Rough Draft. Do not quote or cite.

THE POLITICAL DETERMINANTS OF PUBLIC DEFICITS IN LATIN AMERICA (1980-1998)

Octavio Amorim Neto
Instituto Universitário de Pesquisas do Rio de Janeiro (IUPERJ)
Rua da Matriz 82
Rio de Janeiro RJ 22260-100
Brazil
E-mail: oamorim@iuperj.br

Fernando Blanco
Instituto de Pesquisas Econômicas Aplicadas - IPEA
Av. Presidente Antonio Carlos 51 – 15º andar
Rio de Janeiro, RJ 20020-010
Brazil
E-mail: blanco@ipea.gov.br

Hugo Borsani
Laboratório de Estudos da Sociedade Civil e do Estado
Universidade Estadual do Norte Fluminense
Av. Alberto Lamego 2000
Campos dos Goytacazes RJ 28015-620
Brazil
E-mail: hborsani@domain.com.br

August 2001

THE POLITICAL DETERMINANTS OF PUBLIC DEFICITS IN LATIN AMERICA

I. Introduction

Most Latin American economies have performed disappointingly over the last two decades. A combination of negative external shocks in the early 1980s, particularly the external debt crisis and the second oil shock, further undermined the economic development model adopted by the countries of the region. The clearest signs of this crisis were a slowdown in the rate of economic growth and financial imbalance in the public sector — factors that explain the rise in unemployment and high inflation rates experienced throughout the 1980s and much of the 1990s. Significantly, from the political standpoint, these two decades were characterized by a return to democracy in most Latin American countries.

Despite the common roots of the economic crisis in the region, experiences across countries have diverged sharply, especially in the way different democratic political systems have responded to economic problems over the last two decades. This can be clearly seen in the wide diversity of fiscal policies implemented to alleviate the effects of the crisis in the region. For example, Bolivian governments introduced a sharply contractionary policy in the second half of the 1980s while Argentina and Brazil used counter-cyclical fiscal policies. Thus, there is a clear need for a comparative analysis of the political characteristics of each democratic government, and their influence on the design and implementation of economic policy in general, and fiscal policy in particular.

There is a vast theoretical and empirical literature dealing with this topic, but it mainly refers to the developed countries. One of its main findings is that economic performance is related to the ideological orientation of the government: inflation tends to be higher under left-wing governments, while unemployment tends to rise under right-wing governments (Alesina, 1987; Hibbs, 1977); in the fiscal domain, left-wing governments tend to spend more than their right-wing counterparts (Bosch and Suarez, 1995). In the USA, there is a significant difference between the macroeconomic and fiscal policies of Democratic and Republican administrations (Alesina and Rosenthal, 1995).

As for Latin America, the few comparative studies that exist also show that left-wing governments spend more than those of the right (Ames, 1987), and that unemployment rises less under governments of the left and center than under right-wing ones (Borsani, 2000). There is evidence too that Latin American governments are more inclined to adopt expansionary fiscal policies during electoral periods (Kraemer, 1997). Although still few in number, studies of the influence of political institutions on economic performance in Latin America are now starting to proliferate. Recent works have analyzed the institutional characteristics of the public-sector budget and fiscal deficit (Baldez and Carey, 1999; Alesina, Hausman, Hommes and Stein, 1999; Jones, Sanguinetti and Tommasi 1999) and institutional arrangements and fiscal performance (Stein, Talvi, and Grisanti, 1999); studies have also been made of political factors and the exchange rate (Frieden, Ghezzi and Stein, 2001); and there has been analysis of the macroeconomic effects of electoral cycles and the degree of legislative support commanded by the government (Borsani, 2000). Nonetheless, there are still major gaps in our understanding of the relation between politics and economics in Latin America over the last two decades.

Clearly the existing literature should be the starting point for any study of the influence of the political-institutional system on economic performance. However, previous studies have not fully recognized the economic consequences of the specificity and diversity of institutional structures and governance patterns in Latin America. Institutional specificity basically stems from the combination of presidentialism with proportional representation — a distinctive feature of the region among contemporary democracies. Diversity, on the other hand, exists not only in the various ways those two institutions are combined, but also in how other institutions vary among these countries, which are linked geographically and have similar socioeconomic development levels. A good example of such variation is provided by the different degrees of public-sector decentralization that exist in Latin America.

As regards particularly the political determinants of public deficits in Latin America, available analyses either have the problem of omitted-variable bias (Kraemer, 1997) or rely solely on comparative statics (Baldez and Carey, 1999; Alesina, Hausman, Hommes and Stein, 1999). We are thus short of studies of fiscal behavior that include a comprehensive set of political variables and provide comparative dynamics. This paper will attempt to fill both gaps. We will not only analyze the fiscal performance impact of traditional variables such as government ideological orientation and the electoral cycle, but also the impact of the institutional and political aspects characteristic of Latin American countries, taking into account both cross-national and longitudinal effects. Our comparative analysis of fiscal performance will focus on effects stemming from government attributes, ideological preferences, legislative support of the executive branch, party system fragmentation, electoral cycles, presidential budgetary powers, and degree of public-sector decentralization.

The paper will proceed as follows. The next section reviews the literature, and, based on the main hypotheses of the latter, provides the analytical approach to the political determinants of fiscal policy in Latin America. Section three develops a pooled data analysis of public deficits in ten Latin American democratic regimes in 1980-1998. Section four concludes.

II. ANALYTICAL FRAMEWORK

The relation between the political system and economic performance has attracted increasing interest in recent years from economists and political scientists alike. For reasons that are easy to understand — several decades of democratic government and wider availability of data — the existing theoretical and empirical studies have tended to focus on the OECD countries. The main lines of research on this topic are the following:

- The influence of majority and minority governments on economic results (Alesina and Rosenthal, 1995);
- Economic performance as a function of governments' ideological orientation and/or type of labor organizations (Garret, 1998; Alt and Lowery, 1994; Blais, Blake and Dion, 1993; Alvarez, Garrett and Lange, 1991);
- The influence of elections on the evolution of (a) macroeconomic results, and (b) fiscal and monetary policy instruments (Alesina, Roubini and Cohen, 1997; Blais and Nadeau, 1992);
- The political, institutional and economic determinants of the public budget and fiscal performance (Alesina 1999; Roubini and Sachs, 1989);
- The relation between political instability and fiscal deficit (Roubini, 1991); and
- The costs arising from the loss of macroeconomic policy control by the central government, which limits its capacity to implement stabilization and macroeconomic adjustment policies (Fukasaku and Mello, 1999; Poterba and von Hagen, 1999; Shah, 1998; Ter-Minassian, 1997; Prud'homme, 1995).

On fiscal policy in particular, the main findings show that coalition governments find it harder to implement fiscal adjustments than single-party governments do, and they respond more slowly to budgetary imbalances. Although fiscal adjustments are made with similar frequency under coalition and single-party governments, in most cases adjustments introduced by coalitions prove unsuccessful (Alesina, Roubini and Cohen, 1997; Alesina and Rosenthal, 1995; Roubini and Sachs, 1989).

All told, the tenor of the contemporary political economy literature is that the way governments affect economic performance is a function of their ideological motivations and political resources. The question now becomes which factors affect the motivations and resources of democratic Latin American governments as regards fiscal policy? Below we proceed to theorize on such factors.

Fiscal Centralization

A key variable that determines a national government's room for maneuver to implement its own fiscal policy is the degree to which taxation and expenditure decisions are centralized. For example, in highly decentralized countries, the fiscal behavior of subnational governments can completely diverge from the orientation taken by central government. In recent years, there has been a major research effort into the macroeconomic effects of fiscal policy implemented by subnational governments. The most relevant studies show that, first and foremost, fiscal decentralization has meant a loss of degrees of freedom for central government on both the revenue and expenditure sides of the budget (Blanco, 1996; Remmer and Wibbels 2000; Tanzi, 1996; von Hagen, Eichengreen and Hausman, 1996).

The extent of fiscal decentralization varies widely across Latin American countries, and this should be expected to have a major impact on fiscal performance in the countries of the region. Compare, for example, the fiscal discipline of Bolivia, Chile and Uruguay, three unitary states, with that of Brazil; or with the worrying deterioration of the fiscal situation in Argentina associated with that country's increasing decentralization (Dillinger and Webb 1999). So our hypothesis is: *the more centralized fiscal resources are in the hands of the national government, the lower the fiscal deficit.*

Government Attributes

In presidential regimes executive power is constitutionally invested in the head of the state. Such feature has led some analysts to posit that presidential systems tend to concentrate power in the hands of the president and his party (Jones, 1995; Lijphart, 1992; Linz, 1994). However, contrary to the predictions of these authors, recent studies show that presidents do not govern alone. Coalition governments are quite frequent in Latin America. In the 1980s and 1990s, approximately 50.0% of the governments formed in the region were coalitions, while the rest were single-party or overtly non-partisan administrations (Amorim Neto, 1998; Borsani, 2000; Deheza, 1997; Thibaut, 1998). Additionally, coalitions vary widely as regards their type, ranging from minority, through simple-majority to oversized coalitions (Deheza, 1997).

Like in OECD countries, the strength, cohesion, and stability of Latin American cabinets should also affect fiscal policy. We expect that, always *ceteris paribus, majority cabinets should be associated with lower deficits*. This is because such cabinets do not have to make fiscally costly side-payments to opposition parties so as to approve their legislative programs. Or they have the strength to enact a fiscal adjustment program when they need to do so.

However, oversized and less cohesive cabinets should have difficulties in generating fiscal balance. For such cabinets to survive, they have to rely heavily on side-payments to coalition partners and face severe coordination problems when it comes to deficit-cutting. *So the larger the government's legislative contingent, the larger the deficit*. Likewise, *the less cohesive the government, the larger the deficit.*

Conversely, stable governments should be associated with lower deficits. The rationale underlying this hypothesis lies in the fact that if ministers do not have a stable tenure in office, the bureaucracy runs amok. It is a principal-agent problem. The less time ministers stay in power, the weaker their ability to control and obtain information about their departments. If unconstrained, bureaucrats have an incentive either to increase their budgets or to avoid budget cuts. So *the more stable the cabinet, the lower agency losses, and the lower the fiscal deficit*.

Note, though, that governmental attributes are intimately linked to the nature of the party system. Here the key issue is the effective number of parties or fragmentation. In Latin America there are well-known differences between the multiparty systems of Brazil and Peru and the two-party systems in Argentina and Costa Rica, and Colombia too until recently (Coppedge, 1998; Mainwaring and Scully, 1995). More fragmented party systems are associated with oversized and unstable governments (Lijphart, 1999). Hence, in our tests we will also check the impact of party system fragmentation on fiscal deficits.

The Impact of Presidents

In their well-known study of the economic and political determinants of public deficits in OECD countries, Roubini and Sachs (1989, p.924) argue that coalition governments have a clear tendency to generate larger deficits than single-party governments because coalition partners face a fundamental prisoner’s dilemma with respect to budget cuts:

> … all of the partners of the coalition may prefer comprehensive budget cuts to a continuation of the large deficits, but each coalition partner may have the incentive to protect its particular part of the budget against the austerity measures. In the absence of strong coordination between members of the coalition to produce the ‘cooperative outcome’ the noncooperative solution of no-budget cutting is quite likely to arise.

Significantly, the countries Roubini and Sachs have in mind are mostly European parliamentary democracies. Latin American countries, however, all adopt pure presidentialism as a system of government. Does Roubini and Sach's explanation hold up for these countries?

Note first that, theoretically, the coordination problem faced by coalition parties in parliamentary regimes should be less acute in presidential systems because in the latter all executive power is formally invested in the president, thus centralizing executive policy making. Moreover, while cabinet ministers in coalition-ruled parliamentary systems are politically equals to the prime minister and have their own agenda-setting powers, their counterparts in presidential systems are – from a constitutional viewpoint – mere advisers to the president. Therefore, decisions made by cabinet members can be overruled by a president at a lower cost than by a prime minister. So, in principle, a president can provide the strong coordination required for a coalition government to efficiently implement a deficit-cutting program. Actually, Roubini and Sachs show that the change from a pure parliamentary to a semi-presidential system in France in 1958 helps explains why this country had smaller deficits in the 1960s and 1970s than in the 1950s.

However, Latin American presidents' ability to coordinate their governmental partners may vary according to their constitutional prerogatives. Baldez and Carey (1999) contend that the most relevant presidential prerogatives over fiscal policy are four budgetary procedures, namely, whether the president exclusively has the authority to introduce spending bills; whether president's annual budget proposal establishes maximum spending levels and if so, whether as an aggregate ceiling across the entire budget or item-by-item; whether the president's budget serves as the reversion policy if Congress does not succeed in passing a budget bill; and whether the president has an item veto that allows him to reject specific spending items in legislation. The authors posit that such procedures have an independent impact on fiscal policy. Based on an analysis of the average budget deficit/surplus of 12 presidential countries in 1985-1996, they show that in fact the more extensive presidential budgetary powers, the lower the deficit. So we will also test the Baldez and Carey hypothesis.

As for presidential fiscal policy goals, it is safe to say that *the further to the right a president is, the more he is intent on generating lower deficits, ceteris paribus*. This should be true particularly in the context of the 1980s and 1990s owing to the pressures placed on Latin American governments by the Washington consensus and globalization.

A president's ability to implement his fiscal policy goals is to a great extent a function of the legislative strength of his own party. The stronger the president's party, the less concessions and side-payments the president has to make to other parties to secure legislative support for his governmental program. Accordingly, *we expect that the larger the legislative contingent of the president's party, the more likely he is to achieve his fiscal policy goals*.

The Electoral Cycle

Finally, a key motivational variable affecting fiscal policy is the electoral cycle. In electoral years the president will have strong incentives to increase public spending so he can boost his electoral fortune or that of his party or coalition. Conversely, in post-electoral years the president is likely to decrease public spending to quell the inflationary tendencies unleashed by the electoral year's spending spree. Therefore, *electoral years should be associated with higher fiscal deficits, while post-electoral years should be associated with lower deficits*.

In brief, progress made in the comparative analysis of Latin American politics, together with the database afforded by the succession of democratic governments over the last two decades, is facilitating a broad, dynamic mapping of the patterns of distribution of preferences and institutional power existing in the region. This now makes it possible to relate these aspects to the fiscal behavior of the countries. The next section will provide econometric tests of our hypotheses.

III. METHODS AND DATA

This section has two parts. The first describes the operational indicators of the variables included in the specification of the equation to be estimated. The last part presents the main results from the econometric analysis.

In order to analyze the effects of political variables on the fiscal behavior of Latin American governments we use the primary balance of the central government as the dependent variable. Because it excludes the interest payments on the stock of public debt, the primary balance removes the effects of previous deficits on the budget. It is thus a good measure of the discretion of the current government. This is especially important in high inflationary regimes, so common in most Latin American countries in the last two decades, because monetary correction of public debt leads to high interest payments, making the utilization of the overall deficit an incorrect indicator of the actual fiscal stance.

To control for the structural heterogeneity of Latin American countries, we include four socioeconomic variables: real GDP, inflation rate, the degree of openness of the economy, and the degree of urbanization.

Real GDP controls for the size of the economy and the influence of the level of activity on fiscal accounts. While the fiscal budget affects aggregate demand, the business cycle also affects the budget deficit. On the one hand, income tax revenue and indirect taxation are lower when the level of activity is lower. On the other, benefits transfers are higher in recession periods. Thus, it is expected that the higher the activity level, the better the fiscal balance.

Inflation rate is included because the acceleration of the inflation was used by governments to reduce the real value of expenditures and as a form to finance the budget through the inflationary tax.

As for the degree of urbanization, although its effect on fiscal deficit is undetermined, it allows us to control for heterogeneity in socioeconomic development.

Finally, in the last decade most Latin American countries implemented policies designed to promote economic liberalization, albeit to a varying degree. The increase of the degree of openness of the economy was a key result of such policies. Openness, in turn, affects the constraints on fiscal policy. So we expect that greater openness must lead to fiscal discipline.

The following are the operational indicators of the 10 political variables:

1) Fiscal Centralization: the percent of public revenue generated by the central government;

2) Majority Status: 1 if the parties represented in the cabinet command a majority of lower chamber seats; 0 otherwise;

3) Government's Legislative Contingent: % of lower chamber seats held by the parties represented in the cabinet;

4) Government Cohesion: the number of parties represented in the cabinet;

5) Cabinet Stability: average duration in office of the ministers serving on the cabinet in a given year;

6) Fragmentation: it is the conventional Effective Number of Parties (Laakso and Taagepera, 1979), whose formula is: $N = \frac{1}{\sum_{i}^{n} x_i^2}$, where x_i is the percent of lower chamber seats held by *i*-th party represented in the lower chamber;

7) Presidential Budgetary Powers: it is an ordinal scale of the budgetary powers listed by Baldez and Carey. A country receives 1 point for each of the four budgetary prerogatives its president has. The maximum value a country can score on the scale is thus 4, the minimum is 0;

8) President's ideology: it is a set of dummies, one for each position on the ideological spectrum, that is, left, center-left, center-right, and right (based on the classification developed by Coppedge [1997]); and

9) President's Legislative Contingent: % of lower chamber seats held by the president's party; and

10) Electoral Cycle: 1 if it is a presidential succession year; 0 otherwise.

To estimate the influence of the political variables on the fiscal behavior of Latin American countries we used pooled data analysis. Our sample of observations includes the following 10 Latin America democratic regimes in 1980-1998 for which we were able to obtain the necessary economic and political data: Argentina (1984-1997), Bolivia (1983-1997), Brazil (1985-1998), Chile (1990-1997), Colombia (1980-1998), Costa Rica (1980-1997), Ecuador (1980-1996), Peru (1980-1991), Uruguay (1985-1998), and Venezuela (1980-1998). The sample has 151 data point observations, thus allowing us to test a large set of explanatory variables without problems of small degrees of freedom and also reducing the collinearity among explanatory variables.

Besides the variables described above, the estimation includes dummy variables for each country in order to capture the effect of omitted variables that are country-specific and that are assumed constant over time. Thus a fixed effect (or Least Square Dummy Variable) method was postulated. On the other hand, the Generalized Least Square (GLS) method was used to correct the heteroscedasticity that was detected. Finally, the Hausman specification test was performed. The results of this test reject the hypothesis that the country specific terms are random.

The results are reported in Table 1 below. The estimated equation presents a high adjustment that results from the utilization of the fixed effects method. In most of the cases, the explanatory variables have the expected sign and a high degree of significance.

All the socioeconomic variables have the expected sign: activity level, inflation, openness and urbanization tend to improve the primary balance. Among these variables, the most interesting result comes from the increase in the degree of economic openness. It indicates that the external constraint is a key factor in the definition of the fiscal stance. Thus, this result confirms that fiscal adjustment is a integral part of the liberalization process undertaken by Latin American countries in the 1990s.

The findings on the variables reflecting the political resources of Latin American presidents confirm that the political structure is an important determinant of fiscal policy. Three points must be highlighted: the role of fiscal centralization, and the importance of cabinet stability and government attributes.

The positive effect of fiscal centralization on primary balance corroborates a classical result in the literature: centralized states tend to have better fiscal behavior because it allows the federal government to perform a tighter control over expenditure and revenue decisions.[1]

Cabinet stability also has a positive effect on the primary result. It implies that with stable tenure ministers are able to rein over the bureaucracy, thus moderating the latter's tendency to increase the budget. Such a finding corroborates Roubini's (1991) hypothesis that fiscal deficits in developing countries are partly determined by political instability.

The importance of government attributes can be derived from the analysis of the effects of the variables majority status, government cohesion, government's legislative contingent, and president's legislative contingent. All these four variables are significant and have the expected signs. The main tenor of the findings on government attributes is that democratic polities in which power is dispersed among many parties tend to have more difficulties generating lower deficits than democratic polities in which power is concentrated in the hands of few parties.

Additionally, the analysis of the impact of political preferences on fiscal behavior shows the importance of electoral cycles on the definition of the fiscal stance. The results observed in Table 1 reveal that in electoral years incumbents adopt expansionary fiscal policies: electoral incentives worsen the fiscal results in more than

[1] We also operationalized fiscal centralization as the central government's share of public spending, and the result was the same.

10%. However, it is not possible to identify a significantly different behavior in post-electoral years.

In regard to the ideological position of the president weighted by the legislative size of his party, Table 1 confirms that rightist presidents tend to be more fiscally conservative than other presidents because the right-wing president dummy variable has a positive signal and that it is possible to observe that the signal becomes negative as we move to the left. Such a result shows that political ideologies still matter in Latin America, despite all the ideological convergence of parties apparently promoted by globalization.

Table 1			
Dependent Variable: PRIMARY BALANCE: (+) SURPLUS (–) DEFICIT Method: Generalized Least Square (Cross Section Weights) Period: 1980 1998 Included years: 19 Total panel (unbalanced) observations: 151			
VARIABLE	COEFFICIENT	t-STATISTIC	P-VALUE
REAL GDP	0.565	3.364	0.001
INFLATION RATE	0.077	2.146	0.034
OPENNESS	1.016	5.210	0.000
URBANIZATION	3.742	3.970	0.000
FISCAL CENTRALIZATION	0.012	2.252	0.026
MAJORITY STATUS	0.214	2.139	0.035
GOVERNMENT'S LEGISLATIVE CONTINGENT	-0.005	-1.911	0.059
GOVERNMENT COHESION	-0.149	-2.441	0.016
CABINET STABILITY	0.008	1.667	0.099
FRAGMENTATION	-0.0136	-0.254	0.799
RIGHTIST PRESIDENT*SIZE OF HIS PARTY	0.013	1.540	0.127
CENTER-RIGHT PRESIDENT*SIZE OF HIS PARTY	-0.003	-1.852	0.067
CENTRIST PRESIDENT*SIZE OF HIS PARTY	-0.004	-2.163	0.033
PRESIDENT'S LEGISLATIVE CONTINGENT	0.007	1.989	0.050
ELECTORAL YEAR	-0.112	-2.403	0.018
POST-ELECTORAL YEAR	0.037	0.598	0.551

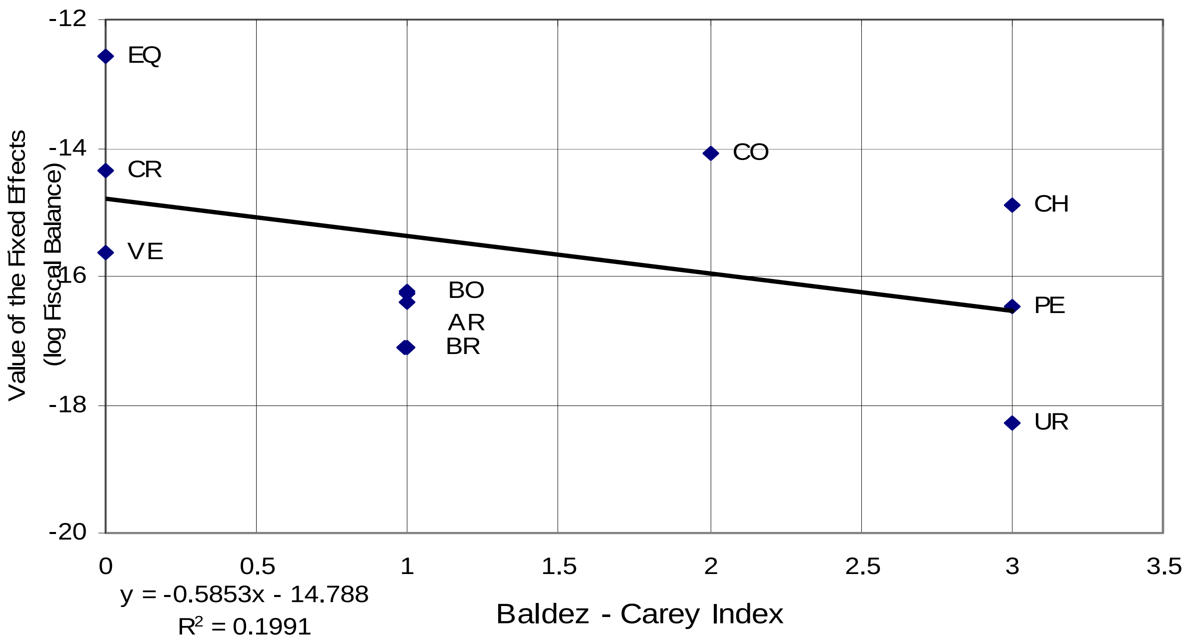
Weighted Statistics			
R-squared	0.999263	Mean dependent var	19.706
Adjusted R-squared	0.999022	S.D dependent var	8.419
S.E. of regression	0.256	Sum squared resid	6.378
Log likelihood	127.611	F-statistic	8762.127
Durbin-Watson stat	1.443	Prob (F-statistic)	0.000

Finally, to determine the relationship between presidential budgetary powers and fiscal behavior, we plot the Baldez-Carey index against the country fixed effects, which are drawn from the regression presented in Table 1.[2] Given that presidential budgetary powers are constant in time, it is possible to analyze its relation with the fixed effects

[2]. The country fixed effects were included in the model due to the fact that there are country specific characteristic that are correlated with the independent variables included in the model (the Haussman Test) and because these time-invariant fixed effects vary among countries owing to factors omitted in our regression.

because the latter constitute the mean of the primary balance for each country. In other words, we are interested in examining how the budgetary powers of the president influence the fiscal balance. As Figure 1 below shows, contrary to our expectation, there is a negative relation between the two variables: higher presidential budgetary powers are correlated with poor fiscal performance.

Figure 1: Country Specific Effects and the Baldez - Carey Index of Presidential Budgetary Powers



IV. CONCLUSION

This paper attempted to adjust well-known hypotheses regarding the political determinants of public deficits to the context of Latin American politics in the 1980s and 1990s. Our findings confirm to a great extent the notion that governments are able to generate lower public deficits when the former have the motivation and resources to do so. Motivations depend on the president's ideology and the electoral cycle. Resources are a function of the degree to which power is dispersed in the political system. To be more precise, our main findings are that centralized polities are associated with lower deficits; stable and majority governments generate lower deficits, while oversized cabinets and those joined by many parties generate higher deficits; electoral years increase the deficit; and right-wing presidents whose parties command sizeable pluralities decrease the deficit.

Those findings shed new light on the fateful interlocking of economic and politics in Latin America in the 1980s and 1990s. In the 1980s most Latin American countries were transiting to democracy. Transitions to democracy often require the formation of broad-based coalition governments so as to accommodate the newly emerging democratic forces. While such formula maximizes the political support of incoming governments, it cripples them as far as economic policy-making is concerned. That's what our quantitative test shows. Moreover, some countries like Brazil, Ecuador, and Peru, and Venezuela have witnessed an increasing fragmentation of their political systems over the last two decades. Fragmented polities also require broad-based coalition governments so the executive can obtain legislative majorities. Such governments tend to very unstable, which, in turn – as our test reveals – leads to higher deficits.

Additionally, our test also corroborates the views of those who are skeptics about the virtues of decentralization. Attempts at decentralization promote more fragmentation of political resources, and, thus, higher deficits.

Finally, a normative note is in order. On the evidence of this paper, political reforms designed to increase fiscal centralization and decrease the number parties are likely to bear good economic fruits.

References

Alesina, Alberto. 1987. "Macroeconomic Policy in a Two-Party System as a Repeated Game." *Quarterly Journal of Economics* 102:651-678.

Alesina, Alberto and Howard Rosenthal. 1995. *Partisan Politics, Divided Government, and the Economy*. Cambridge: Cambridge University Press.

Alesina, Alberto, Nouriel Roubini and Gerald Cohen. 1997. *Political Cycles and the Macroeconomy*. Cambridge: The MIT Press.

Alesina, Alberto, Ricardo Hausmann, Rudolf Hommes and Ernesto Stein. 1999. "Budget Institutions and Fiscal Performance in Latin America." *Journal of Development Economics* 59:253-273.

Alt, James and Robert Lowry. 1994. "Divided Government, Fiscal Institutions and Budget Deficits: Evidence from the States." *American Political Science Review* 88:811-829.

Alvarez, R. Michael, Geoffrey Garret and Peter Lange. 1991. "Government Partisanship, Labor Organization and Macroeconomic Performance." *American Political Science Review* 85:541-556.

Amorim Neto, Octavio. 1998. *Of Presidents, Parties and Ministers: Cabinet Formation and Legislative Decision-Making Under Separation of Powers*. Ph.D. dissertation, University of California, San Diego.

Baldez, Lisa and John M. Carey. 1999. "Presidential Agenda Control and Spending Policy: Lessons from General Pinochet's Constitution." *American Journal of Political Science* 43:29-55.

Blais, André and Richard Nadeau. 1992. "The Electoral Budget Cycle." *Public Choice* 74:389-403.

Blais, André, Donald Blake and Stéphane Dion. 1993. "Do Parties Make a Difference? Parties and the Size of Government in Liberal Democracies." *American Journal of Political Science* 37:40-62.

Blanco, Fernando A. 1996. *Disparidades Econômicas Interregionais, Capacidade de Obtenção de Recursos Tributários, Esforço Fiscal e Gasto Público no Federalismo Brasileiro*. MA thesis, Catholic University, Rio de Janeiro.

Borsani, Hugo. 2000. *Instituciones Democráticas y Resultados Macroeconómicos en América Latina (1979-1998): Un Estudio Comparado de Ciclos Políticos-Económicos*. Doctoral dissertation, Instituto Universitário de Pesquisas do Rio de Janeiro.

Bosch, Nuria and Javier Suarez. 1995. "Seven Hypothesis About Public Choice and Local Spending." *Public Finance* 50: 36-50.

Coppedge, Michael. 1997. "A Classification of Latin American Political Parties." Kellog Institute Working Paper #244, University of Notre Dame.

Coppedge, Michael. 1998. "The Dynamic Diversity of Latin American Party Systems." *Party Politics* 4:547-568.

Deheza, Grace I. 1997. *Gobiernos de Coalición en el Sistema Presidencial: América del Sur*. Doctoral dissertation, European University Institute, Florence.

Dillinger, William and Steven B. Webb. 1999. "Fiscal Management in Federal Democracies: Argentina and Brazil." Typescript, World Bank.

Frieden, Jeffrey, Piero Ghezzi and Ernesto Stein. 1998. "Politics and Exchange Rates: A Cross-Country Study." In *The Currency Game: Exchange Rate Politics in Latin America*, eds. Jeffrey Frieden, Piero Ghezzi and Ernesto Stein. New York: IADB.

Fukasaku, K and Luiz R. de Mello Jr. (eds.). 1999. *Fiscal Decentralization in Emerging Economies: Governance Issues*. Brasília: Development Center Seminars - OECD.

Garrett, Geoffrey. 1998. *Partisan Politics in the Global Economy*. Cambridge University Press.

Hibbs, Douglas. 1977. "Political Parties and Macroeconomic Policy." *American Political Science Review* 71:1467-1487.

Jones, Mark P. 1995. *Electoral Laws and the Survival of Presidential Democracies*. Notre Dame: University of Notre Dame Press.

Jones, Mark, Pablo Sanguinetti and Mariano Tommasi. 1999. "Politics, Institutions, and Fiscal Performance in a Federal System: An analysis of the Argentine provinces." *Journal of Development Economics* 61:305-333.

Kraemer, Moritiz. 1997. "Electoral Budget Cycles in Latin America and the Caribbean: Incidence, Causes, and Political Futility." Working Paper Series #354. Office of the Chief Economist, Inter-American Development Bank

Laakso, Marku and Rein Taagepera. 1979. "Effective Number of Parties: A Measure With Application to West Europe." *Comparative Political Studies* 12:3-27.

Lijphart, Arend. 1992. "Introduction." In *Presidential versus Parliamentary Government*, ed. Arend Lijphart. New York: Oxford University Press.

Lijphart, Arend. 1999. *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries*. New Haven: Yale University Press.

Linz, Juan J. 1994. "Presidential versus Parliamentary Democracy: Does It Make a Difference?" In *The Failure of Presidential Democracy: The Case of Latin America, vol. 2*, eds. Juan J. Linz and Arturo Valenzuela. Baltimore: The Johns Hopkins University Press.

Mainwaring, Scott and Timoth R. Scully (eds.). 1995. *Building Democratic Institutions: Party Systems in Latin America*. Stanford: Stanford University Press.

Poterba, James and Jurgen von Hagen. 1999. *Fiscal Institutions and Fiscal Performance.* University of Chicago Press: Chicago.

Prud'homme, Remy. 1995. "On the Dangers of Decentralization." The World Bank Research Observer.

Remmer, Karen and Erik Wibbels. 2000. "The Subnational Politics of Economic Adjustment: Provincial Politics and Fiscal Performance in Argentina." *Comparative Political Studies* 33:419-451.

Roubini, Nouriel. 1991. "Economic and Political Determinants of Budget Deficits in Developing Countries." *Journal of International Money and Finance* 10:S49-S72.

Roubini, Nouriel and Jeffrey Sachs. 1989. "Political and Economic Determinants of Budget Deficits in the Industrial Democracies." *European Economic Review* 33:903-938.

Shah, Anwar. 1998. "Fiscal Federalism and Macroeconomic Governance: For Better or Worse?" World Bank Discussion Papers. Washington D.C.

Stein, Ernesto, Ernesto Talvi, and Alejandro Grisanti. 1999. "Instituional Arrangements and Fiscal Perfromance: The Latin American Experience." In *Fiscal Institutions and Fiscal Performance*, eds. James Poterba and Jurgen von Hagen. Chicago: The University of Chicago Press.

Tanzi, Vito. 1996. "Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroecomic Aspects." Annual World Bank Conference on Development Economics, 1995. The World Bank, Washington D.C.

Ter-Minassian, Teresa. 1997. "Intergovernamental Fiscal Relations in a Macroeconomic Perspective: An Overview". In *Fiscal Federalism in Theory and Practice*, ed. Teresa-Ter-Minassian, Washington: IMF.

Thibaut, Bernhard. 1998. "El Gobierno de la Democracia: Argentina, Brasil, Chile y Uruguay en una Perspectiva Comparada." In *El Presidencialismo Renovado: Instituiciones y Cambio Político en América Latina*, eds. Dieter Nohlen and Mário Fernandez B. Caracas: Nueva Sociedad.

von Hagen, Jurgen, Barry Eichengreen and Ricardo Hausman. 1996. "Reforming Budgetary Institutions in Latin American." Working Paper #5586. NBER.