Is There a Different Political Economy for Developing Countries?

Issues, Perspectives, and Methodology *

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Abstract

It is argued that the same basic building blocks of political economy models are relevant for developing and developed economies, though the policy questions, key political mechansims, and specific models may differ. Toward this end, I first set out a common framework of analysis and then argue that specific features of the political economy of developing economies can be analyzed using this framework. I also review some empirical results on political budget cycles and on voter response to electoral manipulation that suggest that the same general behavioral rules may describe political actors in both developed and developing countries.

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"The rich are very different from you and me." F. Scott Fitzgerald, *The Rich Boy*

"Yes, they have more money." Ernest Hemingway, *The Snows Of Kilimanjaro*

1   Introduction

Economic outcomes strongly depend on policy choices. However, policy decisions are not made by textbook social planners whose choices can be explained by social welfare maximization, but by governments with their own objectives. People have no doubt realized this since governments were first instituted (perhaps since Adam and Eve were expelled from the Garden of Eden for eating from the tree of knowledge). The introduction of political influences into models of formal models of economic behavior, as well as the realization of the critical importance of studying such influences in order to understand policymaking is far more recent, but is now widely accepted.

To begin, let me immediately note that the argument is different from the skepticism often heard from non-economists or the proverbial "man in the street" about the ability of economic models to explain what happens in the real world. The common refrain is that economic models fail to explain what happens in the real world because they ignore politics. While this may often be true, it is quite to different to make the general argument that economic models don't work because they "ignore politics" (whatever this may mean more specifically) and to consider how rigorously constructed political models may be appended to careful economic analysis to better explain political and economic outcomes.

Development economics is of course no exception to the argument that policy failures can often only be understood in the context of the political economy of policy choice. The failure of some countries to grow is certainly related to policy choices, both of governments in those countries and to external decisionmakers, such as International Financial Institutions (IFIs). There is wide agreement that politics matters a lot in developing countries, implying that the study of political economy is crucial to the study of economic development.[1].

There is probably far less agreement, however, in the question of which political economy models are important in explaining the experiences of developing countries. Or, to put the question more sharply: are the same political economy models that are used to explain policy outcomes in developed

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[1]Though there is a brand new literature suggesting the importance of genetic characteristics in explaining development outcomes, as in Spolaore and Wacziarg (2006). I note this strand of thinking, but do not comment on it.

countries relevant to developing economies as well? More generally, do we need a "different political economy" for developing countries than developed countries?[2] Here, "different" might refer not only to models or to technical methodology, but to more general perspectives or even fundamental questions like the appropriate way to think about political or economic actors.

One has probably heard the argument that the political economy models which help explain policy choices in developed economies may not be relevant to less developed economies. (I have heard it in many guises, which I will not repeat.) My knowledge of development is limited, as is my knowledge of important country detail for specific developing countries. Nonetheless, from what I do know of both the theory of political economy and how it may be applied, as well as extensive empirical results on one specific question, I would disagree.

The basic thesis of this paper is that the *same* political economy is relevant for developing and developed economies, though of course this all depends on what one means by "same". What I mean is the following. The most important policy questions may be different, as may be the choice of models in terms of what issues, choice mechanisms, or constraints should be stressed. However, the general theoretical framework that is used to study issues in developed countries is relevant in developing countries as are the methodological approaches and the key building blocks of the analysis. This means, among other things, that researchers who want to attack the problems of developing economies do not need to study a corpus of theory than is studied in looking at the political economy of developed countries nor, for that matter, a set of models with a qualitatively different basis. What they do need to do is to think carefully about how to apply that corpus of theory. This may all sound rather vague for now, but I hope it will become clearer as we proceed.

In the next section, I try to better clarify what I mean by "the same political economy". My argument on the relevance of political economy methodology and perspectives to developing countries then consists of three parts. First, in section 3 I set out common building blocks of political economy models in order to make the point that the same the same framework of analysis is relevant for developed and developing countries. The second part of the argument is presented in section 4, where I ask whether this framework, or more generally the way of thinking this framework implies, is in fact applicable to developing countries. The methodology for this part of the argument is to consider a number of features of the politics of developing that are often suggested and ask whether

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[2]There is a literature on the general question of how political economy may be applied to developing countries. See, for example, Hayami and Godo (2005) for textbook analysis.

standard models of political economy are applicable in developing economies as well. The final part of the argument is presented in section 5. Here I present some empirical results on political budget cycles and on voter response to electoral manipulation that I argue is consistent with the argument that the same general behavioral rules may well describe political actors in developed and developing countries. The final section presents a summary and conclusions.

2   What Does "Same" Political Economy Mean?

2.1   An Analogy

An analogy may be helpful in illustrating the general question. One often hears the argument that not only are the economic problems of developing countries different from those of developed countries, but also (and more crucially) economic behavior is different so that different types of models and arguments must be used. In the 1950s, many development economists made this argument. In fact Hirschman (1958) argued not only against the application of standard economic theory, but also against the use of formal models *per se.* As Krugman has put it, "In effect, Hirschman said that both the theorist and the practical policy-maker could and should ignore the pressures to produce buttoned-down, mathematically consistent analyses, and adopt instead a sort of muscular pragmatism in grappling with the problem of development."

In contrast, the Nobel Prize winner Theodore W. Schultz argued that such a view hurt development economics. As he put it in his Nobel Address (1990),

> This branch of economics has suffered from several intellectual mistakes. The major mistake has been the presumption that standard economic theory is inadequate for understanding low-income countries and that a separate economic theory is needed. Models developed for this purpose were widely acclaimed until it became evident that they were at best intellectual curiosities. ... Increasing numbers of economists have [now] come to realize that standard economic theory is just as applicable to the scarcity problems that confront low-income countries as to the corresponding problems of high-income countries.

Schultz's research made clear that the poor respond to incentives just as the rich do. Though his work and that of others makes the applicability of standard economic theory to poor countries,

the refrain that "standard economic models don't apply here!" is still widely heard.

The same problem can be said to apply to political economy, and I think the answer should be the same that Schultz gave. Progress in understanding the political economy problems of developing countries should begin with the observation that the same general framework should be used. Economists who want to learn political economy relevant to developing countries should begin by learning the same body of theory that economists interested in the problems of developing economies learn. The applications will be different, but that doesn't mean that a different theory should be formulated and taught.

2.2   Some Caveats

To say that the same basic theory and models that are used to study developed economies may be applied to developing countries is of course not to say that it can be applied mechanically. Several perhaps obvious points are relevant.

First, the most important issues may be different, and not only in that growth is often far lower and poverty much higher. If, for example, the centralization of power in the hands of a very small elite is important in explaining poor performance, then modeling should focus on more on this aspect of politics. Or, if the mechanisms by which the elites retain power are very different, then it makes little sense to use a median voter model of how leaders are chosen. That is, concentrating on a specific type of voting or legislative bargaining model for developed countries does not imply that the same set of models should be applied uniformly across countries, even though the basic collective choice analysis is still applicable.

More generally, one must ask whether the behavior of political actors is only quantitatively different, or qualitatively so. That is, for example, is the trade of favors for political support in a country simply a greater level of "pork-barrel politics" than is seen in developed countries, or is it so much greater and more pervasive that it should be studied with a different type of model (albeit one drawn from the same underlying body of theory)? Moreover, will application of the same underlying methodology imply a different stress on exogenous factors across countries? For example, we may find that some differences in responsiveness of government can be attributable only to a difference in traditions of government service that we cannot explain endogenously.

Quantitative versus qualitative difference has econometric implications as well. For example, if

we find that a nonlinear specification fits the data with developed countries on one part of the curve and developing countries on another part, do we argue that the same or a different model explains behavior in the two groups of countries?

Many of these points will (I hope) be clearer in the next section, where I sketch out what I mean by a common framework of analysis.

3   Common Building Blocks of Analysis

In this section, I set out building blocks of political economy models. The discussion is abstract and very general, but my goal is not to present a "workhorse" political economy model that can be applied across political systems, nor to present a grand conceptual framework of thought in which every model can be fit. It is to set out components that every political economy model must share in order to show what is meant by a common framework of analysis. Much or all of this will be obvious (and perhaps trivial) to people who work in political economy, but it is meant more to convince economists interested in development about the validity of the framework we use. If this all sounds too general, that's the point, namely the generality of an underlying framework. At the same time, let me stress at the outset that this should be seen as a preliminary investigation.

After setting out and discussing these building blocks I will write down a very simple model of policy choice to help illustrate these ideas more concretely.

3.1   Political Actors

The first building block of a general model is the set of political actors. Consider four groups of actors in an economy. First there are leaders who make policy decisions, denoted P, where this may refer to an individual or a group. Basic political economy models of delegated decisionmaking assume that decisions are made by a single policymaker (or chief executive), or may reflect the interactions between an executive and a legislature. Moreover, actual policy (as opposed to policy decisions) reflects the operation of a bureaucracy.

Second, there is the citizenry of a country, denoted N. In the general framework set out here they will play no direct role in decisionmaking *per se* except to the extent that other actors take their welfare (that is, "social welfare") into account.

Third there is a (generally smaller) set of actors who may be seen as the group who actually select leaders or who control the instruments of power that enable a leader to remain in office. Following Shirk (1993) and Bueno de Mesquita, *et al.* (2003), we term them the "selectorate", denoted S. (Thus, the citizenry as a whole has a direct effect on policy only to the extent that they are part of the selectorate.) In an economy with no foreign actors, the selectorate S will be a subset of the citizenry N. For example, in a simple "textbook" democracy where leaders are chosen by voting and there are no special interest groups, we think of S as being the voting population, that is, the electorate.

But, we want to think more broadly in a number of dimensions. First, even in a dictatorship, leaders must retain the support of some actors to remain in power. Second, in a democracy, policy-makers concerned about being retained in office do not pick policies solely to satisfy the electorate. Policy is often made in response to the desires of special interest groups, either to gain their financial support (as campaign contributions) or, in the extreme, because they have the power to overthrow the government. Third, foreign actors may be thought of as a part of the selectorate in certain cases. This may be international financial institutions (such as the IMF or the World Bank) or other aid givers, or even foreign powers whose decision of whether or not to challenge a regime may be crucial in determining its survival. (See, for example, Leonard and Straus [2003].) (For example, Jackson and Rosberg [1982] argue that the mutual decision of African leaders not to contest the colonial borders after independence via military action against one another was crucial for leaders to remain in power rather than be replaced.) Hence, a central question in political economy analysis is who are the selectorate, and outcomes may vastly differ across economies due simply to the composition of the selectorate. One could even go further and argue that this difference is perhaps the most important difference in explaining economic outcomes.

Finally, within the selectorate S there is the coalition that the leader assembles who retain him in power, Z. In a textbook democracy this is a majority of voters in an election. If, as in the real world, contesting an election requires sufficient funding, retaining power, even in a free election, requires the support of a coalition of contributors sufficient to finance a campaign. In a parliamentary democracy we could think of a prime minister's selectorate as the legislature (whose members must themselves retain majority support among their constituents), with Z representing the coalition of legislators the leader assembles so that the government doesn't fall.

One could extend this concept to a coalition that a leader must assemble not only to retain power, but also to be effective in making and carrying out policy. In a legislative system this would include the coalition needed to pass a piece of legislation, but could also refer to a cooperative bureaucracy needed to carry out policy.

These sets of actors will obviously differ across systems, not only between democracies and non-democracies (where leaders must also retain the support of key players), but also across democracies reflecting both the formal (or constitutional) and not formal rules of leader selection and of policy-making. The key point is that *all* systems have such actors and thus share a very general common framework which sets out common problems of policymaking across systems depending on how these sets of actors are constituted and how they interact.

To make the point of common framework more concrete, though textbook democracies, highly "illiberal" democracies, and authoritarian dictatorships look quite different, in each case the leadership P (perhaps a single autocrat) must retain the support of a coalition Z within a selectorate S to achieve its goals. Who forms the groups S and Z, how they are determined, what actions must P take to retain support, what actions P must take to make policy consistent with its goals will differ markedly across systems. But the same questions will be relevant to each system.[3] A dictator may need to satisfy the army leaders who can control the capital in order to stay in power, and he may retain their support by large financial incentives. It looks quite different than a democracy, but understanding the dynamics of policy choice (and specifically where government revenue goes) is facilitated by the same conceptual framework in a democracy and a dictatorship.

Beginning by identifying the sets of actors who are crucial in political interactions has of course characterized much work in political science. Specification of these groups in a way that is amenable to more formal modeling of the sort used by economists is less common. It has been used quite effectively recently in two excellent books that study regime survival by Bueno de Mesquita, *et al.* (2003) (on whom I have drawn parts of this typology) and democratic transition and consolidation by Acemoglu and Robinson (2006).

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[3]Dixit (2006), for example, argues that both democratic and dictatorial leaders face similar problems in inducing bureaucracies to "work for them", and he presents a nice framework to analyze these problems when leaders differ in the weight they put on their own versus the citizens' interests.

3.2 Actors' Objectives

The second building block in a general framework is a specification of the objectives of the different actors in a political system. It may be obvious that each actor wants to maximize his own welfare or utility, but the key question is what this utility depends on. Setting this out in an explicit utility maximization problem for relevant actors is a useful tool of analysis.

3.2.1 Leaders

In the textbook case leaders are simply social welfare maximizers. In reality, leaders have a number of objectives, social welfare being (at best) only one of them. They are concerned with the perks of office ("office" or ego rents) as well as having preferred policy or ideological positions. This suggests that leaders may differ in the relative weight they put on these objectives, with different weights implying different policy and economic outcomes across countries. Whereas there is certainly some truth to this approach since leaders do appear to differ in their fundamental motivations, it has some clear problems if these weights are exogenous in a model. If it is the different weights that drive different outcomes, then the model hasn't really explained the different outcomes. If a failure of a country to grow is driven by leaders in the country putting more weight on the rents form holding office than do leaders in developed countries, then we would be forced to ask why leaders in a given region that is underdeveloped region are simply *exogenously* more selfish in general. If this is the main explanation then political economy (or economics more generally) has relatively little to tell us about economic underdevelopment. Personally, I find it hard to believe that the primary reason that Europe is far more developed than Africa is that its leaders have historically been far less selfish.

An alternative approach is to argue that while politicians may differ in their objectives, it is not this difference that primarily explains different policy outcomes. To go to the other extreme, suppose one begins with the argument that all leaders are purely self-interested, and that they care about social welfare only to the extent that being perceived as maximizing social welfare serves their ends (for example, by getting votes from the citizenry in an election). This is consistent with a main theme of political economy, namely, that leaders should be modeled as political actors with their own objectives rather than simply social welfare maximizers. If all leaders are self-interested, then differences in outcomes would lie elsewhere – in differences in the objectives of the

selectorate; in differences in the composition of the selectorate; in different quality of information that the selectorate has about what leaders are doing; or in different institutional mechanisms which determine what leaders must do to retain power.

Though neither extreme about leaders' objectives is probably fully accurate, I would argue that it is more fruitful to assume that across countries leaders may have similar objectives (broadly defined). This allows us to focus on other factors where political economy can be useful in discerning possible causes of policy failure.

3.2.2 The Selectorate (and the Citizenry)

In a democracy, the selectorate is, to a first approximation, the citizenry. In a dictatorship, where the selectorate may be quite different than the citizenry, citizens "matter" to the extent that politicians care about their welfare. We concentrate therefore on the selectorate, which may be identical to the citizenry.

Like politicians, members of the selectorate should be thought of as maximizing their own welfare. Typically, an individual's utility in a political model consists of two parts: his utility from consumption of private and public goods (where the former depends on his own income and hence can be affected by monetary transfers from the government); and, the utility he assigns to policy outcomes. The utility value of having a politician in office relative to the alternatives will determine whether the leader gets his support. Analogously, if a policy is being considered (for example by legislators who must pass a proposal for it to be enacted), members of the relevant selectorate consider the utility the get from the proposal being passed (including any non-policy benefits) relative to other policies or the status quo. Similarly, bureaucrats charged with implementing a policy will use their own utility calculations (including future utility that may come from career advancement) in choosing their actions.

As straightforward as this sounds, it is not uncontroversial. A significant fraction of political scientists criticize this rational choice approach as being the wrong framework to model and understand political behavior. I take rational behavior as a given in political economy modeling, so that the question of whether members of the selectorate are rational in deciding whom and what to support is not really a question at all.

A seemingly related question is whether members of the selectorate are restrospective or prospec-

tive in making their choices. That is, to take the case of voting over candidates as an example, do voters look at what the candidate has done in the past and vote retrospectively, or do they form expectations about what the candidate will do in the future and hence vote prospectively. Although retrospective voting seems inconsistent with rational, forward-looking behavior, this needn't be the case. With imperfect information, rational agents form expectations of unobserved magnitudes on the basis of what they observe. Hence if voters want to forecast what a candidate may do after the election, and this depends on an unobserved candidate characteristic (such as ability), it may be fully rational for a forward-looking voter to look at performance before the election to try to infer the unobserved characteristic. Retrospective voting may thus in fact be prospective. Rogoff (1990) and Drazen and Eslava (2006), among others, formalize this idea in a model of voter behavior under asymmetric information. Or, if voting is a mechanism to discipline politicians by removing them from office if their performance falls below a certain level (see, for example, Ferejohn [1986]), then retrospective voting would also be consistent with fully rational voters.

These examples point up that the selectorate generally has less than full information about what their utility will be under different political scenarios. Rational voters will therefore consider their expected utility, and the information they have in evaluating different options is key in modeling their behavior. Hence, a model must carefully specify what information the selectorate has. Even if the institutional structure and the selectorate itself is the same in two countries, very different levels of voter information may imply quite different politician behavior and quite different political and economic outcomes. Transparency of the political process thus becomes important.

Finally, a few words on the objectives of members of the coalition that a leader needs to retain power. Since the coalition Z is simply a subset of S, isn't specifying the preferences of each member of the selectorate automatically specifying the preferences of each member of the coalition? Since members of the selectorate who are part of the leader's coalition may get higher payoffs than those who are not, individuals have the objective of being (or remaining) part of the coalition, which will itself affect what the leader must give them to retain their support. Formally, we can model this as the "agenda-setter" having bargaining power by virtue of his position, which he uses in choosing how much to give members his winning coalition to gain their support. (Such models have been very influential in modeling legislative bargaining, as in Baron and Ferejohn [1989] and the work that followed.) The size of the coalition needed to retain power or adopt a policy, as well as the

probability of rejoining the coalition if one falls out of it will be crucial in determining the bargaining power of the agenda setter. Such models have obvious more general relevance outside of legislative or electoral settings.

One may also note that even in a voting equilibrium with no transfers to the majority (that is, where a voter's only reward is in having his preferred policy enacted), the probability of being pivotal in determining the outcome may play a role in a voter's decisions. This will be relevant not only on whether to be part of the selectorate (as in Palfrey and Rosenthal [1985]), but how to vote depending on the probability of being pivotal (as in Feddersen and Pesendorfer [1996]). Here too, the probability of being a pivotal player should have relevance to a broader set of political decisions.

3.3   Political Mechanisms and Constraints

We now consider the third building block, namely the mechanisms by which political decisions are made, as well as the constraints leaders face. Schematically, a specification of the actors in the political process (including their objectives) and the mechanisms by which they interact will determine the outcomes, but this itself is not very informative.

To start, there are two basic types of decisions in a political system. The first (except for direct democracy) are decisions on choosing and retaining leaders P. Some of these mechanisms by which leaders are chosen and and retain power and authority are conceptually straightforward, such as direct election of a chief executive or election of a legislature which chooses a prime minister. More specific detail would look at voting rules, district size in legislative elections, *etc.* This also includes how leaders, once in office, maintain their positions and authority. Political "mechanisms" must be defined to include the mechanisms by which leaders attract supporters (hence the importance of specifying the objectives of the selectorate). These include not only transmission of information or the making of promises (and hence the credibility of these promises), but also the monetary or in-kind incentives leaders give to garner support. And, of course, the constraints on such exchanges, whether feasibility or political constraints.

The second type of decision is choice of policy, and the mechanisms are those that concern how policy is made. Formally, this includes legislative rules, agenda-setting rules, *etc.* Less formally, this includes how bargaining between interest groups and governments is conducted, how veto players in a system are induced to accept policy changes, *etc.*

Even more so than in the case of political actors, progress in understanding how political mechanisms determine political outcomes requires a *much* more detailed specification of the political mechanisms and institutions. Even defining what constitutes an institution is often far from straightforward

Nonetheless, the level of generality of the discussion may serve to emphasize several points. First, all regimes face the same basic decisions, and all leaders face the same basic problem of support for themselves and their policies. The nature of the selectorate, their objectives, and the institutional constraints on what leaders can do to get their support may differ quite substantially across countries and their political systems. However, any analysis or modeling will use some variant of the three basic building blocks set out here.

Second, this conceptual framework may help us better understand where systems differ. Or, to put it another way, arguments that stress some types of differences in explaining outcomes are implicitly assuming that others are similar or, at least, less important. Focussing on differences in institutional accountability across countries, for example, implies that differences in leader's objectives are less important. Conversely, arguing that differences in outcomes across two countries heavily reflect the different objectives of the two country's leaders implies that institutional constraints are seen as being of secondary importance. Arguing that leaders have different objectives because the institutions are so different and because the voters are so different, so that these cannot be separated, misses the point of using a framework to discipline one's thinking and is likely to make little headway in analyzing problems of poor policy.

Third, in using a common framework, one should realize that the "devil is in the details." That is, many developing countries do look substantially different than developed countries in their political outcomes, suggesting models that stress different things. A common underlying framework will help understand what drives those differences and hence how to construct those models. However, one must avoid simply using a type of model for a given country simply because it has been frequently used in analysis of developed countries. This sounds pretty obvious,but the temptation to model a phenomenon by taking an existing model and basically "change the names of variables" without thinking carefully about whether it really applies is all too common.

3.4 Two Examples

To help illustrate how these building blocks fit together, I present two examples of formal political economy models of policymaking. (To the extent that readers find these models make the argument harder rather than easier, they can safely move on to section 4.)

3.4.1 Pork-Barrel Politics

The first example is a simplified version of the model of Dixit and Londregan (1996) (as presented in Drazen [2001]), supplemented with the some aspects of the model of Drazen and Eslava (2006).

There are two types of political actors. First, there is the citizenry, which is identical to the selectorate since all citizens vote and leaders are chosen in elections. Elections are won by simple majority, so the winning coalition Z is half of the vote, plus one. The utility of a voter i in group h depends on two factors: the distance between his desired ideological position $\tilde{\pi}^i$ and the position of the party in power π^j; and on his consumption c^{ih}, which depends on the transfer he receives. A group is defined as a subset of voters who all must receive the same transfers and pay the same taxes, where groups may be identified by location, age, gender, *et cetera*. Policy preferences (the utility associated with any policy π) differs within each group h. Utility is concave in consumption and may be written as

$$u^{ih}(j) = \alpha_h \frac{\sigma}{\sigma - 1} \left(c^{ih}(j) \right)^{(\sigma-1)/\sigma} - \frac{1}{2} \left(\tilde{\pi}^i - \pi^j \right)^2 \tag{1}$$

when j is in power. The first term is the utility from consumption, the second the utility associated with the distance between ones's most preferred policy and the actual policy the leader implements. The parameter α_h represents the degree to which a voter who is a member group h is willing to trade off utility from consumption (amenable to transfers) and ideology. Consumption c^{ih} is the sum of (given) pre-transfer income y^i and the transfer v_j^h that members of group h receive if leader j is in power. That is,

$$c^{ih}(j) = y^i + v_j^h \tag{2}$$

where v_j^h can be positive or negative but no less than $-y^i$.

Within group h, the distribution of most preferred policy $\tilde{\pi}^i$ is represented by a cumulative distribution function $F_h\left(\tilde{\pi}^i \right)$, with an associated probability density function $f_h\left(\cdot \right)$. Groups h all of

whose members receive the same transfer, may also differ in size. Hence, if the number of members of group h is N_h, the number of voters with a preferred position at or to the left of some π is $N_h F(\pi)$.

The second type of actor are politicians. There are two politicians, denoted L and R with most preferred policies π^L and $\pi^R > \pi^L$. Suppose these positions are immutable and, for simplicity, assume $\pi^R = \frac{1}{2}$ and $\pi^L = -\frac{1}{2}$. A politician's objective is the sum of the value of being in office, denoted χ and ideological utility analogous to the voters. That is, we write P's utility as $(P = L, R)$

$$w^P(j) = \chi - \frac{1}{2}\left(\pi^P - \pi^j\right)^2 \tag{3}$$

Note however that since both χ and (by assumption) π^P are fixed, a politician's objective is to maximize his vote total, which will maximize his probability of being elected. Politicians thus compete in the vector of transfers they give to each group of voters.

A voter supports the candidate whose platform (both policy position and promised transfers) yields him the most utility. Voter i will vote for the left- rather than the right-wing candidate if $u^{ih}(L) \geq u^{ih}(R)$. Substituting (2) into (1), using the numerical values for π^R and π^L and rearranging yields that voter i in group h will vote for L if:

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\begin{aligned}
\tilde{\pi}^i &\leq \alpha_h \frac{\sigma}{\sigma-1}\left[\left(y^i + v_L^h\right)^{(\sigma-1)/\sigma} - \left(y^i + v_R^h\right)^{(\sigma-1)/\sigma}\right] \\
&\equiv \hat{\pi}^h\left(\mathbf{v}_L, \mathbf{v}_R\right)
\end{aligned}
$$

The term $\hat{\pi}^h(\mathbf{v}_L, \mathbf{v}_R)$ represents the type of voter in group h who is just indifferent between the two candidates given the transfer vectors $\mathbf{v}_L$ and$\mathbf{v}_R$ over all groups that the parties propose.

Given the transfer vectors $\mathbf{v}_L$ and$\mathbf{v}_R$, vote totals for the two candidates follow from the voter distribution $F_h(\tilde{\pi}^i)$ and the definition of $\hat{\pi}^h(\mathbf{v}_L, \mathbf{v}_R)$. Vote totals may be written:

$$\mathbf{N}_L(\mathbf{v}_L, \mathbf{v}_R) = \sum_{h=1}^{H} N_h F_h\left(\hat{\pi}^h(\mathbf{v}_L, \mathbf{v}_R)\right) \tag{4a}$$

$$\mathbf{N}_R(\mathbf{v}_L, \mathbf{v}_R) = \sum_{h=1}^{H} N_h\left(1 - F_h\left(\hat{\pi}^h(\mathbf{v}_L, \mathbf{v}_R)\right)\right) \tag{4b}$$

In equilibrium each candidate promises a vector of transfers which maximizes his vote total as

given above, taking the other candidate's equilibrium transfer vector as given, subject to a balanced budget constraint on transfers (and a prohibition of taxing individuals beyond their ability to pay). It is assumed these promises are credible. These assumptions can be thought of as the institutional constraint on political behavior (and the implicit assumption that no other election activity is allowed.)The budget constraint may be written:

$$\sum_{h=1}^{H} N_h v_j^h = 0 \tag{5}$$

for $j = L, R$.

In an equilibrium, neither party is able to increase its expected vote total, given the transfers chosen by the other party. That is, the equilibrium concept is Nash in pure strategies. More formally, an equilibrium is a pair of transfer vectors $(\mathbf{v}_L, \mathbf{v}_R)$ such that: (i) L's choice of the vector $\mathbf{v}_L$ maximizes $\mathbf{N}_L$ in (4a) subject to (5), taking R's equilibrium choice of $\mathbf{v}_R$ as given; and, (ii) R's choice of the vector $\mathbf{v}_R$ maximizes $\mathbf{N}_R$ in (4b) subject to (5), taking L's equilibrium choice of $\mathbf{v}_L$ as given.

The equilibrium transfer vectors can be found by writing the problem as a Lagrangian for each candidate, maximizing the relevant expression in (4) with a Lagrange multiplier λ_j on the candidate's budget constraint (5). The Lagrange multiplier measures the value to j, in terms of votes, of an additional dollar available to give as transfers. Its reciprocal is the marginal cost to the candidate of "buying" another vote. The first-order conditions for each candidate $j = L, R$ are:

$$f_h \left(\hat{\pi}^h \left(\mathbf{v}_L, \mathbf{v}_R \right) \right) \cdot \alpha_h \cdot \left(y^i + v_j^h \right)^{-1/\sigma} = \lambda_j \tag{6}$$

for each group h. This condition says that in equilibrium, a candidate chooses his promised transfers and taxes so that a change in the net transfers offered to any group will produce the same number of votes. Groups that have a high $f_h \left(\hat{\pi}^h \left(\mathbf{v}_L, \mathbf{v}_R \right) \right)$, that is, a large number of voters at the indifference point ("swing" voters), or a high α_h, that is, a high weight on consumption relative to ideology, will be more targeted with transfers at the expense of other groups.

Dixit and Londregan consider the case where a candidate may have special ability in transferring

or extracting resources from some group, so that to (2) is replaced by

$$c^{ih}(j) = y^i + A^j\left(h, v_j^h\right) \tag{7}$$

where $A^j\left(h, v_j^h\right)$ gives the effective value to voters in group h of total dollar transfers v_j^h from j. (The argument h in $A^j\left(h, v_j^h\right)$ represents j's differential effectiveness in targeting groups.) Other things equal, groups for which the candidate is especially effective in meeting their needs (a high derivative $\partial A^j\left(h, v_j^h\right)/\partial v_j^h$) are more likely to get transfers (or get taxed).

Drazen and Eslava (2006) consider this type of targeting model, but with some crucial changes. Candidates can no longer commit to post-election policy, so voters have a non-trivial but quite realistic inference problem. Pre-election fiscal policy is used to try to infer what the candidate will do after the election, that is, whether he will still favor group h. What is uncertain is a candidate's unobserved innate preferences over groups, which can change but nonetheless have some persistence. Hence, imperfect information by the voters about the candidate's motivations (simply electoral or more "sincere"?) becomes key to the effectiveness of the exchange of money for votes.

3.4.2   Bargaining with Special Interest Groups

The second example concerns the trade of policy favors from government for cash or goods (broadly defined) that the government values from powerful groups. It is a simple case taken from Drazen and Limão (2006). The political issue now is not retention of the leader in power but the choice of policy, though this approach can be extended used to include elections, as in our paper or (in a different set-up) in Grossman and Helpman (1996).

There are three actors: the government which gives transfers to organized interest groups in exchange for "lobby goods" (campaign contributions, gifts to government officials, military support) they value; organized interest groups; and the unorganized citizenry, who are not part of the policy selectorate. The later groups are the citizenry as a whole, so that a key distinction is between those citizens who have the ability to organize themselves and use it to bargain for favors from the government and those citizens who are not in organized lobbies and whose interests are addressed only to the extent that the government cares about social welfare.

The utility of any citizen is given by:

$$u \equiv x_n + \sum u_i(x_i) \tag{8}$$

where the subutility for good x_i is u_i, which is twice continuously differentiable and concave. The consumer price of each good, p_i, is exogenously given, as in a small open economy without import restrictions, which takes world prices as given. The term x_n represents the consumption of the numeraire, which is produced using only labor with a marginal product of unity. This and the assumption of a fixed world price of n at unity and a sufficiently large labor force fixes the wage at unity. For given prices an individual who owns the specific factor used to produce i has income E_i and chooses consumption to maximize utility subject to a budget constraint, $x_n + \sum_i p_i x_i \leq E_i$. It is then straightforward to show that this constraint is satisfied with equality and indirect utility is the sum of income and consumer surplus, $s(\mathbf{p})$.[4]

The production of each x_i exhibits constant returns in the two factors it uses: labor and a specific factor. Since the wage is unity the return to the specific factor depends only on the supplier price of the good, p_i^s. The reward is given by the quasi-rent $\pi_i(p_i^s)$ and equilibrium output is $\pi_i'(p_i^s)$. In the absence of any government intervention we have $p_i^s = p_i$.

To redistribute income to lobbies of specific factor owners in sector i the government uses a lump-sum transfer, T_i, which is financed by lump-sum taxes on the citizenry as a whole of size N. There is a unit collection cost of $\beta \in (0,1)$, so that a total transfer of $T = \sum_i T_i$ requires the government to collect $T/(1-\beta)$.

An exogenously given set of sectors L form lobbies and their gross welfare is:

$$W_i = l_i + \pi(p_i) + T_i + \alpha_i N[s - T/(1-\beta)N] \quad \text{if } i \in L \tag{9}$$

where α_i is the share of the voting population that owns factor i and l_i is their labor income. Each lobby can also use the numeraire to linearly produce some amount, C_i, of a good that it offers to the politician in exchange for an increase in a transfer T_i to itself. Factor ownership in any one sector is sufficiently concentrated, i.e. α_i is sufficiently small, such that each special interest group takes the size of the budget as given when bargaining over its own transfer. Thus the lobby maximizes its

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[4]An individuals' demand for x_i is $d(p_i) = u'(p_i)^{-1}$. Consumer surplus is $s(\mathbf{p}) = \sum u(d(p_i)) - p_i d(p_i)$.

gross welfare net of its provision of lobby goods, which is given by:

$$V_i \equiv W_i - C_i \tag{10}$$

Social welfare is obtained by summing the indirect utility over individuals in and out of lobbies:

$$W \equiv l + \sum_i \pi(p_i) + \sum_i T_i - T/(1 - \beta) + Ns \tag{11}$$

The policymaker's preferences are represented by a weighted sum of social welfare and the lobby goods he receives in exchange for transfers:

$$G \equiv aW + \sum_{i \in L} \Psi_i(C_i) \tag{12}$$

We assume a is positive but finite because our interest is on the role of a policymaker with preferences that are not identified with social welfare but reflect at least some social cost of the transfer made to the special interest groups. $\Psi_i(C_i)$ represents the value to the government of the good C_i that lobby i provides. A crucial assumption is that the C_i from different special interests are not perfect substitutes. A group whose good C_i is especially valuable to the government (a large $\Psi_i(\cdot)$) will be in an especially strong bargaining position with the government to extract transfers T_i.

Assuming that lobby goods are additively separable in G and that ownership of factor i is concentrated ($\alpha_i \to 0$ for each i) ensures no economic interaction among lobbies. One can then focus on the bilateral interaction of each organized interest group with the government.

Having specified the set of actors and the objectives of each, the framework is completed by specifying the mechanism of political interaction, that is, the rules or institutional set-up that governs the trade of favors between government and organized interests. In Drazen and Limão (2006) we simply model the outcome of the bargain as the solution to a Nash bargaining problem, which can be interpreted as a bilateral game of alternating offers with an exogenous, constant risk of breakdown of negotiations in each round or if players discount the future (Binmore, Rubinstein, and Wolinsky 1986). Though we did not specify the institutional structure which might imply a game of alternating offers, we would argue that the "give-and-take" that such a game is meant to represent is a key feature of the interaction of politicians and organized special interests.

The bargaining solution is easy to calculate. Substituting (11) into (12) and maximizing the expression subject to the special interest group receiving a given level of utility yields the first-order condition

$$\frac{G_T}{G_C} = \frac{V_T}{V_C}$$

for each organized group relative to the government, where G_T, etc. are partial derivatives. This may be written:

$$\Psi_i'(C_i) = \frac{a\beta}{1-\beta} \tag{13}$$

which determines the C_i. The equilibrium level of the lump-sum transfer T_i depends on the relative bargaining power of the government and the organized group. One may represent the Nash bargaining solution as the solution to:

$$Max_{G \geq g^0, V \geq v^0} \; U = (G - g^0)^\gamma (V - v^0)^{1-\gamma} \quad \text{s.t.} \; G = g^m - \frac{a\beta}{1-\beta}(V - v^0) \tag{14}$$

where v^0 represents the special interest group's reservation utility, and g^0 the government's reservation g^0, corresponding to no bargaining so that C and T both equal to zero. The constraint in (14) represents the Pareto frontier in utilities G and V. g^m is the government's maximum attainable utility in the bargain, achieved when the special interest group's utility is at its reservation level. Any increase in the interest group's utility above v^0 require a reduction in the government's utility in the form of a lower transfer. Since the marginal utility of the lump-sum transfer is constant for both government and special interest group, the unconstrained Pareto frontier is linear and the solution can be written as

$$g^N - g^0 = \gamma(g^m - g^0) \; ; \; v^N - v^0 = (1 - \gamma)(v^m - v^0) \tag{15}$$

The government receives a share of the bargaining surplus that is proportional to its bargaining power, γ. Similarly for the interest group. It is then simple to solve for the level of the transfer T in equilibrium.

4   Relevance for Developing Countries

I now proceed with the second part of the argument. I argue that the building blocks and general framework set out in the previous section are useful for understanding political economy

in developing countries. I do this by considering some features of or phenomena in developing economies that are often taken as indicating the need for different models than those applied to developed economies. I then argue that the building blocks and their interactions set out in section 3 can be used to model and analyze these features and phenomena.

To be clear, the goal is **not** analysis *per se* of these features, neither what explains them nor how they can fully explain the economic outcomes we observe. Of course, the strongest demonstration that the type of model sketched out in section 3 can explain these features and can explain how they lead to economic outcomes is in fact to present such a model. But that is beyond the scope of this paper and the competence of its author. Nonetheless, I hope my basic point can be made convincing.

The features considered are not meant to be an exhaustive description of the political economy of developing countries. Rather, they are simply a sampling of what observers see as key problems. I will use my limited knowledge of and limited reading about Africa to give examples, but the points are obviously more general. Many of these points will appear obvious or trivial once they are stated, but perhaps that is the point.

4.1   Centralization of Power and Personal Rule

Many developing countries, even nominal democracies, have leaders whose domestic power far exceeds those of leaders in developed countries. Many developing countries were highly centralized in their administrative structures after independence – in part reflecting the nature of colonial rule before independence – and this administrative characteristic remains. However, what is notable is not the centralized administrative structure, but the concentration of power in the hands of a small elite and in the leader himself, often termed "personal rule"[5] As Jackson and Rosberg write (1984b, pp.423-4),

> Personal rule is an elitist political system composed of the privileged and powerful few in
> which the many are usually unmobilized, unorganized, and therefore relatively powerless
> to command the attention and action of government. The system favors the ruler and
> his allies and clients: its essential activity involves gaining access to a personal regime's

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[5]See, for example, Jackson and Rosberg [1984a] or Sandbrook [1985, chapter 6] for analysis of the phenomenon in reference to Africa). Acemoglu, Robinson, and Verdier (2004) present an interesting model of personal rule.

patronage or displacing the ruler and perhaps his regime and installing another.

Many arguments (not always consistent with one another) have been put forward for the prevalence and the persistence of personal rule so described. These include the absence of democratic or civic traditions, the multiplicity of political traditions within states with artificial boundaries (Sandbrook [1985]), ethnic fragmentation and tensions (Posner [2005]), or, even the low population densities and inhospitable terrain that characterize many African countries (Herbst [2000], Boone [2003]). Personal rule also clearly can induces enormous distortions into the normal working of government and into the policy and economic outcomes.

However, as I indicated in the introduction to this section, analyzing what accounts for personal rule or tracing through its implications is not my aim at this point. It is simply to ask: does "personal rule" require a different type of political economy model than is used to analyze countries without personal rule? Or can the same type of model be used (if it is used thoughtfully)? Not surprisingly, I think that the same framework can be used and, moreover, I hope it is fairly clear why. In terms of the general framework, personal rule could be formally characterized by a very small selectorate combined with a set of tools a leader uses to influence the selectorate that are either significantly different than those used in countries not described by personal rule or use of the same tools (such as transferring wealth) on a scale that is far greater. But, at the risk of appearing naive, I would argue there is nothing about personal rule or its excesses that *a priori* invalidates the use of standard models of political economy.

Moreover, I would reject as uninformative an application of the above framework that focusses primarily on different objectives of leaders in developing and developed countries. It has been argued that many leaders in the developing world are especially interested in retaining power and using office for their personal gain. But this characterization would seem to apply to leaders in general to a greater or lesser extent. The argument, for example, that African "political leaders want to remain in power and choose policies they believe will maximize their chances of doing so" (to quote van der Walle [2001]) is an argument that, as he points out, can be applied to leaders in general.

Hence, it does not seem useful simply to argue that leaders in some developing countries accumulate more power than those in developed countries because they are more interested in power. Now it may be that the process of *rising* to leadership in some countries is such that only the relatively "power-hungry" are ultimately selected. But this argument (if it is true) suggests the need to

study and model why the selection process is different. More generally, rather than simply assuming leaders in developing countries have different motivations, a more fruitful approach, which in fact has characterized some of the formal models of political economy in less developed democracies, is that greater power reflects fewer constraints on leaders and to ask how this can be explained. Van de Walle argues that leaders in Africa are more insulated from popular pressures than in developed countries (though far from totally insulated), but the question is how this is achieved.

More generally, democracy is often highly imperfect in developing countries. Even when regular multiparty elections are held, the day-to-day practice of democracy is characterized by many abuses. Though Africa participated in the "third wave" of democratization in the 1990s, it is argued that this has had less effect on political patterns in African politics than might have been hoped. Bratton and van de Walle (1997) and van de Walle (2001) suggest that many of the underlying factors which have lead to weak or no democracy historically in many developing countries continued to exist in the 1990s and hence make it not surprising that the quality of democracy has remained low. (See Bratton and van de Walle [1997] for a detailed analysis of Africa's democratization in the 1990s and Widner [1994] for case studies.) Moreover, they point out that the new leaders in many countries were not political newcomers, but in fact have long been part of the narrow political elite, with long careers in past governments. They are "new" only in the sense that they had a falling out with the head of state and were excluded from political activity at some point in the 1980s. However, the nondemocratic nature of a regime in no way makes the framework suggested above inappropriate.

4.2   Service Traditions and Abilities

A related argument applied to many developing countries is that there is simply a far weaker tradition of professional government service (or perhaps more general civic responsibility) in relatively young democracies as compared with developed countries with established democracies. Though this may well be true, a few points may be useful in understanding the implications of this argument for model-building.

First, it is certainly inaccurate to say that concerns about the more general issue of low levels of civic responsibility, either within or outside government, are more relevant to developing than developed countries. Whether or not one agrees with the analysis, studies such as Putnam (2000) suggest that it is an issue in developed countries as well.

Second, even if one accepts this view as representing a given but important characteristic of some less developed countries, this does not imply that standard political economy models are inapplicable. To take but one example, many models of why people vote (see, for example, Palfrey and Rosenthal (1985) conclude that the inherent value of voting, rather than the likelihood of affecting the outcome, must play a central role. Analogously, the fact that economic outcomes are partially determined by traditions that are exogenous to a model does not invalidate the use of models. However, like the argument above that leaders in developing are simply more interested in power, simply arguing that service traditions are weaker runs the risk of putting too much explanatory weight on exogenous factors.

This leads to a third, and more important, argument, namely that it is probably quite inaccurate to think of what we term "service traditions" as exogenous or pre-determined even in parts of the developing world where they are seen as weakest. Rather, they must reflect two key factors: incentives and resources. Let's begin with resources. First, consider human capital. In Africa, for example, the colonial administration was almost entirely European, with Africans holding lower level jobs and hence no trained civil service being created. At independence, most countries were believed to have very few college graduates. In contrast, there are now hundreds of thousands of college graduates on the continent. Hence, though we may think of service as a tradition, it is an ability that depends on human capital, which can be accumulated.

However, as van de Walle (2001, p. 130) argues,

> there is much evidence that the capacity of African governments to design, implement, monitor, and evaluate policy actually declined between the early independence era and the 1990s, despite this dramatic change in skills available to governments. Such was certainly the opinion of the African Governors of the World Bank when they presented a report on capacity issues in 1996: "Almost every African country has witnessed a systematic regression of capacity in the last thirty years; the majority had better capacity at independence than they now possess."

(See also Englebert [2000] on the importance of state capacity.) The reason for this, van de Walle argues is lack of another kind of resource: government funding for the bureaucracy due in part to the fiscal crisis that African countries have suffered in the last two decades. "The top technocrats may be very competent well trained, but they lead underfinanced state structures with very little

data gathering, planning, and policy analysis capabilities." (p. 55) Many other examples may be given.

Of course the other endogenous aspect of the existence of a high level of government service is incentives, or, more exactly, the lack of incentives leading to what is easy to term a lack of service tradition. As is well known, the very low salaries paid to some government employees is a major inducement to low effort in both developed and developing countries. When these salaries are so low that they are below subsistence, it is not surprising that bureaucrats are easily bribed. Conversely, institutions can reinforce incentives if strong mechanisms of accountability and transparency are in place.

To summarize, state capacity may be quite different in some developing countries than in the developed world, and a significantly lower level of state capacity may make not only outcomes but also the working of the government system look radically different qualitatively. But, this does not mean this that models stressing resource constraints, training, incentives, and even some exogenous factors (such as colonial heritage) are inapplicable. Quite the opposite: such models should be quite useful in understanding the decline of state capacity and its implications.

4.3   Interest groups

Interest groups are often argued to be far weaker in developing countries. The argument is that in developed countries interest groups organize themselves more easily and can exert more influence on the state. Not only does this give many citizens a more effective voice in developed countries, but it also significantly lowers the probability of one group capturing the state for its own benefit over long periods of time.

Van de Walle (2001) has argued that the failure to realize that interests are not equivalent to effective interest groups has been a key failure of political analyses of Africa:

> Perhaps the real problem is that scholars who have attributed great influence to interest groups tend to conflate interests and interest groups, assuming that the mere existence of economic interests in a segment of the population will guarantee their effective representation in the political system. ... Interest group analyses tend to take organization for granted

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The argument that interest groups that play a key role in many developed economies are weak or non-existent in many developing economies would gain probably gain wide agreement, as would the argument that this difference may be crucial in explaining some policy outcomes. A poorly developed civil society may be a legacy of colonial rule, which would imply possibly very different political dynamics.

However, this is of course not the same as arguing the interest groups are non-existent in developing economies, which no serious scholar would argue. Hence, it is not that there are not powerful interest groups in developing countries, only that they are different than those groups in developed countries (or different across developed countries).

In terms of the formal framework, this simply says that the selectorate may be quite different in some developing countries. That is, the key question is simply, who is the selectorate, and models of governments catering to interest groups are relevant once they are identified.

Students of African politics have argued that regimes tend to protect the interests of narrow groups of state elites, such as the highest rungs of the political elite (often at the expense of lower rungs of the civil service) as well as army elites, who hold the power to engineer coups.

Industry, though often small, can be a powerful group, given the government's interests in industrialization. (See section 4.6 below.) As Bates (1981) writes, "In Africa, as we have seen, prices are set in a way that favors the interests of industry but harms the interests of agriculture; and, within agriculture, prices tend to be more favorable for large farmers than for peasant producers. This suggests that certain factors operate to lower the costs of collective action for certain kinds of producers." As in many countries, including developed countries, a major factor influencing the ability of groups to organize is the size distribution of their industry, where there may be less incentive toward free riding the fewer firms in the industry.

In contrast to industry (but explained by some of the same considerations), Bates (1981) argues that small farmers are inactive in interest-group politics, as the relative benefits and costs of collective action favor persons who work in other industries. "It is other interests who succeed in using the power of the state to alter prices to their advantage." In contrast to small farmers, large farmers are a powerful elite and receive favored treatment.

In addition, urban populations are an important interest that have been quite important. As van der Walle writes, "African governments do worry about public opinion, and when thinking about

which reforms to implement, they may be more hesitant, at the margin, to undertake measures that will hurt the purchasing power of constituencies that are organized." Increases in the cost of living is a major cause of militant action by urban consumers. Governments are seen as quite vulnerable to consumer disaffection, with policy choices reflecting this vulnerability. Bates points out that food prices are a focus of efforts to contain increases in the cost of living, so that urban workers provide a powerful lobby for low-cost food, (supported by urban employers who view high food costs as forcing them to pay higher wages.)

This pressure very much determines the contours of agricultural policy. Governments intervene directly via marketing boards, maintain overvalued exchange rates to reduce the domestic price of food, import food from abroad (and distribute it in the urban market),.and sometimes ban the export of food crops to prevent local prices from rising. (However, as Bates stresses, government attempts to control the market for food crops have largely failed in Africa.) These policies hurt the rural population, which is the large majority of the populace. Bates argues that it is precisely the lack of organization of these groups that allows governments to sustain policies that so harm their interests. (See also Bates [1983] for insightful discussions of the organization, or lack of it, of agricultural interests in Africa.)

Finally, exactly as in developed economies, policies (ostensibly chosen to secure economic development) have created power interest groups. As is often observed, the entrenchment of these enormously powerful interests has lead to the persistence of the policies that favor them. In short, the role of interest groups in developing countries is strikingly similar to their role in developed countries and the same tools of analysis are quite relevant.

4.3.1   Ethnic Fragmentation

High degree of ethnic fragmentation is often argued to be a key characteristic of many developing countries, especially in Africa. Some researchers argue that empirically it is a major contributing to Africa's poor growth performance. (Easterly and Levine [1997]). Hence, it is clearly potentially very important in explaining political dynamics in specific countries. However, as I am far from knowledgeable about this important issue, I will touch on it only briefly.

Issues of ethnic fragmentation affect political economy of countries in a large number of ways. The absence of a significant constitutional tradition or rich civil society meant that governments of

new democracies in the developing world might be forced to rely of ethnic loyalties to bolster (or to take the place of) popular legitimacy. The legacy of colonial divide-and-rule strategies heightened ethnic tensions and the implications for effective governance. Arbitrary borders often cut across ethnic lines. Clientelism may reinforce ethnic loyalties (see the next section). Even modernization has been argued to strengthen ethnic identities at the subnational level.

From a formal point of view, strong connections along ethnic or tribal lines can mean both greater cohesion among those in the group and greater animosity to those perceived not as part of the group. In terms of the discussion in this section, collective action problems that are crucial in interest group formation may obviously be helped or hurt by ethnic fragmentation. Issues of group identity, both the positive and negative aspects, have generated formal modeling in economics (see, for example, Akerlof and Kranton [2000]), suggesting that economic models may help illuminate these issues.

More generally, though the causes, dynamics, and effects of ethnic fragmentation are not simple to analyze, there is no a priori reason to argue that its possible importance in developing countries makes standard models inapplicable. However, as with other topics discussed here, careful thought and an understanding of the underlying phenomena are necessary for the application of standard models to be enlightening.

4.4   Clientelism

It is often argued that politics in less developed countries is far more about (corruptly) rewarding supporters (that is, the selectorate) in order to retain and wield power. Numerous examples across Asia and Africa come to mind. In the case of Africa, many sources could be cited. For example, to cite van der Walle again:

> Political authority in Africa is based on the giving and granting of favors, in an endless series of dyadic exchanges that go from the village level to the highest reaches of he central state. ... Clientelism is based on the extensive use of state resources for political purposes. ... State elites quickly came to rely on patronage and the distribution of economic rents in order to ensure political stability. African political systems became neopatrimonial, combining an external façade of modern rational-legal administration with an internal patrimonial logic of dyadic exchange, prebendalism, and the private appropriation of public resources by state elites.

Though this may well be an accurate description, a focus on clientilism is certainly no basis for arguing that a different type of political economy model is needed to explain the experience of developing countries. This is not only to argue the obvious general point that the need to induce members of the selectorate to support the government at critical points characterizes all governments. More specifically, the use of government resources directed at key players to "buy" their support is a common theme of politics. (See also Reno [1997].) As Bates (1981) puts it,

> In their efforts to organize political support in the countryside, African governments also manipulate the structure and performance of their public services. Governments everywhere supply roads, clinics, schools, water supplies, and the like. In Africa, and in other developing nations, "development" projects are also standard fare. And whether it be in Mayor Daley's Chicago or Awolowo's Western Region of Nigeria, the supply of such services can be, and is, tailored to the quest for political support.

(Bates (1981) presents an example, "The importance of political motivations is suggested in features of the state farm programs in Western Nigeria and Ghana. In both cases ... the programs "over-expanded": state farms were provided for every electoral district!" This sounds no different than the observed phenomenon of "universalism" in provision of pork barrel projects to U.S. Congressional districts.)

Using pork barrel spending to attract voters in national or municipal U.S. elections sounds quite different than a leader appropriating public resources in order to transfer them to a small group of key political players, and in a very real sense it is different. But, analysis of both cases with formal models requires identifying: what resources the leader can use; who are the selectorate; and what are their objectives that determines how much they need to be given to gain their support. The model in section 3.4.1 illustrated this. And in both cases a key political economy question is how this process will lead to distortions from the social optimum.

A critic might argue that another question must be added to our list of things to be analyzed, namely, what uses of government resources are considered acceptable? Moreover, one might argue that differences in the answer to this question is what may make two regimes not simply quantitatively, but in fact qualitatively different. But, this is a different argument than saying that it is clientilism *per se* that suggests the need for a different type of political economy model. That is, if

the term "clientilism" refers to the exchange of resources for political support, then it surely characterizes all political systems and the general framework set out above is applicable to all systems. If, however, "clientilism" refers to what appears to be a significantly different form of these exchanges, than a political economist must consider what the essential differences are and ask whether those differences are such that a different kind of model is required.

Before turning to that question (or set of questions), let me further consider some other issues related to clientilism.

4.4.1   The Effects of Clientelism

Clientilism clearly distorts the use of resources, as does all special interest politics. One aspect is, as already mentioned, how development failures may be attributed to clientilism. Authors like van der Walle argue that the failures of Africa in the 1980s and 1990s reflect in part the fact that "restoring economic stability and growth has often taken a back seat in government motivations to preserving political power and protecting rent-seeking opportunities Indeed, the reform process has increasingly been manipulated for political advantage."

He goes on to argue that the often peculiar nature of policy change in the region can often be linked to the interests of state elites as they seek to adapt the course of reform in such a way that clientelist networks are maintained or allowed to be reinvented. This, he argues, has several aspects. First, extensive use of state resources for political purposes imply highly interventionist economic policies. This not only includes things such as overvalued exchange rates, various domestic price distortions, high levels of public ownership (including marketing boards), and protectionist trade policies, but on an even more micro level, including various tax and legal exemptions, immunities from laws, preferential granting of licenses.

Second, it not surprisingly results in a systematic fiscal crisis. Moreover, as the economic situation of a country worsens, declining fiscal revenues may be even more politicized to prop up a regime, so that development projects get squeezed from both sides. In short, the form of policy reform (or lack of it) reflect leaders trying to protect their power in the face of a deteriorating fiscal situation. Extensive use of clientilism also places an obvious premium on access to state resources, leading to further policy distortions.

It would not be surprising if the policy distortions in a strongly clientilist system are far larger

than those arising from pork barrel politics in an established democracy. But the basic forces that lead to these distortions are similar in kind if not degree and therefore amenable to the same basic modeling techniques.

4.4.2 Foreign Donors

I think there is wide agreement that foreign aid has had quite disappointing results in alleviating poverty in Africa. The reasons for this have been widely discussed (even though probably not agreed upon) and poor design on the part of donors plays an important role in this failure. It is not my relative expertise to weigh in on the debate, but it is worth noting how foreign aid interacts with some of the features discussed above, especially clientilism.

A key feature of clientilism is the need of leaders to get control of a significant level of resources in order to make clientilistic exchange a basis of their power. Hence, the funneling off of aid in some countries away from the intended recipients and into the hands of the state elite is a not surprising result of pervasive clientilism.[6] I would argue that basically the same phenomenon is observed in developed countries when subnational leaders use central government largesse to shore up their political position. The scale may be far lower and the results far less tragic as far as human suffering, but the phenomenon is conceptually the same and the same tools should be useful in analyzing it.

Foreign aid flows may also in fact exacerbate problems of low state capacity. Van de Walle (2001) argues that as the donor role in the adjustment process has come to be institutionalized in parts of Africa, the state apparatus of policymaking has been compromised and weakened. Not only did a high volume of loans weaken central states by disrupting their decisionmaking, but it also created "the impression that key decisions were made by foreign bureaucrats and thus undermining the little legitimacy [these governments] still possessed." I have little insight to add to these analyses, except to argue (as for example in Drazen [2002]) that the failures of aid suggest a strong need for more formal analysis.

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[6]Van de Walle (2001) argues that the fiscal crisis in Africa in the last two decades may have raised the amount of aid flowing in, but because it caused state revenues from other sources to fall, it also increased the need of leaders in clientilist states to expropriate these funds.

4.4.3 Populism

One should note that clientilism does not mean that a regime is "captured" by special interests or, more generally, is forced to undertake policies that require substantial redistribution of resources. To repeat, to the extent that clientilism refers to the use of resources to ensure the support of the selectorate, the amount of resources a regime must use depends on how wide is the selectorate and how much must be used to buy their support. "Populism" in Latin America, for example, may be thought of as the resort to widespread redistribution to attract the support of large segment of the (typically poor) populace. It is sometimes argued that regimes in Africa are not populist at all, but rather "autonomous" from social forces in the sense of not having to satisfy a large segment of the population but only a narrow elite. This simply says the selectorate is different rather than a different type of model is relevant.

4.5   The Nature of Political Interactions

I have argued up to now that the use of resources to retain power is not simply a phenomenon of developing economies. In the previous section, I raised the question of whether qualitatively different political economy models are nonetheless needed because such exchanges are done by significantly different form means in less developed economies. More generally, are the forms of political interaction sufficiently different that they suggest different types of models? I now try to address some of these questions.

4.5.1   Corruption

Corruption is widely viewed as significantly more pervasive in developing than developed countries. As indicated, the issue here is not so much the existence of special interest politics as discussed in section 4.4, but the nature of the exchange of favors for support. There are two questions here. The larger and more important questions are what accounts for the difference in the amount of corruption or what can be done about it. The second is whether the far higher prevalence of corruption makes developing countries qualitatively different than in developed ones. For both questions, the key issue is the applicability of standard political economy models. Can they explain the prevalence of corruption? And, does the prevalence of corruption make framework less applicable?

Although some of the discussion earlier in this part of the paper may be suggestive of why

corruption is widespread in some developing countries, I follow my previous approach that explaining the prevalence of corruption is beyond the scope of this paper. On the second question of whether very high levels of corruption suggests the need for political economy models other than those used for developed countries, I would argue as before the general answer is "no".

4.5.2 Political Violence and Coercion

The nature of political interactions in developing countries is often argued to be more violent and coercive than in developed economies. In developing democracies, opposition parties are often harassed to an extent which would be considered impossible in established democracies. Governments use their control of the courts and the legal system to do this, often ban opposition parties and arrest and imprison their leaders. Bates (1981) for example further argues that the use of violence has "forestalled the mobilization of the rural majority [in Africa] against policies that harm their interests".

Another aspect of political violence is the prevalence of coups and militant overthrow of governments. Jackson and Rosberg (1984a) and Sandbrook (1985) among others argue that coups and more generally irregular government turnover (and the threat of coups and irregular turnovers) are a part of the phenomenon of "personal rule".

All of these phenomena make the politics of countries that suffer from them look quite different from the politics of established democracies. However, the same general framework that is used to study more regular leadership contests and government turnover is applicable in these cases. Harassing and jailing opponents is a quite unsavory form of political competition, but like other forms of political competition, it could be modeled, at least abstractly. Similarly, coups can be made part of a model of fragile democracy, as in the work of Acemoglu and Robinson (2005), among others.

4.6 Elite Ideology

The discussion up to now has focussed on how the objectives of leaders or the constraints they face affect the policy choices they make and, more specifically, may help explain their failure to undertake reform. Another reason that specific policies may not be adopted in a country is that the political leadership may simply not believe in them. For example, in many developing countries,

leaders have not adopted the reforms that are included in the "Washington consensus" because they do not believe in them.

Bates (1981) argues that in many developing countries, a key government objective is to shift their economic base from agriculture to manufacturing. One key policy in this regard is "infant industry protection", sheltering new firms from competition, whether domestic or foreign. Industries are often dominated by a few (or even a single) large firms, which are often government-owned. When agriculture is the largest source of income and the principal source of exports, it is therefore not surprising that governments seek to extract the resources from agriculture in order to finance their industrialization objectives.

Though policies such as infant industry protection are generally viewed as misguided (and, as Bates [1981] documents, have often lead to major distortions in Africa), their implementation does not imply the need for an alternative model of political decisionmaking. If they are due to the ideology of the political elite, this can be well modeled and analyzed in existing models. And, if these policies are driven by the desire to extract resources for other purposes, as discussed above, they fully fit into existing models even if they are disguised as policies meant to foster economic development. In this case they may be thought of as a variant of Buchanan's "disguised transfers" much studied in political economy (see, for example Coate and Morris [1995]), that is, policies designed to serve special interests which may have social benefits and thus it is not obvious that they are meant to serve special interests.

5   Some Empirical Findings

The third part of my argument is to look at some empirical findings in one area of research to reinforce the argument that the same models and perspectives are relevant to both developing and developed countries.

5.1   Political Budget Cycles

Political budget cycles are cycles in some component of the government budget induced by the electoral cycle. More specifically, the term most often refers to increases in government spending or the deficit or decreases in taxes (including changes relative to long term trends) in an election year

which are perceived as motivated by the incumbent's desire for reelection for himself or his party.

We may then ask: Is budget manipulation for electoral purposes is more prevalent in developing countries than in developed countries? It is widely believed that political budget cycles are a phenomenon of developing countries, or at least far stronger in developing than developed countries. Shi and Svensson (2006) find that in a large panel of both democracies and non-democracies over the period 1975-95, the government deficit rises by over one percent of GDP in an election year in developing countries and that this result is statistically significant. In contrast, they find a much smaller effect in developed countries, where the effect is statistically insignificantly different from zero.

However, Brender and Drazen (2005a) argue that the political deficit cycle in democracies[7] is not as phenomenon of the level of development at all, but is explained empirically by the newness of the democracy. That is they find that the political deficit cycle found by Shi and Svensson (2006) and others is statistically significant only in the first few elections after a country has made a transition from being a nondemocracy to a democracy (which holds true whether or not the formerly socialist economies are included). It is the strong political budget cycle in these countries that accounts for the political budget cycle in larger samples including these countries. Once these countries are removed from the larger sample, the political fiscal cycle disappears.

Importantly this finding is true for in both developed and developing countries. Hence, the stronger results previously found for developing countries reflects the fact that new democracies comprise a larger fraction of developing than developed country democracies. More specifically, Brender and Drazen (2005a) consider a basic regression is of the form:

$$f_{i,t} = \sum_k b_k \, f_{t-k} + \sum \mathbf{c} \prime \, \mathbf{x}_{i,t} + d \, ELEC_t + \mu_t + \varepsilon_{i,t} \tag{16}$$

where $f_{i,t}$ is a fiscal indicator in country i in year t, $\mathbf{x}_{i,t}$ is a vector of control variables[8], $ELEC_t$ is an electoral dummy, and μ_t is a country fixed effect. (In the tables that follow, I present only

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[7] As is pretty standard in the literature, we used the POLITY IV index of democracy from the University of Maryland to identify democracies as those with a POLITY index of 0 to 10, where the index runs from -10 (lowest) to +10 (highest level of democracy).

[8] In addition to fixed country effects, our control variables were those used by Persson and Tabellini (2003), which encompass those commonly used in the literature. These include real GDP per capita, the trade share, two demographic variables representing the fraction of the population aged 15-64 and 65+, and the log difference between real GDP and its (country specific) trend (computed using the Hodrick-Prescott filter), as a measure of the output gap.

the coefficient of the electoral variable, indicating whether or not there is a statistically significant political cycle.) The electoral dummy, meant to capture pre-electoral effects, equals 1 in an election year and 0 otherwise, no matter when during the year the election occurred.(However, we adjusted the electoral year definition to be consistent with the fiscal year, when fiscal data are reported for a fiscal year different than the calendar year. The basic results are shown in Table 1, taken from Brender and Drazen (2005a).

We then considered developed and developing countries separately. Corresponding roughly to a set of developed countries are members of the OECD for the entire sample period. There are four "new democracies" in the sample period in this group – Greece, Portugal, Spain, and Turkey. Since there were not enough data points to test for apolitical fiscal cycle in a sample of only new democracies, we estimated the equations both with and without these four countries. In columns 1 and 2 of Table 2 (which is Table 4 of our 2005a paper), we present results for the political fiscal cycle in OECD countries. What we find is that once the new democracies are removed from the sample, so that the sample contains only established democracies, the fiscal balance cycle found in the group of OECD countries as a whole disappears. Similar to what was found for the sample as a whole, there is a statistically significant revenue cycle in OECD established democracies. Hence, as before, the political deficit cycle in new democracies is driving the results for the sample of OECD countries as a whole.

In columns 3, 4, 5, and 6 of the table, we consider the political fiscal cycle in developing countries (strictly speaking, countries which were not in the OECD at the beginning of the sample period.) The regressions correspond to all developing country democracies, developing country new democracies with both fixed effects (FE) and GMM estimation, and developing country old democracies. As in the case of developed countries, there is a statistically significant deficit cycle in the developing country sample as a whole, but it is due to the new democracies. (We also find that the deficit in the new democracies is driven by higher expenditures in election years. No statistically significant political deficit or revenue cycle is found in the subset of established developing country democracies.) In short, there is no evidence that developing countries are "different" when it comes to political budget cycles.

It is sometimes argued that the level of democracy that matters for the existence of a political budget cycle, with political manipulation being stronger in countries where democracy is relatively

weaker. To examine this, we compared the political budget cycle in countries with a lower level ("quality") of democracy to those with a higher level. We indeed found that the political budget cycle is stronger in countries with a lower level of democracy.[9] (Specific results and methodology can be found in Brender and Drazen [2005a]). The deficit cycle is significant lower level of democracy, while it is insignificant in countries with a high level. However, once we separate old democracies from new democracies we find that the apparent effect of the level of democracy is entirely due to the new democracies. For new democracies, the deficit cycle is significant, regardless of the level of democracy, while for established democracies, we found that there is no political budget cycle, once again regardless of their level of democracy. The reason researchers find stronger evidence of a political budget cycle in the sample of all countries when they condition on the level of democracy is probably a composition effect. The proportion of new democracies in the group of lower "quality" democracies is significantly higher: 50 percent of the data points in that group, compared to 7 percent among the countries with a high level of democracy in our sample. (These findings also rule out the explanation that the results for new democracies actually reflect their lower level of democracy, rather than their being "new".)

5.2   Voter Behavior

Government behavior before elections reflects anticipated voter response. It is often argued that voters in developing countries are more easily manipulated or that they are more likely to respond to expansionary fiscal policy (either in aggregate or in the form of targeted spending) than are voters in developed economies. Hence, we may ask a related question to the one asked in the previous subsection. Are voters in developing countries different than voters in developed countries in the way they respond to "election-year economics"?

Brender and Drazen (2005b) present a cross-section study of 74 democracies of how economic growth and fiscal expansions affect an incumbent's chances of reelection, the first of which we are aware that addresses these questions for such a large group of countries. They find that indeed voters in developing countries do appear to be different than voters in developed countries in their responses to budget deficits and economic growth. However, our empirical results indicate that the view that voters in less developed countries are easily manipulated does not hold up in a large cross-section

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[9]We split democracies into those with a POLITY IV value between 0 and 9 and those with a POLITY value of 10.

study. Voters in developed democracies punish election-year deficits (in fact they punish deficits over the incumbent's term) in the sense that deficits significantly reduce an incumbent's chances of re-election. However, voters in developing countries do *not* reward election-year deficits. We find that election year deficits have no statistically significant effect on an incumbent's re-election probability in developing countries in either direction. That is, contrary to what many believe, developing and developed economies are similar in the sense that in neither group of countries is there empirical evidence that deficit spending in an election year helps an incumbent get re-elected.

More specifically, in Brender and Drazen (2005b) we look directly at the effects of fiscal performance and economic growth on reelection in a sample of 350 election campaigns in 74 democracies We defined a political variable REELECT as a binary variable with a value of 1 if the incumbent was reelected and 0 if he or she was not.[10] (See our paper for details on construction of the variable.). We considered two measures of fiscal performance, BALCH_term and BALCH_ey. The first variable reflects the change in the central government's balance (that is, budget surplus) to GDP ratio over the term in office by comparing the average balance/GDP ratio in the two years before the election year with that in the previous two years. The second variable is the change in the balance/GDP ratio in the election year relative to the previous year, which is an indicator for election year fiscal expansions. (Both variables using the data of our earlier paper.)

We also considered the effect of macroeconomic performance, where our indicator was either the average annual growth rate of real GDP per capita between the current and the previous election year, denoted GDPPC_gr, or the real growth rate of GDP in the election year.[11]

Our basic results are summarized in Table 3, based on the results in Brender and Drazen (2005b), where we examine the effect of deficits and growth on the probability of reelection using Probit estimation. In column 1 I show the unconditional effects in the narrow sample (see footnote 10).

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[10]The narrow definition of REELECT, includes only observations where the leader is running for reelection herself (either as the leader of her party in parliamentary elections or personally in presidential ones) or retired within the month before the elections (in which case we classify the leader as losing reelection). We also used an expanded definition, where we added cases in which a leader was substituted by another candidate from his party under the following specific circumstances: 1) the leader died in the year before the elections; 2) the leader could not run for reelection due to legal term limits. In these cases the substitute leader (in the first case) or the candidate from the leader's party (in the second case) is treated as the incumbent. Additionally, in the expanded sample, we treat leaders who quit their job within a year before the elections as having lost reelection, while in the narrow sample it is defined as a missing value as long as the leader quits more than a month before the elections.

[11]In cases where the leader assumed power after the previous elections, we calculated GDPPC_gr only over the period since his appointment. We also included in some of our equations the deviation of GDP from its long term trend as a control for the business cycle (using a country-specific Hodrick-Prescott filter).

The equation shows that voters are likely to punish persistent budget deficits over the term in office (a negative value of BALCH_term implies a loss of votes) rather than reward leaders who create them. The coefficient of the change in the deficit to GDP ratio over the term in office, excluding the election year, is positive and statistically significant, indicating that the probability of reelection is increasing when the fiscal balance improves during the leader's term in office. Moreover, we find no indication that larger deficits during an election year (a negative value of BALCH_ey) increase the probability of reelection.

Economic growth over the leader's term also has a positive effect on the probability of reelection, in both samples. It appears that voters attribute better macroeconomic performance, at least to some extent, to the functioning of their government, or that stronger macroeconomic performance allows governments to expand their services or cut taxes in a sustainable way, and by that gain electoral support.[12]

Columns 2 and 3 of the table give results for developed and developing countries separately. Consider first developed countries. In column 2 we see that rising deficits over the term are associated with a lower probability of reelection in developed countries in both the narrow and expanded sample, though it is not significant in the latter case. Hence, in developed countries there is *no* indication that expansionary fiscal policy helps a leader to get reelected and in fact is likely to reduce his chances of reelection. (The loss of significance of this coefficient in the expanded sample may reflect the fact that in the campaigns that are added to the narrow sample, the deficits over the term were generated by the predecessors of politician running as the "incumbent" and were therefore rendered as less relevant by the voters.) The same result holds for the election year, which is statistically significant in both samples. The effect of macroeconomic performance on reelection, as reflected in the real growth rate of GDP over the term, is not significant in the developed countries, neither in the narrow nor in the expanded samples.

The findings for developing countries (column 3) are different in some respects, but identical in terms of whether loose fiscal policies over the term help incumbents get re-elected. As in developed countries, loose fiscal policies *over the term* are not rewarded in developing countries. The coefficient of the change in the budget balance to GDP ratio over the term is positive, and in the

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[12]The coefficients on the variables "Developed Countries", "Majoritarian Electoral System" and "New Democracies", indicate that the probability of re-election is higher in countries with these characteristics. However, this last variable loses its significance in the expanded sample where the number of campaigns in new democracies is much larger on the one hand, but the sample includes many campaigns where the leader is not seeking reelection personally.

expanded sample it is also statistically significant. The size of the coefficient is identical in both samples but the additional power in the expanded sample (the number of less developed countries' observations almost doubles in the expanded sample) overtakes the potential moderating effect of including candidates that were not personally in office for the full term before the elections.

The findings are somewhat different than those in developed countries for the change in the ratio of the fiscal balance to GDP *in the election year*. The coefficients on this variable are close to zero and are far from being statistically significant. On the one hand, these findings suggest that voters in developing countries may be more tolerant towards expanding budget deficits in election years. On the other hand they show that even in developing countries, voters do not reward policies that generate election-year deficits. Hence, as in developed countries, we found no evidence that deficit spending helps an incumbent get re-elected in developing countries as a group.

Economic growth over the term in office is strongly rewarded by voters in the developing countries. Higher growth has a positive and statistically significant effect on the probability of reelection in both samples. This finding is consistent with the findings of the World Values Survey, which suggest that voters in developing countries place more emphasis on economic performance in their voting decisions than do voters in developed countries.

Does this finding support the view that voters in developing countries are "different " in the way they evaluate politicians? In my view it does not, since it is not surprising that poorer voters place more weight on economic performance. More likely I think it should be read as suggesting that different responses may simply reflect differences in income levels (to paraphrase Hemingway, "Yes, they have less money."), rather than less rational responses.

This view is supported by further work we did (reported in Brender and Drazen [2005b], but not reproduced here) in which we tried to separate out the effects of global economic developments. We regressed the real growth rate of per-capita GDP during the leader's term on the product of the real growth rate of world GDP and the share of exports of goods and services in the country's GDP, estimating these regressions separately for developed and less developed countries. We then entered, separately, the predicted values from these regressions and the residual growth rates into our original regressions, instead of our original growth variable to represent the effects of global developments versus domestically induced growth. In the developing countries we find that the global (exogenous) component of growth does *not* have a statistically significant effect on the probability of reelection,

while the domestic component is the one that accounts for the highly significant effect of growth that we find.[13] This is consistent with a rational behavior of voters that reward their leaders only for growth that is related to domestic factors, which may more reflect of their own performance. (In both developed and developing countries the division of growth into the domestic and global components did not affect qualitatively any of the other coefficients.)

One further set of results is enlightening. We considered above the argument that democracies in developing countries tend to be more heavily presidential than parliamentary than in developed countries. Persson and Tabellini (2003) argue that this difference in the form of government strongly influences fiscal outcomes. They and others argue that the structure of the political system and the electoral system have a substantial effect on the possibility and desire of leaders to engage in political manipulation, which would be reflected in political budget cycles. We found (see Table 4 of Brender and Drazen [2005b] and the surrounding discussion) that controlling for whether the political system is parliamentary or presidential has no qualitative effect on the coefficients of the election year deficit and growth. Even when we interact the political or electoral system with the level of development (see Table 6 of our paper and the surrounding discussion), we found no statistically significant effect of the election-year fiscal balance in any direction in developing countries (consistent with the results reported above), regardless of the political and electoral system. In fact, the results look even closer to those for developed countries, in the sense that a lower fiscal deficit over the term unambiguously helps an incumbent get re-elected in parliamentary and especially majoritarian voting systems in developing countries. Growth has a significant positive effect on reelection in the less developed countries, regardless of the political and electoral system. Overall, these findings suggest that while the political and electoral systems may influence the relationship between fiscal performance and reelection, in no case is there evidence that loose fiscal policies, or fiscal expansions during an election year, help an incumbent to win reelection.

6   Conclusions

The basic thesis of this paper is that building blocks of political economy models that are relevant for developed countries are relevant for developing countries as well. Put even more simply, there should not be a "different" political economy for developing countries. My arguments (both in

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[13]In the developed countries we found that neither component is statistically significant.

substance and in style) has been so single-minded that it is seems both unnecessary and ungracious to repeat them here.

Where does one go from here? One failing of this paper has been, on the one hand, to say repeatedly that political economy phenomena in developing countries can be explained in terms of the framework set out in section 3, but, on the other, not really develop such a model. That is clearly the next step in this research project, both for me and (I hope) for readers of the paper who find themselves convinced and perhaps excited by this possibility. I also hope this paper may give some guidance in that respect.

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Table 1: The Political Budget Cycle Across Countries, Fixed Effects Estimates (from Brender and Drazen [2005a])

	All Democracies			All "New Democracies"			"New Democracies" Excluding "Transition Economies"[3]			"Old Democracies"		
	(1)			(2)			(3)			(4)		
Estimation period	1960-2001			1960-2001			1960-2001			1960-2001		
Dependent variable[1]	balance	texp	trg	balance	texp	trg	balance	texp	trg	balance	texp	trg
Elect[2]	-0.352***	0.085	-0.251	-0.868***	0.747**	-0.153	-0.684**	0.434*	-0.237	-0.109	-0.131	-0.223*
	(0.123)	(0.193)	(0.171)	(0.273)	(0.292)	(0.236)	(0.290)	(0.260)	(0.247)	(0.135)	(0.146)	(0.118)
Adjusted R^2	0.683	0.905	0.915	0.461	0.937	0.954	0.504	0.928	0.920	0.764	0.959	0.969
F- Statistic	47.96	211.63	239.87	9.42	150.57	203.18	11.62	140.19	120.61	94.937	693.30	928.81
DW Statistic	1.955	1.562	1.455	1.821	2.051	2.114	1.682	1.925	2.134	1.900	1.987	1.872
No. of countries	68	68	68	36	36	36	26	26	26	32	32	32
No. of obs.	1616	1631	1640	415	423	415	336	344	336	1105	1112	1128
Avg. time series length	23.8	24.0	24.1	11.5	11.8	11.5	13.0	13.3	13.0	34.5	34.8	35.3

The covariates include one lag of the dependent variable, the log of per-capita GDP, the ratio of international trade to GDP, the fraction of the population over age 65, the fraction of the population between ages 15 and 64, and the log difference between real GDP and its (country specific) trend, estimated using a Hodrick-Prescott filter.

[1]Variable definitions (all in percent of GDP): balance-central government surplus; texp-total expenditure by the central government; trg-total revenue and grants of the central government.

[2]Elect - a dummy variable with the value 1 in the election year and 0 otherwise.

[3]The "new democracies" among the transition economies are listed in Table A1.

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

Table 2: The Political Budget Cycle in Developed and Less Developed Economies (from Brender and Drazen [2005a])

	Developed[1] Economies, FE Estimation			Developed Economies Excluding "New Democracies"[2], FE Estimation		
	(1)			(2)		
Estimation period	1960-2001			1960-2001		
Dependent variable[3]	balance	texp	trg	balance	texp	trg
Elect[4]	-0.267**	-0.074	-0.341	-0.108	-0.125	-0.230**
	(0.124)	(0.303)	(0.275)	(0.125)	(0.144)	(0.116)
Adjusted R^2	0.822	0.864	0.872	0.830	0.970	0.977
F- Statistic	126.91	175.55	189.71	136.80	916.89	1218.65
DW Statistic	1.827	1.289	1.234	1.757	1.830	1.849
No. of countries	24	24	24	20	20	20
No. of obs.	819	823	832	722	726	734
Avg. time series length	34.1	34.3	34.7	36.1	36.3	36.7

	All Less Developed Economies, FE Estimation			Less Developed "New Democracies", FE Estimation			Less Developed "New Democracies", GMM Estimation			Less Developed "Old Democracies", FE Estimation		
	(3)			(4)			(5)			(6)		
Estimation period	1960-2001			1960-2001			1960-2001			1960-2001		
Dependent variable3	balance	texp	trg	balance	texp	trg	balance	texp	trg	balance	texp	trg
Elect[4]	-0.480**	0.27	-0.158	-0.848***	0.661**	-0.187	-0.706*	0.822**	0.114	-0.13	-0.151	-0.211
	(0.215)	(0.228)	(0.187)	(0.296)	(0.322)	(0.266)	(0.366)	(0.365)	(0.311)	(0.314)	(0.332)	(0.269)
Adjusted R^2	0.574	0.935	0.947	0.365	0.936	0.952	...	...	...	0.693	0.937	0.948
F- Statistic	22.46	234.63	289.07	6.49	143.22	192.06	...	...	...	48.85	319.64	383.47
DW Statistic	1.987	2.160	2.072	1.856	2.038	2.128	...	...	...	1.983	2.107	1.902
Sargan test[5]	...	...	...	...	...	...	1.000	1.000	1.000	...	...	...
2nd Order Test[5]	...	...	...	...	...	...	0.879	0.387	0.674	...	...	...
No. of countries	44	44	44	32	32	32	32	32	32	12	12	12
No. of obs.	797	808	808	364	375	364	295	303	295	383	386	394
Avg. time series length	18.1	18.4	18.4	11.4	11.7	11.4	9.2	9.5	9.2	31.9	32.2	32.8

The covariates are as in table 1.

[1] OECD Economies that were members of the organization during the entire sample period.

[2] The "new democracies" among the developed economies are Spain, Portugal, Greece and Turkey.

[3] Variable definitions (all in percent of GDP): balance-central government surplus; texp-total expenditure by the central government; trg-total revenue and grants of the central government.

[4] Elect - a dummy variable with the value 1 in the election year and 0 otherwise.

[5] For the definitions of these tests see Table 2.

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

Table 3: The Effects of Budget Balances and Growth on the Probability of Reelection in Developed and Less Developed Economies [1]

Dependent variable: **REELECT**	Narrow Sample		
	(1)	(2)	(3)
	All Countries	Developed	Less Developed
BALCH_term [2]	8.555** [0.036]	11.339** [0.026]	8.168 [0.276]
BALCH_ey [2]	8.381* [0.068]	22.073*** [0.001]	-2.608 [0.695]
GDPPC_gr [2]	10.652** [0.012]	-3.077 [0.615]	22.589*** [0.001]
Developed Countries	0.504** [0.020]		
New Democracies	0.425* [0.067]		
Majoritarian Electoral System	0.472** [0.014]	0.360 [0.170]	0.431 [0.129]
Constant	-0.822*** [0.001]	0.108 [0.597]	-0.952*** [0.001]
Pseudo R^2	0.067	0.072	0.117
Akaike's criteria	343.85	220.59	120.27
Schwartz's criteria	368.64	236.09	132.82
Observations	255	164	91

1 Table based on Brender and Drazen (2005b).For variables definitions see text. Entries are probit

coefficients and the figures in the parantheses are P-values.

2 **BALCH_term** - The change in the ratio of the government deficit to GDP in the two years before

the election year, relative to the two previous years.**BALCH_ey** -The change in the government deficit

ratio to GDP in the election year, compared to the previous year.**GDPPC_gr** - The average growth

rate of real per-capita GDP during the leader's current term.

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