Sierra Leone	1 October 1985 [3]
Somalia	23 December 1986 [3]
South Africa	None
Sudan	14 April 1983 [3]
Swaziland	None
Tanzania	26 Oct 1980 [3]; 27 Oct 1985 [3]; 28 Oct 1990 [3]; 29 Oct 1995 [6]
Togo	21 December 1986 [3]; 25 August 1993 [6]
Uganda	None
Zaire	(P.R. Congo) 28 July 1984 [3]
Zambia	27 October 1983 [3]; 26 Oct 1988 [3]; 31 Oct 1991 [6]
Zimbabwe	March 1990 [6]

Source: Bratton and van de Walle (1996), Nohlen, Krennerich, and Thibaut (1999).

us to explore the impact of multiparty competition in shaping the incentives for opportunistic politicians to engage in pre-electoral macroeconomic intervention. If multiparty electoral systems produce business cycles but single party systems do not, we will have uncovered an important channel through which political institutions affect economic policy-making and therefore, performance.

PBC theory suggests that incumbent politicians facing election may have incentives to create business cycles timed around elections, typically pumping up their economy prior to the election to improve their chances of re-election, resulting in post-election recessions.

Results and Conclusions

The results presented in this section provide generally strong support for our primary hypotheses that political business cycles are intensified by multi-party electoral competition; yet, we find more moderate support for our secondary hypothesis that this effect will be further intensified in "founding" elections. In particular, we test for election-motivated interventions in real GDP growth, government consumption, real money growth, and nominal exchange rate devaluation.[iv]

In sum, our statistical analysis sustains our hypothesis that incumbents' incentive to create political business cycles in nascent democracies is strong, but contingent on multiparty competition. We find evidence of electorally-timed interventions in fiscal, monetary, and exchange rate policy exclusively in the cases of competitive elections. Further, we find evidence of larger monetary interventions and more suggestive evidence of greater cycles in fiscal policy interventions, in the special case of founding elections. In contrast, we do not find robust evidence of election-related effects on real GDP growth. Our finding of substantial electorally-motivated policy distortions without associated impacts on real GDP suggests that African economies pay the costs of political business cycles but realize none of the benefits. On the fiscal side, this could reflect election-year increases in transfers targeted to politically important groups.

In no case do we see evidence of political business cycle behavior in non-competitive elections (indeed, we find suggestive evidence of the opposite behavior with respect to both fiscal and monetary policy in non-competitive systems). Further, the occurrence of founding elections magnifies the effect of multiparty competition in the cases of both money growth and exchange rate policy, thus providing at least limited support for our secondary hypothesis.

Our results also permit some broader generalizations about the effect of electoral accountability in non-election years. For instance, we find that countries with competitive electoral systems tend to devote a smaller share of GDP to government consumption, (at least suggestively) experience slower growth in their real money supplies, and face reduced rates of currency devaluation as compared with countries lacking competitive electoral systems. In this context, it may be reasonable to interpret the competitiveness indicator as a broader proxy for the effects of greater accountability of incumbents to voters. This suggests the possibility that while electoral competitiveness fosters political opportunism in the short run (e.g., during election years), greater electoral accountability is associated with healthier macroeconomic policy-more generally.

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[i] See Svensson and Shi (2003), Drazen (2000) and Alesina, Roubini, and Cohen (1997) for excellent reviews of both theoretical and empirical work on political business cycles.

[ii] We apply the definition of founding elections proposed by Bratton and van de Walle (1997), in which "...the office of head of government was openly contested following a period during which multiparty politics had been denied." (p. 196)

[iii] These are noted characteristics of the politics of many African countries. As we point out below, this is one of compelling reasons to use African data for empirical tests of our hypotheses.

[iv] Note that money supply and exchange rates are not controlled directly by member governments in the French West African Currency Union. CFA zone countries are thus excluded from our preliminary estimations.