Comment

Marcela Eslava: A few years ago, Lorena G. Barberia and George Avelino presented their paper "Do Political Budget Cycles Differ in Latin American Democracies?" in one of the panels that this journal holds twice a year. Jorge Streb and I shared the role of discussants for that paper. In the open floor discussion, several participants asked why the authors of the paper were using annual data, rather than quarterly data, to identify political budget cycles. Their very reasonable concern was that annual data were masking patterns of electoral manipulation that occurred at frequencies that did not match calendar years. Those of us who had been working on political budget cycles more closely knew that this was the common practice in the literature, so we pointed out the generalized use of this approach and the fact that it was due to the data being more generally available at the annual frequency. Though some attendants pointed out that the IMF did collect quarterly data, most of us simply moved on, satisfied with the answer that annual estimations were the literature's optimal approach, given constraints.

As it turned out, however, there was a better option, and Jorge Streb and his coauthors decided to try it. Here is the paper that does just that. The authors put together a data set on quarterly fiscal balances for a set of countries for which this was possible, and they then reestimated the effect of elections on those balances. They did it with a few twists with respect to the rest of the literature: they explored what the data say about the actual timing of political budget cycles, explored both pre-electoral and post-electoral changes in the balance, and checked whether the presence of effective checks and balances affects the pattern. They also looked at potential differences between Latin American and OECD countries—which, I speculate, are the two groups of countries for which they were able to gather data.

Their findings support the very motivation behind going into greater time disaggregation: political budget cycles are more precisely estimated when quarterly data are used, especially for the two separate subsamples of countries under analysis. Results in the paper suggest that the eight quarters around elections are different compared to other quarters, which the paper refers to as normal times. In particular, compared with those times, there is a contraction of the surplus in the four quarters that lead to an election and a subsequent expansion in the quarters after the election. Political budget cycles, as characterized by this boom-bust pattern around the election, are concentrated in countries without effective checks and balances, a result that may help explain differences found in the literature between developed and developing countries or between new and established democracies. Meanwhile, the contrasting pre- versus post-election pattern is driven by what happens in Latin America; as for the OECD sample, the authors identify pre-electoral contractions without post-electoral recoveries.

All of the aforementioned results are interesting and important in terms of contributing to our understanding of political budget cycles. Compared with the rest of the cross-country literature, they provide much greater detail about the phenomenon on at least two dimensions: the exact timing of electoral manipulation of fiscal policy and the role of checks and balances. There are a few spots, however, where the paper seems to stretch conclusions and statements a bit beyond what would be granted by the empirical approach.

The most prominent of these statements is the authors' claim that "our results contradict a widespread consensus that PBCs are only a developing country phenomenon or a phase experienced by young democracies, . . . conclusions [that] might have been affected by temporal aggregation" and that their results therefore "imply that studies of electoral cycles should be based on quarterly, not annual, data." While it is indeed the case that, in contrast to much of the literature, the authors identify a pre-electoral contraction in their subsample of developed countries, there is no reason to believe that this apparent contradiction with the rest of the literature is driven by the use of quarterly data: the pattern of pre-electoral contraction is also present in their estimates with annual data. The contrast with previous findings is even more puzzling when one considers that what this paper estimates is a contraction of the fiscal surplus in the pre-electoral quarters, *with respect to quarters that are neither pre-electoral nor post-electoral.* Meanwhile, the literature has found no clear evidence that before elections the deficit rises *compared to the rest of times* in developed countries. If the comparison in this paper were between pre-electoral times and all other quarters, as in the rest of the literature, estimates would show an even starker contraction before elections (since in this sample post-electoral deficits are the lowest). I do not know what the origin for the contrast with previous findings in the literature is (it could be, for example, the different country coverage, the different time period, or a different estimation strategy), but precisely because the paper does not identify what is driving those differences, readers must be extra cautious about treating the paper as effectively challenging the widespread view that pre-electoral times are not too different from the rest of times in developed economies.

A precise reading of the results also invites caution about other specific statements found throughout the paper. First, point estimates are compared across tables 5 and 6 to draw conclusions on the relative size of electoral changes, but the baseline level of the surplus is different across regions, making simple comparisons inappropriate. Second, the authors conclude that "if there is weak compliance with the law or unified government, the deficit in election years increases more in the OECD than in Latin America," but we do not know whether the weak levels of compliance described in this statement are indeed ever present for the sample of OECD countries. Finally, the authors state, "The reason the PBCs appear smaller in the OECD than in Latin America, in the estimates with annual data (column 5 of tables 5 and 6), is that in the OECD the coefficient of *pbc* averages out the significant effect of *ele*(0) with the insignificant one of *ele*(1)." However, to show that this apparent difference between the OECD and Latin America disappears if the post-election effect is not averaged out, they only eliminate the post-election dummy in the OECD estimation (and so compare an OECD estimation without the post-election dummy to a Latin American estimation with the post-election dummy).

These words of caution do not detract from the baseline message: this paper makes an important contribution by demonstrating that temporal aggregation masks political budget cycles, thus showing that the use of quarterly data is a promising and feasible strategy we should all consider following.