Frank Bohn (Radboud University)

“Political Opportunism and Countercyclical Fiscal Policy in Election-year Recessions: Theory and Evidence from Portuguese Municipalities”

Abstract

Political budget cycles (PBCs) have been well documented in the literature, albeit not for all circumstances. However, no work has been done on the impact of economic growth on the magnitude of PBCs. The theoretical model argues that a government has an incentive to increase fiscal manipulations when a recession is expected to hit and curtail re-election chances; this amounts to countercyclical policy for opportunistic rather than Keynesian motives. Very robust evidence for this behaviour is found in Portuguese municipalities; in election years, budgets and revenues, be they forecasted or actual, go up significantly when there is a recessions.