Is There An Electoral Cycle?

A Case for Greece

By Andreas G Merikas[1] and Anna A Merika[2]

[1]Professor of Finance

Department of Shipping

The University of Piraeus,

Tel:8955913,0945792401

Fax: 8955774

e-mail:merikas@otenet.gr

[2] Associate Professor in Economics

Deree College

The American College of Greece

Abstract

The purpose of this paper is to identify and examine the existence of electorate business cycles in Greece over the last forty-four years. After a brief literature review of the theoretical framework regarding electorate business cycles we used annual Greek data ranging from 1961-2004. We estimated a GARCH(1,1) model and the results imply that there is a significant influence of the incumbent government's policies or the fact that the year in question is an election year to the overall economic performance of the country.

Introduction

Since the mid-seventies political economists have embarked in theoretical endeavors to address the issue of an electoral cycle. They have tried to explain the interaction between political and macroeconomic variables in the election of new governments by looking at the dynamics between the electorate and the incumbent. This approach has two important features: (i) voters are assumed to maximize their individual utilities, and (ii) the incumbent is assumed to implement those policies that allow it to retain power. The incumbent stimulates the economy to acquire the maximum number of votes so as to get reelected, and this stimulus in turn causes the economy to fluctuate around its long-run path. A Political Business Cycle (PBC) is therefore conceived as the economy's fluctuation around its long run behavior generated by the political system. As a consequence[1], the PBC literature studies how interest groups and political pressures within a country influence its macroeconomic performance. Many believe that one can summarize this area of research with the idea that politicians artificially create unusually favorable economic conditions before an election, and that voters reward incumbent governments for doing so, even though the economy will probably take a turn for the worse immediately after the election. There are two crucial assumptions to the model that are potentially subject to criticism. First, the model assumes that voters are short-sighted. They care only about their current economic position when they vote and do not consider the future effects of a government manipulation of the economy into their vote calculus. A second crucial assumption is tied to the first one, namely that governments can manipulate the economy.[1]

The purpose of this paper is to identify and explain the presence of a PBC in Greece over the last fourty-four years , in the context of recent theoretical developments, through a description of the data generating process.

Literature Review

The definitive and seminal empirical study on the existence of a PBC in the U.S was published by Nordhaus (The Political Business Cycle, Review of Economic Studies,1975). Since the Nordhaus publication, a number of empirical studies

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[1] Gautier

including McCallum (The Political Business Cycle: An Empirical Test, Southern Economic Journal,1978) and Golden and Poterba (The Price of Popularity: The PBC Reexamined, American Journal of Political Science,1980) have rejected the PBC hypothesis. This led to an alternative formulation of the PBC hypothesis, the Partisan Business Cycle approach[2]. The partisan approach identifies a 'partisan' cycle in which different parties, when in office, implement different policies: the left-wing party tackles unemployment, and the right-wing party fights inflation.

The opportunistic model on the other hand, identifies a cycle in the 'opportunistic' behavior of politicians interested only in their re-appointment: the incumbent stimulates the economy before the election period so as to get re-elected. After that recession follows with gradual reduction of inflation.[3]

These non-rational expectations frameworks were further developed during the mid-eighties to incorporate rational expectations. The works by Cukierman& Meltzer (1986), Rogoff(1990), and Persson & Tabellini(1990) include rational expectations into the 'opportunistic' framework first developed during the mid-seventies. Alesina (1987,1988a,b) on the other hand builds a rational expectations model using a 'partisan' framework. The departure from the non-rational expectations framework has two main implications: (i) voters cannot be systematically fooled in equilibrium; that is, an incumbent's repeated 'opportunistic' behavior is punished by the electorate, and (ii) economic activity is less influenced by economic policies in general. Therefore, we have the following theoretical models with the following assumptions and implications:

Opportunistic Traditional Models

- Expansion in the year or two before the elections; GNP growth above normal, unemployment below normal in the election year;
- Inflation begins to increase immediately before or immediately after the election;
- Recession after the election with gradual reduction of inflation;

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[2] Hibbs(1992)

[3] Nordhaus

- No differences in policies and outcomes between different governments;
- Incumbents reappointed when growth is high and unemployment low in election years.

Rational Opportunistic Models

- Short-run manipulations of policy instruments immediately before elections: increase in deficits, inflation, money growth in the two-three quarters before each election;
- Tightening of monetary and fiscal policies after elections;
- No systematic, multi-years effects on growth and unemployment except for possibly, some minor effects immediately before the election;
- Incumbents reappointed when growth is high and unemployment low in election years.

Both models try to explain macroeconomic fluctuations caused by the political system. Rational models consider a rationally formed inflation expectations framework and a forward –looking electorate, which generate cycles because of information asymmetries caused by timing assumptions. On the other hand, traditional models consider adaptive expectations and retrospective behavior, which create cycles entirely because of the opportunistic behavior of the incumbent.

Traditional Partisan Model

- Unemployment permanently lower, growth and inflation permanently higher during the tenure in office of left-wing governments than with right-wing governments.

Rational Partisan Model

- Short-run partisan effects after elections: unemployment temporarily lower than normal and growth temporarily higher than normal for about two years

after an electoral victory of the left; the opposite outcome after an electoral victory of the right;

- Inflation permanently higher when the left is in office relative to when the right is in office.[4]

In Hibbs and Alesina's models parties' preferences are similar. Hibbs' model assumes adaptive inflation expectations and backward-looking behaviour. Adaptive expectations allow the incumbent to increase and sustain high levels of inflation during the entire period in office. Moreover, adaptive expectations imply that expectations take time to adjust and the model therefore yields long-lived cycles. On the contrary, rational partisan models assume that formation of inflation expectations are rational and voting behavior is forward –looking. In rational models expectations adjust immediately after wage contracts are renewed yielding thus short-lived cycles. Both models generate a cycle: rational models because of the uncertainty of election outcomes, and traditional partisan models because of different party preferences.

Empirical Evidence

Both the opportunistic and the partisan school have found some support in empirical studies(Alesina and Roubini(1990,1992),Paldam(1991a,1991b), Alesina , Cohen and Roubini(1992), Lang and Welzel (1992)) that have revitalized a debate that began in the late 1970's (see e.g McCallum(1978),Frey (1978), Paldam (1979), Berger/Woitek Kirchgassner (1983,1984))

On the empirical side, there are a number of clear electoral effects on macroeconomic variables. However, at least for the opportunistic model in developed countries, there is much less hard evidence than both the theoretical models and the conventional wisdom about the prevalence of 'election-year economics' would suggest. Although there is wide (but not universal) agreement that aggregate economic conditions affect election outcomes in the U.S., there is significant disagreement about whether there is opportunistic manipulation that can be observed in the macro data. There is a clear partisan effect in the United

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[4] Gautier

States (as well as in other countries), with economic activity being lower in the first part of Republican than Democratic administrations, but still disagreement about the underlying driving mechanisms. On the theoretical side, many of the leading models have been criticized for implausibility of key assumptions. Two key points are: first the assumption of seemingly irrational behavior by the public in some of the models; and second, the reliance on monetary surprises as the driving force.[5]

More specifically, Alesina et.al (1992), analyzed the empirical evidence of the political business cycles models in 18 OECD countries in the period 1960-1987.They use both the Nordhaus and the 'new rational' models. Alesina et.al argue that there is an increase in the inflation rate around elections. So there may be a possibility of pre-electoral manipulations of policy instruments which influence the inflation rate without affecting real economic variables. Moreover there is a tendency of early elections when a country is in a positive economic situation.

Evidence favorable to the hypotheses tested by the model was found only in Japan, in all other cases the hypotheses were rejected.

The investigation of monetary and fiscal policy manipulations suggest that politicians cannot go far in macroeconomic policy manipulations, since there is a fear of losing reputation. Some difference in pre-electoral opportunistic behavior has been found between left wing and right wing parties which 'tend to moderate their partisan policies before elections'.

In another paper J.C.Heckelman and H.Berument (1998), test the 'endogeneity' of elections in Japan and Britain. The tests show a strong evidence of opportunistic election timing in both countries. There is some evidence of monetary cycles in Japan which has one of the most dependent central banks of all OECD countries, but no evidence on policy manipulation is found in Britain which has an independent central bank.

Alesina and Roubini (1992), found no evidence of opportunistic cycle for output or unemployment in OECD countries except of Germany and New Zealand. The behavior of GNP growth, unemployment and inflation are not affected by the timing of elections or government changes. As a result of expansionary monetary

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[5] Alesina et.al (1992)

and fiscal policy in pre-electoral time, inflation tends to increase after elections. Left wing parties are more concerned with unemployment whereas right wing parties are more concerned with reducing inflation.

Concerning 'partisan theory effects', no evidence of permanent differences in output and unemployment was found.

Chappell and D.A.Peel (1979), used the Nordhaus model to analyze if votes cast in elections are related to business cycles using as variables the rate of inflation and the rate of unemployment. The paper is trying to show what economic policies would maximize votes, in contrast with what economic policies would be used by the government if it were in power for an infinite period.

The model assumes the period between elections fixed. It shows that in general under a fixed period between elections, unemployment and inflation will not be stable. It also shows that the optimal period between elections rises with the natural rate of unemployment and the inflation rate, and that the optimal time between elections is longer than the actual time observed in practice.

In the paper by T. Ito and J. H. Park (1998),the existence of business cycles is tested in the parliamentary system. The paper was based on Japanese data and initially it dealt with explaining the Japanese parliamentary system. The two hypotheses that the paper examines are: i) the manipulate cabinet hypothesis i.e. that the government decides the elections due to political reasons and then manipulates the economy to have a boom in elections time, and ii) the opportunistic cabinet hypothesis were the government calls for elections when the economic climate is in favor for them

i.e booms trigger elections. Results of the test showed that there is no evidence that monetary growth and fiscal expenditures tend to rise when elections are coming. Also results strongly suggest that demand and supply shocks independent from policy tend to trigger elections. So the paper concludes that the Japanese government opportunistically chose the election time.

H.Chappell (1990), in his paper focuses on issues related to data limitations and adopts a method to use data efficiently. In this paper he estimates vote and political support functions for U.S respondents, assuming that they evaluate economic and political conditions in the same way. The model encompasses two equations, one for political approval (like the Gallop poll) and one for presidential voting. He hypothesizes that voters and poll respondents reward higher income

and low unemployment rates. Also, non-economic variables are included in the model, like variables to estimate the importance of Watergate scandal. In the approval rating equation Chappell found that coefficients for GNP, unemployment and inflation do matter. The same results were found in the voting equation, even though of lower significance. Finally it was shown that for both poll respondents and voters unemployment was insignificant while they were both concerned with inflation primarily and secondly with GNP growth rates.

In the paper by Alesina et.al,(1990), evidence for the existence of 'political business cycles' models for OECD countries was reexamined. The paper tried to identify if governments manipulate economies at pre-election time through fiscal and monetary policies or they act opportunistically. Previous research had shown that opportunistic cycles could survive in rational models with substantially different features than those of the original Nordhaus model. They now looked at the effect of PBC on GNP , unemployment and inflation and they derived mixed results. The only case that was found to experience PBC was Germany, given that its central bank is the most independent bank in the world. On the other hand the existence of political monetary cycles was also detected to occur frequently but not systematically. As a concluding remark on the paper's findings evidence is more supportive for the rational model on political business cycles. In general governments in pre-election periods avoid strict monetary and fiscal policies while in some cases they might follow expansionary policy mixes.

Empirical Research Considerations

Usually the choice of the relevant variables for empirical research is made through economic theory, which renders some variables relevant and others irrelevant. In the case of political cycles however, a similar choice is not so clear cut. Disregarding the fact that the dispute over the utility of the Phillips curve is not settled (so as to consider which variables are important jointly for the economy and in politics), the political importance of variables is even less understood.

Ideally we should be looking for variables that voters consider significant in deciding who they will vote. Given such a set of variables, the government would either manipulate the economy so at the fixed time of elections these variables

would be favorable, or call for elections when those variables are favorable. Several proposals have been made but those standing out are usually GDP (in absolute terms and per capita), inflation and unemployment. Other suggestions include government spending and government transfers (or more generally fiscal deficits) and disposable real income growth. However, we should note thet the final selection of variables and their relative weight has an element of arbitrariness.

Since we are examining the causal relation of economics and politics, perhaps the explanation of differences in economic performance among countries resides on institutional differences in the political system as well as structural economic disparities. We must not think of political systems as uniform and thus influencing the macroeconomy in a uniform way. It will be thus useful to distinguish differences that seem important.

A first issue to consider is whether the elections under consideration should only be the general elections. In a European democracy there are at least two other elections, those for municipal and national administration and the other for the European parliament. One could argue that only elections for the parliament involve real political power and thus they should be our only consideration. However, from country to country the relative political importance of these elections differs. It stands to reason then to assume that all elections have an effect, then compare them among each other and only then use elections in the model.

There should be a clear distinction between opportunistic political cycles and manipulative political cycles. In the first case, the government calls for election when the economic conditions are most favorable, while in the second case the government manipulates the economy so as to have favorable economic conditions at the previously fixed election day. This difference can be related to electoral law, which defines whether it is in the discretion of the government to call for elections or not.

Additionally, the actual length of the electorate period could affect the ability of governments to manipulate the economy.

The nature of the party system also has different implications. As mentioned by Alesina1 a two-party system has different economic implications from a multiparty system. A system of proportional representation usually leads to

coalition governments that tend to be less effective in passing necessary legislation on time and thus create more opportunistic incentives. On the contrary, a two party system , tends to be more polarized, but leads to stable governments. In such cases the partisan motivation is stronger as well as having manipulative incentives.

Another important consideration is the idea that economic conditions might influence the economy negatively as well as positively. In other words there is the possibility that bad economic conditions can lead to elections, especially where opposition parties have the ability to call for elections (through the vote of no-confidence). So we should not just search for a correlation of good economic conditions with political victories but also bad economic conditions and political losses.

An important institutional factor that affects the usage of monetary tools by the government is the existence or the extent of the Independence of the central bank. Generally the more tools at the discretion of the government the bigger the ease and thus the incentive to cause political cycles. [6]

Finally, the last issue to be considered here is something general for the study of macroeconomics: the relation of the national economy with the world economy. This is a rather complicated issue and maybe it does not suffice to built a model of linkages and flows, which is anyway becoming more and more technical as well as obsolete. Maybe the external balance of payments or the exchange rate could be taken into account in trying to establish relationships with political variables. However, there is still the wider issue of trying to distinguish between political business cycles and economic cycles. Besides, the fact that they may be serially correlated, there is always the issue of international economic cycles like global economic crisis which complicate the picture even further.

Before the use of econometric tools for hypotheses testing in macroeconomics, descriptive statistics were employed in order to discern patterns. However, descriptive statistics have a great difficulty to be used for a sustained argument. A good illustration of this is an article by B.H.Soh, (1986).

Soh calculates the averages of growth, unemployment and inflation of non-election years and compares them with the averages during election years. He

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[6] Dranzen

considers as preliminary evidence of the existence of political cycles to be the finding of a ratio different than 1. One could characterize this method as crude, since an election year is big span of time and one must be able to refine the time periods in order to discern changes in the economy.

Otherwise, the averaging out of economic indicators over a year fails to capture the exact time of the hypothesized e.g rise of inflation just before and after elections. Soh admits that this approach is static and does not allow for biases, so he considers rates of change instead.

Even if such alterations are made there is a more general problem concerning the quality of economic facts. If these facts are collected without any care for peculiarities and used without any qualification, the results could be totally invalid. For example, the rate of inflation was indexed annually in many countries during the 1980's so as to offer income protection to the employees. Such a move definitely affected the 'real' inflation by some amount not easily captured by the official numbers. [7] Additionally, one should be careful with the data used regarding their source and their verifiability.

Econometric Considerations

When estimation enters the picture a new set of issues is raised. These include the insertion of dummy variables so as to capture institutional considerations as well as correlate election times with economic variables. A second set of considerations includes the issue of stationarity and the issue of endogeneity of the sets of data. The stricter rules of inference in statistical economics require more subtle considerations in the quality of characteristics.

The model for estimating and testing political business cycles is usually given by the following specification.

$$Y_t = \alpha + \beta X - \delta D_t + e_t$$

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[7] Soh

Where Yt is the cycle variable in question, X is a matrix of control variables, Dt is an election dummy (simply to mark the timing of the cycle, with 0 if at that quarter there was no elections and 1 if there was) and vt an error term at time t. The macroeconomic variables in question have been generated by a covariance-stationary process that can be estimated by the following finite autoregressive model:

$$Y_t = \alpha + \sum_{i=1}^{n} \beta_i Y_{t-1} - \delta D_t + e_t$$

So essentially we are primarily interested in the sign and the significance of the estimate of δ. This model of course could be extended to include other variables also. However there are two important considerations before putting the above model in practice.

(i)   Stationarity

The problem of stationarity is connected with the recognition that the economy is characterized by two states: expansion and recession. A valid regression requires that the set of data used does not fluctuate over time but rather it has a constant mean and variance. The usual solution is that of differencing the variables that fail the stationarity test. This move does indeed reduce fluctuation but at the cost of losing economic interpretation. Especially for long time spans, which is usually the case in political cycles literature, the effort to establish a relation between political factors and economic variables requires big spans of time. Thus this might pose a serious problem in assessing the validity of inferences.

(ii)   Endogeneity

Equally or even more problematic becomes the acute issue of endogeneity. Heckelman and Berument (1998), argue convincingly that OLS estimation requires non-correlation between the independent variables. However, all previous literature took for granted that elections were not correlated with the independent variables.

This can cause a problem because it assumes what it supposedly tries to prove, namely whether elections are correlated with an economic variable. The issue of whether elections are endogenous has to be resolved before any regression that tries to establish a significant correlation. One suggestion is the Hausman test for endogeneity ,otherwise the regression will have an asymptotic bias equal to $\sigma_{D_t\nu_t}/\sigma^2_{\nu_t}$. The test is conducted through an instrumental variable D^*_t

$$Y_t = \alpha + \sum_{i=1}^{n} \beta_i Y_{t-1} - \delta D_t + \nu_t + \delta^* D^*_t$$

The hypothesis to be tested is that δ^* is equal to zero. If the hypothesis is true then the OLS estimators will be unbiased, consistent and efficient. If the hypothesis is rejected then the OLS estimators will be inconsistent and would be more appropriate to use Instrumental Variables estimation.

Considerations for the Greek Case

Adopting the previous discussion in the case study of Greece some specific characteristics have to be taken into account.
First of all there is a number of institutional factors that set limits to the empirical scope. Between the years 1967-1974 there were no free democratic elections in Greece. Further, municipal elections in Greece have always been a much polarizing issue, a suggestion is that they should first be compared with parliamentary elections and if found equivalent they should be included in the data set.
A second general consideration is the party system. The electoral law, which was a special amalgam of proportional and non-proportional representation led to the establishment of a mainly two-party system. This has the implication that there have been strong partisan and opportunistic incentives for both major parties. Their exact dimension has to be taken into account.
Another major dimension in the study of Greece is the involvement with the E.U.

Two were the main important influences from our E.U membership. First, a vast amount of money transfers that were invested in the Greek economy (not always in the most productive way). Secondly, the increasing economic integration and harmonization that led to the demise of traditional economic discretionary tools, like monetary policy and an increase in fiscal discipline.

The increasing interdependence of the Central Bank of Greece and from 1999 the Economic and Monetary Union, denied the Greek government many alternatives of economic policy.

Other more specific considerations should include the way economic data were recorded and measured over the period of 1974-2004, the major changes in economic policy over the years as well as an examination of the ability of the government to call for elections whenever she saw fit. International economic developments have to be taken into account as well as the specific ideology of the parties in power and their success in implementing their policies.

Data and Methodology

We used annual data for Greece covering forty-four years from 1961 to 2004 and all values were expressed in growth rates. The reason to use annual data is because we are interested in long-term effects. The analysis involved seven macroeconomic variables, two we considered as endogenous, that is the stock returns and inflation and the rest were treated as exogenous.

As a measure of output growth we used the gdp growth rate published by the National Statistical Service of Greece . Inflation was measured by the rate of change in the Consumer Price Index (CPI). The series on unemployment was extracted from the U.N publications .

Finally, the election dummy was defined, and took the value of 1 in the year that an election was held and zero everywhere else. Furthermore, another dummy was defined to take into account the suspected intervention with the democratic procedures during election periods held in the years 1961-1967.

All of the variables were checked for stationarity with the Augmented Dickey-Fuller test and the Phillips – Perron test. The results are presented below in Table 1.

Table 1

Greece

Variables	ADF	P-P
Unemployment (UNEM)	-1.447	-0.977
Output Growth (GDP)	-1.53	-1.80
Dummy Variable for Elections (DUM)	-7.23	-8.92
Dummy Variable for Intervening (D1)	-3.333	-6.00
Consumer Price Index (CPI)	-0.524	2.60
Inflation (ΔCPI)	-2.03	-1.72

Mackinnon critical values for rejection of hypothesis of a unit root.

Critical Values at 1% is -3.5930 and

at 5% is -2.9320

We observe that not all variables are stationary . We take the first difference of the variables which are not stationary and rerun the unit-root tests.

All the variables become stationary.

To capture the dynamic structure of the relationship among the variables and also the dynamic impact of random disturbances on the variables under consideration we adopted a distributed lag model, which was then tested for ARCH effects. The mathematical form of the model used is given below

$$Y_t = \alpha_0 + \alpha_1 Y_{t-1} + \sum \varphi_i X_{i,t-i} - \delta D_t + e_t$$

15

Where Y_t is the endogenous variable, and X_t are exogenous, e_t is a white noise process independent of Y_t and X_t by assumption.

To examine the relationship between the output growth and the election variable we regressed the rate of output growth on the three macroeconomic variables and the two dummies.

$$\Delta(GDP)_t = b_0 + b_1\Delta(GDP)_{t-1} + b_2\Delta(UNEM)_t + b_3\Delta(UNEM)_{t-1} + b_4\Delta(CPI)_t +$$

$$b_5\Delta(CPI)_{t-1} + b_6 DUM_t + b_7 D1_t + e_t$$

The above model was initially estimated by OLS, but the results were very poor indeed. Next it was tested for ARCH effects and a GARCH (1,1) was eventually chosen. The ML method of estimation was adopted.

Empirical Results

Table 2 shows the final specification of the model for the relationship between the rate of output growth and the election variable.

Table 2. **The Relationship between the Rate of Output Growth and**

The Election Variable

$$\Delta(GDP)_t = 1.292 - 0.024\,\Delta(INFL)_t + 0.084\,\Delta(UNEM)_t - 4.573 DUM$$
$$(30.306)\quad(-2.225)\qquad\quad(2.083)\qquad\qquad(-59.439)$$

$$h^2_t = 0.021 - 0.246\,e^2_{t-1} + 1.070\,h^2_{t-1}$$
$$(2.619)\quad(-4.900)\qquad(9.906)$$

(z-Statistic in parentheses)

$$\overline{R}^2 = 0.92$$

All coefficients in the mean equation are highly significant. More specifically, it is shown that an 1% increase in the inflation rate will reduce the rate of growth of output by 0.02 of a percentage. Also, a 1% increase in the rate of change of unemployment will increase the rate of output growth by 0.08 of a percentage. This result rather hints on the high inefficiency which characterises the Greek economy.

What is most interesting about the results though is the high magnitude of the dummy variable which stands for the election effect on the rate of growth of output. It has a negative impact as expected and it is also found to be highly significant.

The coefficients on all three terms in the conditional variance equation are highly statistically significant. Also, the sum of the coefficients on the lagged squared error and lagged conditional variance is close to unity (approximately 0.824). This implies that shocks to the conditional variance will be highly persistent. This can be seen by considering forecasting future values of the conditional variance using the GARCH model. A large positive or a large negative rate of growth will lead future forecasts of the variance to be high for a protracted period. The conditional variance coefficients are also as one would expect. The variance intercept term is very small, while the coefficient on the lagged conditional variance GARCH is large at 1.

The GARCH news impact curve is of course symmetrical about zero, so that a shock of given magnitude will have the same impact on the future conditional variance whatever its sign.

The dynamic forecasts show an oscillating forecast structure, while at the end of the in-sample estimation period, the value of the conditional variance was at a historically high level relative to its unconditional average. Therefore, the forecasts converge upon their long term mean value as the forecast horizon increases.

It appears that the traditional opportunistic model is closely followed by the Greek case. Even though the definition of the election variable might be questionable , during the period 1961-1967, its impact is large on the rate of growth of output ,

negative and highly significant as the opportunistic's model hypothesis would expect it to be. The dummy D1, was found insignificant while did not add anything to the robustness of the model. So it was soon dropped out.

<u>Conclusion</u>

The theme of political cycles, has wider interest and theoretical implications in macroeconomics. The term political economy is reappearing in the economic theory scene only to reaffirm the great importance of political factors in the economic processes. The incorporation of political factors in the examination of macroeconomic variables is in itself important as it assists in the uncovering of less obvious political influences at the economy and thus helping in having a more accurate depiction of the complex relation of politics and economics.
Research on the issue of political cycles, as any digression from traditional economic subjects, is based upon a conception of how the economy functions. This in itself is not a settled issue, and any development in economic theory is bound to alter research hypothesis and the interpretation of empirical data. An important illustration of this has been the so called 'rational expectations' revolution, which put into strain the first formulations of politico-economic models. At the same time, the confirmation or high corroboration of empirical findings to a research hypothesis might equally shed light to the validity of the assumptions behind it. This is what leads Alesina to proclaim that the relative success of the rational partisan theory of political cycles lends support to the rational expectations theory.
An even more important dimension of the simultaneous study of politics with economics is the uncovering of the relation between the political system and economic growth. The issue of growth and its relation with democracy is an issue that has attracted much attention. Qualifying the multi-faceted connection between a democratic political system(with elections being its central dimension) and the workings of the economy, could yield more refined tools in assessing the links between democracy and the economy. Thus Heckelman and Berument (1998),comment that if we establish that having fixed or flexible electoral terms makes an important difference in economic terms, then in the studies of the

relation between democracy and growth, countries need to be disaggregated in order to avoid misspecification.

The last point refers to the importance of methodology, especially in reference to the use and misuse of statistical econometric tools. Heckelman and Berument (1998), needed only to raise the issue of endogeneity to put into question the validity of the claims of all previous research. No question is settled in a final and absolute way when science is developing. The use of new tools and the further refinement of economic methodology can only shed light to the unfortunate but seemingly inevitable errors of inference in economic research. Taking methodological questions seriously is and will continue to be a worthwhile exercise of scientific rigor.

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