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Autocracy, Elections, and Fiscal Policy: Evidence from Malaysia

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Abstract Authoritarian regimes often use fiscal policy to reward political supporters and to punish political opponents. In many authoritarian regimes with political institutions like parties, legislatures, and elections, elections become a focal point for budget expenditures and the distribution of government patronage. A time-series analysis of Malaysian fiscal expenditures from 1967 to 1997 shows that the ruling coalition systematically increases federal government spending before elections. In addition to marshalling private resources to distribute patronage, the Malaysian government manipulates the government's official position. These findings have important implications for the growing literature on political institutions under autocratic regimes and the politics of patronage and redistribution in the developing world. They also suggest a new empirical domain for existing theories of political business cycles.

Keywords Autocracy · Elections · Fiscal policy · Malaysia

Introduction

This article asks whether elections have economic consequences in nondemocratic states. Although the Third Wave of democratization has passed, nondemocratic governments remain prevalent across much of the world. Recognition of this fact has spurred much of the recent theoretical interest in the nature of nondemocratic politics, especially the role of political institutions in authoritarian regimes (Brownlee 2002a, b; Levitsky and Way 2002; Schedler 2006; Smith 2005). Recently, Gandhi and Przeworski (2001, 2006) have argued that electoral institutions such as legislatures increase authoritarian regime stability. If electoral institutions

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have such consequences for regime durability, as these authors contend, a question that emerges is whether they have predictable consequences for public policy. Do elections under authoritarian regimes affect public sector behavior?

Using longitudinal data from Malaysia, this article argues that elections in authoritarian regimes can have systematic effects on fiscal policy. The theory is a refinement of models of the political business cycle. Political business cycles (PBCs) (Nordhaus 1975) are politically induced fluctuations in economic indicators such as spending, unemployment, and/or inflation that correspond to a country's electoral cycle. In Malaysia and in many other nondemocratic regimes, elections bestow legitimacy on the regime by purportedly demonstrating its widespread popular support. They also signal to opposition parties that the government commands popular support, a thinly veiled threat to opposition leaders who might challenge the status quo. In general, ruling parties in nondemocratic regimes like Malaysia's seek to manufacture strong electoral victories, viewing electoral returns as manifestations of the regime's popular support. Economic performance being an important determinant of the regime's legitimacy, it increases fiscal spending in the run-up to an election. Controlling for confounding variables, time-series analysis shows a robust positive association between elections and government spending from the years 1967 to 1997, a period that begins with the availability of reliable quarterly economic data and ends with the Asian Financial Crisis.

Malaysia is an ideal test case because it is a country in which political institutions under authoritarian rule have attracted recent theoretical interest. Dan Slater (2003) shows how Malaysian prime ministers have used political institutions to concentrate executive power, demonstrating the different logic that political institutions can have under authoritarian regimes. William Case (2001) has argued that Malaysian government's unique blend of authoritarianism with democratic-style institutions yields political stability. Furthermore, many authors have studied the redistributive policies of the Malaysian government and the extensive use of political patronage (see e.g., Gomez and Jomo 1999). For this reason, observers familiar with Malaysia's long history of vote buying, vote stealing, and campaign media blitzes may find increased spending during elections unsurprising. But most studies of business–political linkages in Malaysia study off-budget expenditures from crony-held corporate wealth, party-owned investments, and the personal riches of politicians that fund the ruling coalition.

In contrast to the anecdotal evidence in earlier studies, this study focuses on the directly observable official expenditures as measured in the government's accounts. Uncovering the relationship between elections and budget allocations during elections presents a novel finding, and its implications go beyond the practice of marshalling private resources to secure public office. Elections in Malaysia affect macroeconomic management and policy planning, introducing the additional political distortions into an economy already characterized by systemic corruption and rent seeking. While analysts have often suggested that the Malaysian government manipulates the economy before elections, this is the first rigorous test of this proposition. Moreover, the finding that electoral institutions—even under authoritarian regimes—have such large effects on national fiscal policy is a new piece of support for the growing consensus that nondemocratic regimes often do not simply employ elections as "window-dressing." Malaysia is an exemplar of what

Steven Levitsky and Lucan Way call "competitive authoritarian regimes," sometimes called "electoral authoritarian" regimes (see Schedler 2006). Crucially, the theory presented here also suggests the conditions under which authoritarian regimes that hold elections should not manipulate fiscal policy: when civic freedoms are low and political repression is less costly. I argue in the conclusion to this article that findings from Malaysia are consistent with other recent studies of electoral politics in competitive authoritarian regimes, and also that anecdotal evidence suggests that more dictatorial regimes use violence and intimidation rather than fiscal policy manipulation to ensure electoral victory.

Elections and Authoritarianism

The study of elections in nondemocratic regimes has not proceeded much past the analyses found in the *Elections Without Choice* of Hermet, et al. (1978). In the introduction to this volume, Guy Hermet argues that the study of elections in nondemocratic regimes can shed light on how electoral systems operate in the real world, and can also demonstrate the effects of opportunities for public political action on the strength and stability of the nondemocratic regime. He also justifies the study of nondemocratic elections, where "the study of noncompetitive elections represents one of the rare chances to analyse factually the public manifestations of the governments which control them" that indicates the importance of electoral analysis even in cases where elections are noncompetitive (Hermet et al. 1978: 9). If we believe that political institutions in authoritarian regimes may affect government policy, elections are a good place to look.

In a democracy, governments hold periodic elections in which citizens have at least minimal freedoms to choose among candidates for office, and whereby governments, if they lose, surrender office to their opponents (Linz 2000: 53). This is the Schumpeterian or minimalist definition of democracy, which relies primarily on the existence of free elections with the possibility of defeat. Yet, although elections are a necessary feature of all democracies, from Linz's definition it is clear that elections alone are not sufficient for democracy (see also Schedler 2002). What distinguishes elections under authoritarianism from elections under democracy is the institutional context in which elections occur. Elections under nondemocratic regimes are manipulated systematically to such an extent that the likelihood of government turnover due to an electoral loss is low, although on many occasions we observe democratic transitions at the ballot box amid extraordinary political or economic upheavals.[1] The distinction here closely parallels Schedler's (2002) contrast between electoral democracy and electoral authoritarianism, the latter lacking minimal standards of democratic elections such as unimpeded choice and electoral irreversibility. Regimes that do not maintain such standards are not democracies. But among all elections in nondemocratic regimes, some are more competitive than others, and certain classes of nondemocratic regimes adhere more

[1] In many countries, some individual races are competitive, but the likelihood that the opposition will win enough seats to unseat the ruling party remains almost nonexistent.

to electoral rules than others. Distinguishing among the subset of all nondemocratic regimes that hold elections, Levitsky and Way note several important characteristics of competitive authoritarian regimes.

> In competitive authoritarian regimes, formal democratic institutions are widely viewed as the principal means of obtaining and exercising political authority. Incumbents violate those rules so often and to such an extent, however, that the regime fails to meet conventional minimum standards for democracy....In competitive authoritarian regimes...violations of...[the] criteria [of democracy] are both frequent enough and serious enough to create an uneven playing field between government and opposition....Although incumbents in competitive authoritarian regimes may routinely manipulate formal democratic rules, they are unable to eliminate them or reduce them to a mere façade.

Accordingly, competitive authoritarianism lies between minimal democracy and hard authoritarianism. Competitive authoritarian regimes are regimes that are nondemocratic, but that also fulfill two additional requirements: (1) electoral institutions exist, and (2) the regime does not have a *carte blanche* to manipulate elections at will.

As not all nondemocratic regimes with elections meet these criteria, elections in nondemocratic regimes range from the competitive authoritarian regimes that Levitsky and Way introduce to the altogether noncompetitive elections described by several authors in *Elections Without Choice*. The question remains why an autocrat would benefit from the creation of electoral institutions. If a nondemocratic regime has no intent of leaving power, why would it subject itself to the risks of an election? Gandhi and Przeworski's (2001) discussion of dictatorial institutions focuses on how dictators employ electoral institutions (along with other democratic institutions) to enhance regime durability. Discussing elections in particular, they argue that elections allow government to intimidate the opposition. By showing potential opponents to the regime that they are able to marshal some absurd vote return in their favor—often higher than 99% in many highly repressive states—incumbent governments demonstrate the strength of their rule, rendering oppositional challenge an unattractive option. By contrast, Hermet (1978) focuses on the legitimating quality of elections, both domestically and internationally. By utilizing an "objective" measure of the public sentiment supporting the regime (Lawson 1993: 196), authoritarian governments believe that they can reduce social and political pressures against their rule. While many citizens may be aware of the irregularities in the voting systems of their countries, the practice of holding elections in nondemocratic states appears to be an effective political tool for rallying support from many parts of society for the incumbent regime, and deterring the opposition. This is particularly relevant for Malaysian elections, where strictly ethnic parties in a national coalition contest against an oppressed opposition that the government paints as unprepared to handle the problems of a multiethnic society (see below).

Beside Malaysia, examples of electoral competition in nondemocratic regimes can be found in countries such as Mexico under the PRI and more recently in Egypt in 2005. In fact, it appears that most modern authoritarian governments hold elections

Table 1 Nondemocratic states with elections, 1950–1990

Country name	Years	Country name	Years
Algeria	1962–1964,1977–1990	Malawi	1964–1970
Bangladesh	1973–1974,1979–1981	Malaysia	1957–1968, 1971–1990
Benin	1960–1962,1964,1980–1989	Mali	1961–1967, 1982–1990
Bolivia	1956–1963	Mauritania	1961–1977
Botswana	1966–1989	Mexico	1951–1990
Brazil	1967–1970,1978	Mongolia	1985–1990
Bulgaria	1981–1989	Myanmar	1974–1987
Burkina Faso	1960–1965, 1978–1979	Nicaragua	1951–1970, 1974–1978
Burundi	1982–1986	Niger	1961–1973
Central African Republic	1961–1965,1987–1990	Pakistan	1956–1957, 1962–1968
Cameroon	1961–1970,1973–1990	Panama	1978–1983
Cape Verde	1975–1990	Paraguay	1951–1990
Chad	1961–1974	Peru	1951–1955, 1990
Colombia	1951–1952	Philippines	1965–1971, 1978–1985
Comoros	1978–1990	Portugal	1951–1973
Congo	1963–1967	Rwanda	1962–1972, 1981–1990
Czechoslovakia	1975–1986	Senegal	1961–1990
Djibouti	1977–1987	Seychelles	1979–1990
Dominican Republic	1961	Sierra Leone	1968–1990
Ecuador	1968–1969	Singapore	1965–1990
Egypt	1957–1960,1962–1990	Somalia	1980–1989
El Salvador	1951–1959,1962–1978	South Africa	1951–1990
Fiji	1970–1986	Sri Lanka	1977–1990
Gabon	1961–1990	Sudan	1974–1984
Gambia	1965–1990	Syria	1973–1990
Ghana	1957–1964	Taiwan	1952–1990
Guinea	1960–1983	Tanzania	1961–1988
Guinea–Bissau	1977–1979,1984–1990	Togo	1961–1966, 1979–1990
Guyana	1966–1990	Tunisia	1961–1990
Haiti	1961–1963	Turkey	1951–1959
Honduras	1951–1953,1965–1970	Uganda	1962–1970
Indonesia	1971–1990	USSR	1977–1981, 1983–1989
Ivory Coast	1961–1990	Western Samoa	1980–1990
Kenya	1963–1990	Yemen Arab Republic	1978–1989
Korea, South	1954–1959,1963–1971, 1973–1987	Yugoslavia	1961–1990
Lesotho	1966–1969	Zaire	1970–1989
Liberia	1961–1979,1986	Zambia	1964–1990
Madagascar	1961–1971,1977–1990	Zimbabwe	1965–1977, 1980–1990

of some sort. To provide an upper bound on the universe of possible cases of elections under competitive authoritarianism, Table 1 lists all countries and years that Alvarez et al. (1999) code as both nondemocratic and having either legislative or executive elections.

Elections in the countries in Table 1 are not all directly comparable. In Southeast Asia, elections in Marcos' Philippines involved far more direct personal vote buying than in Malaysia. Indonesia consistently held elections under the New Order, but severe restrictions on contestation and party formation made them far less competitive than those in Malaysia. For reasons that I discuss below, the model of the interaction between elections and economic policy in nondemocratic states in this article is increasingly applicable as regimes approach Levitsky and Way's model of competitive authoritarianism. In dictatorships where elections are merely a show of force, such as in Iraq under the final years of Saddam Hussein's rule, this model should not apply.

Electoral and Economic Interactions in Nondemocratic Regimes

In the first models of the opportunistic PBC, authors posited that politicians could manipulate the long-run Phillips curve through the judicious use of macroeconomic policy (Nordhaus 1975; Tufte 1978). Politicians could artificially—but temporarily—lower unemployment or induce economic growth before elections to create an illusion of a healthy economy. The rational expectations critiques that soon emerged argued that economic agents would surely recognize that incumbent regimes had this incentive, and would behave strategically so that such political manipulations would have no real implications for the market (Alesina and Schultze 1989; Alt and Chrystal 1981; Beck 1987; Golden and Poterba 1980). Accordingly, voters would not observe economic improvement before elections, and political manipulations of the economy for electoral gain would be futile. Kenneth Rogoff and Anne Sibert revived the PBC model by positing that there exists a critical informational asymmetry between governments and the rest of society (Drazen 2000; Rogoff 1990; Rogoff and Sibert 1988). Incumbent governments have a better understanding of the future of the economy than other economic actors, and can exploit this informational advantage to enact policies to which the economy cannot adapt. In all models of opportunistic and rational PBCs, the incumbent government's real fear of losing power drives economic manipulations.[2]

Authoritarian regimes have similar incentives. The preceding discussion of competitive authoritarianism and the functions of elections in nondemocratic regimes suggest that incumbent regimes devote significant resources to elections that they have no intention of losing. The discussion also noted that many authoritarian governments also employ more egregious forms of vote fraud. If a nondemocratic government wants to manufacture a landslide victory for itself, why not simply lie? First, consider that the ability to defraud the voting public is a decreasing function of several factors, including voter civic awareness, freedom of the press, access to mass media, and other related national characteristics.[3] These factors correspond roughly to the gradations between that which Levitsky and Way

[2] A more extensive review of the literature can be found in Clark et al. (1998: 88–92).

[3] I do not offer support for this assumption along explicit theoretical grounds, as it is not the focus of this study and it appears to have anecdotal empirical support in cases including Brazil (Geddes and Zaller 1989) and China (Chen et al. 1997).

describe between competitive authoritarianism and more severe types of authoritarianism (Levitsky and Way 2002). Where these factors are low or absent, governments may successfully manipulate elections to ensure that it is credible to claim that, for example, Saddam Hussein and his Ba'ath Party had the support of 99.9% of the voters in Iraq's 2002 general elections. In nondemocratic states where there are greater press freedoms and voter civic awareness is higher, governments must find other ways to ensure resounding victories in their favor, and the logic of the PBC should apply.

Second, political manipulation of the economy may be less costly politically, both domestically and internationally, than electoral fraud. Even if deception by voting fraud is possible due to low levels of domestic political awareness, the expected utility of employing fraud instead of more subtle means may make fraud unattractive. Even a low probability event of public outcry in response to rigged elections is likely to be far costlier for the regime than subtle—and perhaps more welcome—fiscal policy manipulation.

Policy manipulation for electoral gains by authoritarian governments arises in the following manner. The incumbent regime, facing an impending election, wishes to ensure that it prevails. Among its possible tools for achieving this end are tactics ranging from discouraging voting by political opponents, to stuffing ballot boxes, to imprisoning political dissidents, to making programmatic policy statements that it has no intention of following once elected, to manipulating macroeconomic policy in its favor. Note that these behaviors may occur in electoral democracies, but that in competitive or electoral authoritarian regimes, violations are systematic and severe enough as to make incumbent turnover nearly impossible. The regime chooses some combination of these and other tactics based on the political and economic situation at the time of the election, as well as the general characteristics of the voting population. In cases where the expected costs of voter fraud or severe voter restrictions are high, incumbents choose to manipulate macroeconomic policy. Conversely, where voter fraud and coercion are relatively inexpensive ways to create the appearance of a resounding popular mandate, the incumbent may view other tactics as more appealing.[4] The observable implication of this theory is that in nondemocratic regimes that hold elections and have a relatively high level of civic awareness and press freedoms, there should be cycles of economic policy that coincide with electoral periods.

Proceeding from the critiques of the traditional PBC model, the following explications, qualifications, and refinements are necessary. First, in other studies of regime support in nondemocratic regimes (Chen et al. 1997; Geddes and Zaller 1989), variable levels of civil and political awareness among voters are critical determinants of the incumbent regime's popularity function. Different levels of voter sophistication are held in these studies to affect the voting population's appraisal of the incumbent regime. Without assuming a particular level of voter sophistication, it is compatible with the political realities of many nondemocratic regimes to presume that authoritarian control of the media and political opposition would decrease the

[4] It is certainly possible for an incumbent government under a system of competitive authoritarianism to employ many tactics of electoral manipulation. The case of Malaysia provides an example of a regime that uses fiscal policy to complement other, more unpleasant, methods of electoral subterfuge.

ability of the voting population to rationally anticipate the extent of political manipulation of the economy.[5] Moreover, regarding the rational expectations critiques of the traditional PBC, the theory of fiscal policy manipulation in nondemocratic regimes should survive intact. The Rogoff-Sibert models of political budget cycles with asymmetric information seem particularly relevant to a nondemocratic state where the regime has a large degree of private information regarding macroeconomic policy and economic performance (Cukierman and Meltzer 1986; Rogoff 1990; Rogoff and Sibert 1988). In their models, information asymmetry is a sufficient condition for fiscal manipulations for electoral gain, even with sophisticated forward-looking electorates.

The formulation of this model of PBCs in nondemocratic states renders moot refinements of the PBC model that incorporate the incumbent's incentives (Frey and Schneider 1978; Schultz 1995). Incumbent governments almost always seek additional votes gained through fiscal expenditures, whereas governments in competitive authoritarian states often avoid excessive vote fraud that produces election results that are not credible. Partisan considerations similarly do not affect fiscal policy decisions, as political parties in nondemocratic regimes are less likely to tie themselves to a particular inflation-vs-unemployment ideological platform (Alesina and Roubini 1992; Hibbs 1977). Lastly, following the suggestions of Nordhaus (1989) and others, a final qualification is that nondemocratic regimes should be more prone to engage in fiscal policy manipulations that have readily observable, immediate effects on their voting populations than in monetary policy manipulations with longer term effects on the Phillips curve. That is, political budget cycles should be the instrument of choice for electorally motivated economic policy manipulations in nondemocratic states, not more indirect political monetary cycles (Grier 1989).

To recall the observable implications discussed above, nondemocratic states where regimes face competitive elections should show predictable swings in their fiscal policy decisions that coincide with elections. Specifically, these regimes will, *ceteris paribus*, spend more in periods preceding an election. This increased spending may fund any number of electorally popular governmental initiatives, including increasing direct government transfers and implementing indirect transfers such as visible public works projects and bail-outs for failing industries that are key sources of electoral support (Alt and Chrystal 1981; Schultz 1995; Tufte 1978). Such spending need not be "bad" or "wasteful" spending, but if spending consistently increases before elections—when controlling for other economic determinants of spending—then this is strong evidence the elections influence budgetary decision making. Controlling for other determinants of spending, we should observe higher government deficits in periods where the government faces elections.

The Case of Malaysia

The next two sections test this argument over time using longitudinal data from Malaysia, a country with a long history of elections under an authoritarian regime.

[5] See e.g., Bennett (2000) for a review of the effects of differing levels of political information on political behavior.

Econometric evidence from within one country cannot test the theory as a general proposition for every election in every competitive authoritarian regime, but it will establish that electorally motivated fiscal policy manipulation does exist in some competitive authoritarian regimes.

Since independence, Malaysia has displayed the formal institutions of many democracies: regular elections for a functioning parliament, a federal system, and an abundance of political parties. The electoral system features elections at a maximum of 5-year intervals, with parliamentarians for federal and state elections contesting in single-member districts. Elections take place a maximum of 60 days after the dissolution of parliament.[6] While the electoral system functions as stipulated in the Malaysian Constitution, the actual electoral process shows the many imperfections from which the ruling coalition benefits in the conduct of elections, signifying that despite the many institutional trappings of democratic regimes, Malaysia is not a democracy.[7]

Management through Control

Three main communal parties make up the majority of the ruling Barisan Nasional (BN) coalition, and the largest of these is the United Malays National Organisation (UMNO). Although the Democratic Action Party regularly receives strong support from Chinese voters, and other, mostly tiny, noncommunal parties often receive a few votes from urban Malaysians, the electoral system strongly favors rural—and hence Malay—voters. The government's willingness to gerrymander electoral constituencies to its political advantage has increased over time, ensuring that the effective weight of Malay votes far exceeds that of non-Malay votes (Lim 2003). In Malay-dominant constituencies, Parti Islam SeMalaysia (PAS), a Malay-based Islamic party, has traditionally been UMNO's most important challenger. As gerrymandering along communal lines cannot eliminate PAS as a threat, UMNO is more creative in Malay constituencies. The party has used a strategy known as *kepala sepuluh* ("head of ten"), where local party workers take responsibility for 10 Malay voters, using financial incentives to deliver UMNO votes. Under a related *anak angkat* ("adopted child") system, UMNO election workers reside in the homes of voters, pay a modest sum to their hosts for their hospitality, and keep away PAS vote canvassers. In some contested constituencies, *pengundi hantu* ("phantom voters") arrive to cast ballots for the UMNO candidate. These voters do not live in the constituency in question, sometimes arriving on election day on buses from factories owned by UMNO cronies in different states.[8] Irregularities in voter registration rolls are common (Lim 1995; Loh 1999; Netto 1992), as are charges that members of the military are coerced by their superiors into voting for BN candidates.

[6] On Malaysia's electoral system, see Puthucheary and Norani (2005).

[7] Students of Southeast Asian politics variously refer to the political system of Malaysia as "semi-democracy" (Case 2002: ch. 4), "pseudodemocracy" (Case 2001); "neither authoritarian nor democratic" (Crouch 1993), "statist democracy" (Jesudason 1993), "authoritarian populism" (Munro-Kua 1996), or "soft authoritarianism" (Means 1996).

[8] The Malay opposition party PAS has resorted to many of UMNO's tactics as well. In response, the government has begun to gerrymander districts in PAS strongholds to split the Islamist vote.

Laws exist that ban campaigning before the official campaign period, but the incumbent regime violates these laws with impunity. While imperfections in the process of elections do not extend to the level that makes elections entirely noncompetitive, their recurrence undermines the freedom and fairness of Malaysian elections.

For these reasons, the BN has always attained a two-thirds majority in the *Dewan Rakyat* (the lower house of parliament), enabling it to amend the constitution at will. On only one occasion did the government attain a simple majority of seats after the 1969 elections, and it used the pretext of racial rioting to suspend democratic government for two years, installing a National Operations Council (NOC), which only relinquished power to the parliament on the condition that it would pass certain repressive antidemocratic laws. These laws did not change the regime so much as clarify the rules under which the government demands that citizens live. The regime frequently manipulates political institutions for its own ends, as in the case of Prime Minister Mahathir Mohamad's elimination of the independence of the Malaysian judiciary in the late 1980s (Khoo 1999).

In addition to undemocratic practices during the electoral process, more overt methods of political repression and government restrictions on information characterize the rule of the BN. Even before the BN took power in 1971, the Alliance, its predecessor, routinely jailed members of opposition parties under the Internal Security Act (ISA) of 1960 and placed strict limitations on the rights of opposition parties to assemble or publish political documents (Parmer 1967). Under the NOC, the Sedition Act of 1971 officially banned public speech—including among MPs—which questioned so-called "positive discrimination" in favor of Malays; this act remains in effect today. In doing so, the government prohibited discussion of the most significant political issues in Malaysia, those which opposition parties might profitably employ to attract popular support (Bass 1970; Crouch 1994: 18; Munro-Kua 1996). Government control of the mass media through corporate ownership ensures that news coverage is favorable to regime, and that challengers have little opportunity publicly to air their platforms (Zaharom 2002). The BN has continued these repressive policies since the reformation of Parliament in 1971, and has periodically strengthened laws preventing the discussion of government activity and sensitive politics under the guises of "Official Secrets" and political stability.[9] Although the regime initially drafted the ISA to deal with a communist insurgency in the 1950s, the law's provisions are periodically used to detain members of opposition groups during periods of political crisis (see e.g., Crouch 1994: 17–18; Hilley 2001: 154; Liow 1999: 52–53; Muzaffar 1986: 18–24).

Legitimacy and Performance

The above methods are those through which the Malaysian regime ensures that it achieves electoral success; it is precisely these behaviors that lead analysts to classify

[9] After public concern with corrupt business–government relations rose in the mid-1980s, the government amended the Official Secrets Act of 1972 to declare that the press may no longer discuss government tenders and privatization contracts, even after their completion (Jomo 1994: 277–281; Means 1991: 122).

Malaysia as a competitive or electoral authoritarian regime rather than a minimal or electoral democracy. But the regime, like any other, also strives to engineer political support. It does so through ethnic appeals to its primary constituency—Malays—while simultaneously relying on performance legitimacy and, periodically, the electoral process (Crouch 1996; Jomo 1996).

Social policy favoring Malays as the regime's core constituents is readily apparent. Even though Malays comprise just over half of the country's population, the Malaysian constitution explicitly recognizes the concept of Malay supremacy (*ketuanan Melayu*) as foundational for government policy. For instance, Malay is the country's national language, and Islam is the national religion, despite significant minorities who speak other languages at home and practice other religions.

Economic policy complements social policy in favoring Malays. The economic basis of mass electoral support in Malaysia extends back to the first postcolonial administrations in Malaya. Initially, programs targeted rural Malays, with the Rural and Industrial Development Authority promoting small-scale development schemes. Its successor MARA (Majlis Amanah Rakyat; Council of People's Trust) has since 1966 nurtured small-scale *bumiputra* businesses along with its rural development objectives (Gale 1981: 45–56). Another rural development scheme, FELDA (Federal Land Development Authority), was established in 1960 for similar purposes. Scott (1985) describes in detail how politicians distribute FELDA grants to reward local clients for supporting UMNO. In the wake of the 1969 riots came the New Economic Policy (NEP), a massive pro-*bumiputra* redistribution program with a target that, by 1990, *bumiputras* should control 30% of the country's corporate equity (Bowie 1991; Faaland et al. 2003). In all of its programs, *bumiputra* refers officially to all "indigenous" (non-Chinese and non-Indian) Malaysians, but due to their numerical superiority, the prime beneficiaries of the regime's largesse are Malays. Under the NEP, created as a result of the NOC's belief that Malay economic dissatisfaction threatened the Alliance's political support, the regime has fostered *bumiputra* entrepreneurship by imposing hiring guidelines, disbursing government tenders to *bumiputra* clients, establishing government investment firms to favor *bumiputra* corporations, and creating government-owned national champions such as the automobile firm Proton and the petroleum conglomerate Petronas. It has simultaneously nurtured ordinary Malays' participation in the financial sector through discounted stock offerings and a wide range of highly profitable *bumiputra*-only unit trusts. With the expiration of the NEP came the National Development Policy, which reiterates nearly all of the NEP's goals.

In this way, Malaysia's political economy provides the foundation upon which the regime uses economic performance to enhance its rule. The regime openly affirms that economic performance is central to its political support, and throughout Malaysia's history it has acted accordingly. Since economic performance is a key mechanism through which the regime entices citizens to support it, the regime has an incentive to manipulate fiscal policy when Malaysian citizens go to the polls.

The data employed in the statistical analysis below do not allow us to observe the particular ways that budgetary outlays build support for the regime in the run-up to elections. But specific instances of pre-election spending boosts in Malaysia are easy to uncover, and give a partial picture of how the government uses spending to garner votes. In 1995, despite facing a weak opposition, Mahathir and Deputy Prime

Minister and Finance Minister Anwar Ibrahim traveled the country, stressing the BN's ability to deliver the goods to loyal Malaysians through development spending. They announced, for instance, investment in commercial infrastructure in Labuan (*Business Times* [Malaysia], February 2, 1995), additional funds for housing in Penang (*New Straits Times*, April 10, 1995), educational spending in Kedah (*New Straits Times*, April 21, 1995), and spending on water and electricity infrastructure for rural Sabah (*New Straits Times*, April 23, 1995). The government had previously tabled an "election budget" for 1995 that featured tax cuts on basic consumption goods, income tax exemptions for the poor, and bonuses for civil servants, all of which were widely popular and expected to bolster the BN's electoral returns (see Chin 1996). Such spending decisions are not necessarily wasteful, but because they coincided with elections, it suggests that electoral considerations rather than economic planning calculations drove them. It is highly unlikely that spending increases are only economically justifiable during electoral campaigns. The statistical analysis below makes this counterfactual clear by testing electoral motivations for spending increases against other economic determinants of spending.

The preceding analysis of economic performance and regime support focuses on the Malay masses, the group that benefits from spending increases in addition to being the group that turns out to support the regime. At higher levels of politics, deep linkages between the government and the corporate sector have led to widespread cronyism in Malaysian politics (Gomez and Jomo 1999; Searle 1999: 81–102). These business–government ties have enabled successive Malaysian governments to marshal corporate wealth for political gain, and to distribute patronage to high level corporate supporters of the regime (mostly Malay, but in some notable cases Chinese and Indian as well). Money politics does not itself entail authoritarianism—in the region, democratic Thailand, the Philippines, and post-Soeharto Indonesia have more serious problems of money politics than authoritarian Malaysia—but Malaysia's particular relationship between politics and business ensures government protection to favored enterprises while encouraging business figures to join politics as BN parliamentarians. Since many politicians and business figures are one and the same, it is unlikely that influential corporate figures are at much of an informational disadvantage regarding future economic performance. But fiscal policy manipulation during elections should not target corporate leaders, but rather the Malaysian masses, which operate with such a disadvantage as required in models of PBCs with rational expectations. Corporate figures with close ties to the BN should also support fiscal policy manipulation as a strategy for ensuring the BN's electoral victory, as it enables them to benefit from continued BN dominance. The long history of corporate involvement in Malaysian electoral politics is strong evidence that this is the case (Gomez 1994, 2002).

As an authoritarian regime with democratic electoral institutions, Malaysia presents an ideal test for this study. Additionally, the regime in Malaysia has proven stable since independence. The ruling coalition has resisted domestic and international pressure for democratization, never approaching true democracy yet consistently holding elections according to institutional rules. Despite the name changes of 1974 from the Alliance to the BN, the coalition of ethnic parties that ascended to power in 1957 has remained essentially unchanged, the main differences being the inclusion of a largely Chinese but officially noncommunal party (Gerakan) and an ever-changing roster of parties from Sabah and Sarawak. The Malaysian regime's long-term stability, combined with its political characteristics, accordingly minimizes the potential for confounding political factors to affect the empirical results of this analysis.

One significant hurdle in the study of the coincidence of elections and spending in Malaysia is the presence of endogenous election timing. In Malaysia, as in the United Kingdom, governments may hold elections any time within five years after they take power. The longest span between elections has been 21 quarters (1969:Q1 to 1974:Q3), and the shortest is only 15 quarters (1978:Q3 to 1982:Q2), so there is clear variation in election timing. While fiscal policy does not exogenously affect the government's decision to call elections, early elections may signal to voters that the economy is about to do poorly and so the government wishes to garner political support (Smith 1996, 2003). At the very least, both the calling of elections and fiscal policy are the product of the same desire to demonstrate legitimacy. Ideally, the estimation strategy should control for the factors that cause both spending and elections to isolate the effect of elections themselves on spending. Unfortunately, the baseline need to establish legitimacy is unobservable. Below, I employ two indirect tests: one based on the durability of the need to establish legitimacy, the second developed from Smith's model of early elections to control for proxies for the determinants of early elections.

Estimation

The arguments presented above suggest that, controlling for other explanatory variables that predict government spending, elections in Malaysia lead to larger deficits in the balance of government accounts.[10] Figure 1 below plots the quarterly average difference between Malaysian governmental revenue and expenditure, in millions of Malaysian ringgit in 1987 prices, for the years 1967 to 1999.

In the figure, values less than 0 represent quarters with an average fiscal deficit, while values greater than 0 represent quarters with an average fiscal surplus. Visual inspection reveals seasonal fluctuations in the balance of government accounts, as well as an increase in its variance due to the ever-increasing fluctuations between deficits and surpluses over time. There is also a large increase in the deficit that corresponds to the Asian financial crisis of 1998.

I discuss a statistical model that captures seasonality of the dependent variable in the Appendix. The Asian financial crisis presents a more challenging problem. The Asian financial crisis from mid-1997 through 1998 had its roots in the heavy foreign debt exposure of private firms in many rapidly industrializing states in East and Southeast Asia. After the devaluation of the Thai baht in mid-1997, speculative attacks turned to the other currencies of the region. As these countries devalued their currencies, foreign creditors faced an increasing inability of debtors firms and financial institutions to repay their loans, contributing capital flight and further exchange rate pressures. Currencies of the four major victims of the crisis—

[10] Spending is the variable of interest, but deficits allow us to capture the fact that the possibility of spending is contingent on revenue, especially with revenue as a regressor.

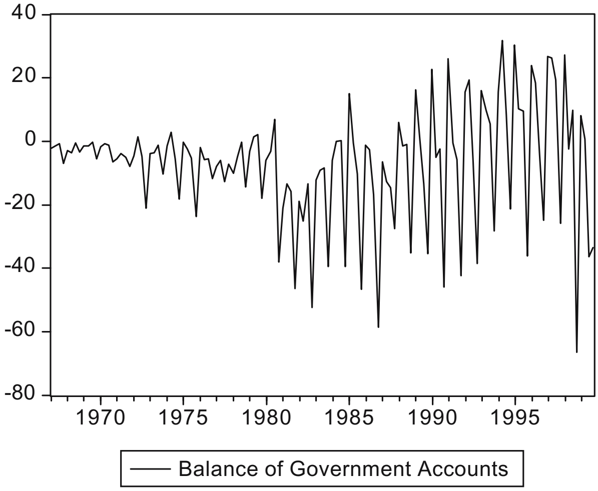

Fig. 1 Balance of government accounts, Malaysia 1967–1999

Indonesia, Malaysia, South Korea, and Thailand—entered a downward spiral that resulted in the near-collapse of their economies. This necessitated extraordinary policy decisions among international lending agencies and national governments.[11] Malaysia's response to the rapid withdrawal of foreign portfolio capital from the economy after the floating of the ringgit was initially to tighten the budget and raise interest rates to attract capital back into the country, a policy undertaken at Anwar's behest. When this proved ineffective, Mahathir and his allies reversed course and opted for an expansionary set of macroeconomic policies, an exchange rate peg, and the imposition of selective capital controls in September 1998. Additionally, as part of the adjustment package, the Malaysian regime responded to the crisis by providing emergency funds for failing banks with high levels of *bumiputra* investment.[12] All of this points to an irregularly high fiscal deficit in 1998. Even more important for this analysis, the Asian financial crisis preceded parliamentary elections in 1999, meaning that the observable effect of elections in period t on the governmental deficit in period $t-1$ may be confounded by an inordinately large deficit preceding an election for other reasons. Because the statistical estimator employed here models Malaysian budgets as a time series with quarterly seasonal effects, exclusion of data from 1998 necessitates exclusion of any subsequent data.

The variable of theoretical interest, *ELECTCURR*, is a dummy variable "1" in quarters with parliamentary elections, and "0" in other quarters. The practice of using dummy variables to code elections in Malaysia has an obvious drawback in its inability to distinguish between elections that take place at the beginning of a quarter and elections that take place near the end of a quarter. Yet this coding convention is consistent with the most recent studies of PBCs. I also include four additional

[11] A good economic summary of the crisis is Radelet and Sachs (1998).

[12] A pro-government review of how the regime handled the crisis may be found in Tourres (2003). A more balanced account is Jomo (2001).

Table 2 Variables

Variable	Definition
GOVSUR	Average quarterly balance on government accounts in constant prices
GDP	Average quarterly gross domestic product, in constant prices
REVENUE	Average quarterly government revenue, in constant prices
OPEN	Sum of exports and imports divided by GDP
ELECTCURR	Dummy variable: 1 in quarters with elections; 0 else
ELECTPREV(T)	Dummy variables: 1 *T* quarters before an election; 0 else
ELECTNEXT(T)	Dummy variables: 1 *T* quarters after an election; 0 else
ELECTPREVNEXT(T)	Dummy variables: 1 in the quarter with an election and in the previous and following *T* quarters; 0 else

dummy variables, *ELECTPREV(1–4)*, that test whether the regime increases spending in anticipation of elections being called.

In addition, other independent variables include GDP, government revenue, and openness to trade (for data sources, see the Appendix). The definitions are given below in Table 2.

Including the variable *GDP* as a regressor captures the intuition that higher levels of GDP should lead to smaller government deficits. With *REVENUE* as a regressor, I control for the potential confounding effect that the larger the government's revenue in a quarter, the smaller the government's deficit in that quarter. For each of these variables—*GOVSUR*, *GDP*, and *REVENUE*—I take natural logarithms to smooth out nonlinearities. Using *OPEN* as an independent variable reflects the argument that economic openness leads governments to increase social protection (Cameron 1978; Rodrik 1998).[13] As the data take the form of time series, nonstationarity in each of the economic variables is an important concern, and augmented Dickey-Fuller tests reveal unit roots in all of them. Transforming the variables using first differences eliminates this problem.[14]

Estimates of the effects of these independent variables on government deficits, reporting robust standard errors, appear in Table 3. These results show consistent, statistically significant support for the hypothesis that Malaysian governments spend more in quarters when they face elections.

Each model controls for a different series of independent variables. An interpretation of the coefficient on *ELECTCURR* of Model 2, for example, shows that the existence of a parliamentary election in a period is associated with an average decrease of −0.091 in the dependent variable, the quarter-on-quarter change in the natural logarithm of the government surplus. The small size of this effect

[13] Alesina and Wacziarg (1998) argue that country size mitigates the effect of openness on growth: smaller countries have larger public sectors and are also more open. Malaysia is the archetype of a "small, open economy."

[14] ADF tests of the first-differenced time series strongly reject the null hypothesis that there is a unit root in any transformed variable. The *t*-statistics for the first-differences of ln(*GOVSUR*), ln(*GDP*), ln (*REVENUE*) and *OPEN* obtained from the tests are −5.46, −3.59, −7.78, and −4.88, respectively. The critical *t*-statistic for 99% confidence is −3.49.

Table 3 Estimation results

Independent variable	Model 1	Model 2	Model 3
Constant	0.013965	0.001733	0.012180
	(0.137551)	(0.191759)	(0.181499)
GDP	−0.52245	−0.15149	−0.31595
	(0.531436)	(0.558302)	(0.558065)
REVENUE	–	0.300089**	0.326103**
		(0.113548)	(0.111455)
OPEN	–	–	−0.248471
			(0.155339)
ELECTCURR	−0.09415**	−0.09078**	−0.078913**
	(0.032603)	(0.03048)	(0.028560)
SAR(4)	0.907175***	0.935742***	0.931774***
	(0.064505)	(0.06165)	(0.062599)
Adjusted R^2	0.786141	0.799536	0.809137
Log-likelihood	67.33687	71.70535	72.57339

Standard errors in parentheses
*Statistically significant at the $\alpha<.05$ level
**Statistically significant at the $\alpha<.01$ level
***Statistically significant at the $\alpha<.001$ level

makes sense, given that variable's transformations.[15] The statistical significance of the results for *ELECTCURR* is consistently well above the 99% confidence level across these models, and the size of these coefficients is fairly stable across specifications. As predicted in the discussion of fiscal policy manipulation during electoral periods presented above, the Malaysian government systematically spends more in quarters when it faces elections. This finding remains consistent when adding dummy variables that test for spending increases in up to four quarters preceding elections. In these models (not reported), the variables that correspond to the quarters before elections are never significant. This evidence shows that spending increases do not foreshadow the calling of elections, but rather only exist in quarters with elections. I revisit this finding in the discussion of causality below.

The interpretations of the other coefficients included here are even less straightforward due to the transformations necessary for both dependent and independent variables. *GDP* has the expected sign but is statistically indistinguishable from zero. When *REVENUE* enters in Model 2, it is highly significant in the expected direction, confirming the expectation that governments run lower fiscal deficits they have greater revenues. The estimated coefficients and standard errors for *OPEN* indicate that we cannot reject the null hypothesis that Malaysia's volume of trade with foreign countries does not determine the size of the government deficit. This may signify the poorness of this measure of trade openness, or because

[15] The *size* of the coefficient on *ELECTCURR* are not robust to the inclusion of the data points that surround the Asian financial crisis in the late 1990s—including this data almost doubles its value. This is consistent with the supposition that the data points that correspond to the Asian financial crisis caused a massive increase in the Malaysian government deficit directly preceding a parliamentary election, thereby obscuring the average effect of elections on governmental deficits.

Malaysian governments do not provide the same sort of social insurance against the volatility of international markets that OECD states provide (see Cameron 1978).[16]

Two Indirect Tests of Causality

The empirical models presented so far cannot distinguish between increases in spending during elections and increases in spending due to an external factor, such as the need to establish legitimacy, that also causes elections. Imagine that there is some factor that leads the Malaysian regime to call elections *and* increase spending—for example, the need to increase legitimacy for some unobserved reason. That need should precede elections, and persist in their wake, while elections are temporally bound to only occur within one quarter. If this were the case, then we should see increased spending around elections, not just during elections, as the findings have so far indicated. The results in Table 4 show indirect evidence that this is not the case. Models 4 and 5 add quarterly dummy variables (*ELECTPREV* and *ELECTNEXT*) for one and two quarters before and after an election. Models 6 and 7 adopt a different definition, with additional dummies coded as "1" in the quarter of an election as well as the preceding and subsequent one and two quarters (*ELECTPREVNEXT*).

The results do not support any finding of increased spending before or after elections, suggesting that there is no unobserved factor that occurs alongside elections, which leads to increases in spending and which also might be causing elections. This is one piece of indirect evidence that *ELECTCURR* is capturing the effect of elections themselves.

Another indirect test proceeds from the logic of election timing in Smith (1996), where governments hold early elections when they anticipate future poor economic performance. If that is the case, the government should attempt to ease the impact of future poor economic performance through additional spending as well. Therefore, we can isolate the amount of spending caused by elections themselves from the amount caused by the related need to increase legitimacy—which also causes elections—by controlling for the future state of the economy. Table 5 does this by repeating Model 2 with a series of lead terms, modeling current spending as a function of current variables and future economic performance.[17]

The results are again consistent with the results in Table 3. The coefficient estimates for *ELECTCURR* and *REVENUE* are nearly identical, as are the standard errors for *ELECTCURR*. Estimates for *GDP* remain insignificant, and all leads of *GDP* are insignificant as well. There is no evidence that the Malaysian government increases spending in anticipation of future economic downturns when it is also

[16] *OPEN* may also be overly colinear with *GDP*, which is the denominator for calculating *OPEN*—and note also *GDP* is also insignificant. To check, I explored Model 3 using other measures of trade openness, including (1) the sum of exports and imports, (2) "real openness," defined as the sum of exports and imports divided by the consumer price index, (3) the balance of foreign trade, and (4) logs and first differences of these variables. The variable is never significant at anywhere close to conventional levels, and *GDP* remains insignificant as well, but the coefficients and standard errors on *ELECTCURR* and *REVENUE* remain almost unchanged.

[17] Here, actual future economic performance is a proxy for expected future economic performance.

Table 4 Estimation results with additional time dummies

Independent variable	Model 4	Model 5	Model 6	Model 7
Constant	−0.00254 (0.195967)	−0.00719 (0.206505)	−0.00233 (0.194879)	0.002811 (0.199606)
GDP	−0.09941 (0.549353)	−0.07638 (0.579226)	−0.10762 (0.542352)	−0.12508 (0.532011)
REVENUE	0.307139** (0.112497)	0.323994** (0.113346)	0.306204** (0.11226)	0.309229** (0.111924)
ELECTPREV(2)	–	−0.04665 (0.039976)	–	–
ELECTPREV(1)	0.033467 (0.032812)	0.08052 (0.053484)	–	–
ELECTCURR	−0.0906** (0.030684)	−0.09039** (0.030881)	−0.11623** (0.043169)	−0.11619** (0.043334)
ELECTNEXT(1)	0.01783 (0.050802)	0.017975 (0.051112)	–	–
ELECTNEXT(2)		−0.03359 (0.059975)	–	–
ELECTPREVNEXT(1)	–	–	0.025604 (0.030238)	0.065662 (0.051968)
ELECTPREVNEXT(2)	–	–	–	−0.04011 (0.041222)
SAR(4)	0.936883*** (0.063242)	0.939438*** (0.065198)	0.936819*** (0.063304)	0.937844*** (0.065333)
Adjusted R^2	0.79778	0.796595	0.796595	0.79969
Log-likelihood	72.23938	71.88971	71.88971	72.80392

Standard errors in parentheses
*Statistically significant at the α<.05 level
**Statistically significant at the α<.01 level
***Statistically significant at the α<.001 level

holding elections, and the estimated effect of elections themselves on spending remains consistent.

Other Robustness Checks

Despite these strong results on the effect of elections on fiscal spending, we might worry about time-series effects such as autocorrelation that remain even after controlling for seasonal effects. To check, Table 6 (see Appendix) builds on Model 3 and progressively adds autocorrelation terms for up to four periods preceding each observation of the dependent variable. The results from these time-series regressions show more support for the hypothesis that Malaysian government spend more during elections. Inclusion of one autoregressive term lowers the size of the coefficient for *ELECTCURR* by around .03, but most subsequent autoregressive terms have no notable effects on the coefficient estimate. It is encouraging that while standard errors of the estimate of *ELECTCURR* rise across specifications, they remain well below the α<.05 level. Also encouraging are the consistent expected results for *REVENUE* and lack of statistically significant results for *GDP*. Further model specifications (not reported) employing moving averages do not substantively change these results.

Table 5 Estimation results with expectations of future economic performance

Independent variable	Model 8	Model 9	Model 10	Model 11
Constant	−0.00147	−0.00149	−0.00017	0.006121
	(0.186459)	(0.186964)	(0.189231)	(0.210666)
GDP	−0.14559	−0.14505	−0.17064	−0.04703
	(0.566578)	(0.579724)	(0.582406)	(0.615243)
GDP(+1)	0.303763	0.303816	0.25377	0.240969
	(0.453812)	(0.455683)	(0.471997	(0.451119)
GDP(+2)	–	0.001915	−0.00106)	0.117921
		(0.419719)	(0.425697	(0.456226)
GDP(+3)	–	–	−0.26313	−0.2862
			(0.358832)	(0.369152)
GDP(+4)	–	–	–	0.553472
				(0.525241)
REVENUE	0.294451*	0.294455*	0.291208*	0.278452*
	(0.113878)	(0.114295)	(0.115508)	(0.113483)
ELECTCURR	−0.09038**	−0.09035**	−0.08839**	−0.08892**
	(0.02951)	(0.030207)	(0.027634)	(0.028539)
SAR(4)	0.933787***	0.933779***	0.934618***	0.94045***
	(0.062871)	(0.062956)	(0.064092)	(0.066899)
Adjusted R^2	0.798556	0.796757	0.795524	0.796357
Log-likelihood	71.93927	71.93928	72.11306	72.89425

Standard errors in parentheses
*Statistically significant at the α<.05 level
**Statistically significant at the α<.01 level
***Statistically significant at the α<.001 level

The nonstationarity of *GOVSUR* is another potential source of biased inference. A correlation between time period and variance in the balance of government accounts persists after removing the unit root with logs and first differences, suggesting residual heteroskedasticity and nonstationarity. A possibility in cases of such correlation between time and variance is that the underlying data generation process is characterized by autoregressive conditional heteroskedasticity—that is, the variance of a particular observation is conditional on previous observations' variances and estimated variances. The correct estimator in this case is a generalized linear model known as a Generalized Autoregressive Conditional Heteroskedastic (GARCH) model (Bollerslev 1986; Engle 2001). I also explored the data using this model with different lag terms, reporting the results in Table 7 (see Appendix). The results of this alternative estimation strategy are reassuring. The effects of *ELECTCURR* remain statistically significant at the α<.01 level when controlling for *REVENUE*. Also, parameter estimates for other independent variables also remain consistent. Accordingly, the results are robust to the most important alternate specifications of the dependent variable, accounting for different parameterizations of the data's lag structure and explicitly modeling the nonstationary variance of the average balance of Malaysian government accounts. These results are strong indicators that the Malaysian government, though a nondemocratic regime throughout this period, increases budgetary expenditures in during elections.

Discussion and Conclusion

National account data from Malaysia support the contention that elections in nondemocratic regimes have predictable effects on macroeconomic policy. The theory here predicts accurately the manipulation of fiscal policy during elections, which I have argued stems from the regime's desire to maximize votes to protect political legitimacy and demonstrate political authority to opposition groups. The electoral–economic connection in Malaysia is strong, and elections are accordingly important determinants of fiscal policy choice in this rapidly developing nondemocratic state. The consequences of this connection are relevant for various avenues of research, as well as for the formulation of policy by groups such as international lending agencies. Before discussing the implications of these findings, a few words are warranted on external validity and the model's predictions in "noncompetitive" authoritarian regimes.

The model offered here predicts political budget cycles in nondemocratic regimes where elections matter. Two kinds of evidence can help us to understand the wider applicability of the Malaysian case. First, do we see evidence of electoral manipulation of the economy in other competitive authoritarian regimes? Lisa Blaydes (2006) finds evidence of electoral cycles in Egypt under Hosni Mubarak, and Robin Grier and Kevin Grier (2000), and Maria de los Angeles Gonzalez (2002) have found similar evidence in Mexico under the PRI. Both Egypt under Mubarak and Mexico under the PRI share with Malaysia many of the hallmarks of electoral or competitive authoritarianism: a dominant party or coalition that holds regular elections and that permits extensive political competition in the electoral arena.[18] My approach complements their empirical findings, but builds upon their theoretical work by specifying the conditions under which we should find electoral manipulation in nondemocratic regimes: where political institutions and voter awareness make defrauding of the population unfeasible or potentially very costly. In such circumstances, manipulation of the budget allows the regime to demonstrate its legitimacy, both to its supporters and to the potential opposition.

A second piece of evidence can also bolster our confidence in the theory and Malaysian evidence offered here. An implication from this model is that in nondemocratic regimes where elections are truly nonconsequential, we should *not* find evidence of electoral manipulation of the economy.[19] On this, the evidence is less clear, as the cross-national literature has not thought to test for PBCs in countries where intuition suggests that they should not exist. The lack of affirmative evidence is not itself evidence that such regimes do not manipulate economic policy for electoral gain—it could also be the case that fractious, weakly institutionalized nondemocratic polities do not have meaningful budgets to manipulate. But recent elections in Zimbabwe, a competitive authoritarian regime that has moved in a distinctly authoritarian direction since the mid-1990s, witnessed far more political violence and intimidation to frighten the regime's opponents than budgetary

[18] All three also banned certain groups from contesting elections as parties: in Malaysia, the Communist Party; in Mexico under the PRI, religious parties; and Egypt, the Muslim Brotherhood.

[19] I thank an anonymous reviewer for highlighting this point.

spending to establish political legitimacy (see Venter 2003). Similar examples include the 2006 election in Belarus that returned Alexander Lukashenko with more than 84% of the popular vote (*The Times* [London], March 21, 2006), and the 2004 legislative elections in Turkmenistan, where President-for-life Saparmurat Niyazov's Democratic Party won all available seats (*Agence France-Presse*, December 20, 2004). In such authoritarian elections that differ dramatically from competitive or electoral authoritarianism, we should expect intimidation and fraud during elections rather than increased government spending, and this is consistent with anecdotal evidence. Future research into the "menu of manipulation" (Schedler 2002) that authoritarian regimes employ will enable researchers to understand more precisely the conditions under which nondemocratic regimes choose different strategies when their citizens enter the voting booth.

An unfortunate problem for the use of time-series econometrics to establish the causal link between elections and macroeconomic policy cycles is regime durability. Only in cases where available data can provide at least 100 uninterrupted observations can researchers be confident in such estimations as the ones provided above (Chatfield 1996). This amounts to a restriction to cases where an authoritarian regime maintained the necessary institutional characteristics along with its grip on power for at least 25 years. Panel data approaches encounter this problem as well if they estimate fixed country effects. Some Eastern European states, in particular the former Yugoslavia, may have been durable enough for such analyses, but data availability from these states is limited. How should researchers ascertain validity outside of the few durable regimes such as Malaysia, Egypt, and Mexico before 2000? One suggestion proceeds from Robert Keller and Ann Mari May's hallmark study of the Nixon administration's manipulation of economic policy in months preceding the 1972 U.S. Presidential elections (Keller and May 1984). Focused studies of particular elections in relevant nondemocratic regimes should indicate further instances or absences of economic policy manipulation associated with elections under nondemocratic regimes with different institutional and socioeconomic characteristics, contributing to the universe of cases from which to test the theory proposed here.

One might ask whether the findings here are surprising. After all, the Malaysian government advertises itself as a parliamentary democracy, and many researchers have found PBCs in other democratic countries—is this not just an example of a democratic government (or a government that approaches democratic practices) behaving as we should expect? From one perspective, the finding is unsurprising, for both democratic and competitive authoritarian regimes derive utility from high vote returns during elections. But the logics of regime perpetuation differ importantly between the two types of regimes. Democratic governments maximize the probability of reelection to remain in office, while competitive authoritarian regimes maximize votes to demonstrate their popularity and intimidate their opposition. Recall that the Malaysian regime has progressively distanced itself from actual democratic practices in favor of authoritarian controls to *ensure* electoral victories. It then employs these victories as evidence that the government is popular. It is not at all obvious that the authoritarian governments like Malaysia should manipulate official economic policy—note again that these are not off-budget slush funds, but the government's actual macroeconomic position—for electoral gain. With a growing consensus that electoral institutions matter in nondemocratic settings, focused studies of precisely how electoral institutions matter are necessary to probe the dynamics of the political consequences of these institutions. To this end, the finding of a robust association between elections and spending in Malaysia contributes to a progressive research program on the dynamics of electoral politics in nondemocratic settings.

The findings of this study suggest several conclusions regarding the study of nondemocratic regimes and the formation of economic and investment policies. In the realm of economic policymaking, this study indicates that electoral considerations can determine in at least some states the fiscal policies of authoritarian regimes. While Malaysia chose not to seek funds from the IMF during the Asian Crisis, international lending agencies and private banking institutions alike may fail to attend to the electoral influences on the fiscal policy decisions of authoritarian governments facing economic hardships. In nondemocratic states similar to Malaysia, the model predicts electoral effects on macroeconomic policy similar to those found here. Failure to understand implications of this model, that the willingness of certain nondemocratic states to adhere to external pressures regarding their fiscal policies may vary due to electoral considerations, may include unsuccessful policy demands placed on authoritarian states or perceived noncompliance of authoritarian regimes to international financial agreements. Indeed, the need for Malaysia's regime to expand government spending for the 1999 general elections likely contributed to its resistance to IMF conditionality during the 1997–1998 financial crisis.

The second conclusion is related to the status of the political business cycle in cross-national research. This study has adopted the logic of the PBC and the refinements of its supporters and critics to demonstrate the possibility of electorally motivated fiscal policy cycles in a certain class of nondemocratic regimes. However, it is important to recognize the differences between the PBC model adopted here and the PBC as first formulated in Nordhaus (1975). The PBC is vulnerable to a rational expectations critique, depending critically on an informational asymmetry between the government and its population and comparatively unsophisticated voting behavior. Nordhaus studied economic outcomes such as inflation over which the government has only indirect control and which rational investors can arbitrage away, while I have studied fiscal policy, that is, an economic outcome over which the government has direct control. The PBC has at times been at the forefront of political research, and with varying levels of success, but the present study makes explicit the institutional characteristics that are relevant for understanding when and how electorally motivated economic policy manipulation will take place.[20]

With reference to studies of Malaysian politics, another, more unique, conclusion emerges from this study. Observers of Malaysian politics have long known that the federal government uses development grants (and the threat of withholding them) as carrots (and sticks) during elections. Anecdotal evidence of such behavior from the regime is widespread, but we know relatively little about the government's position

[20] A new twist on the institutional determinants of economic policy manipulation in democracies is Kayser (2005).

on this expenditure. Specifically, no study of development expenditure in Malaysia has asked whether the government simply reallocates existing, already budgeted development funds to shore up support, or actually manipulates the government's overall fiscal position during elections. The evidence presented here is consistent with the latter interpretation. Rather than changing the division of the development funding pie, the government increases the size of that pie.

A final conclusion regards how political scientists conceive of the domestic politics of nondemocratic regimes. The research in this study follows a particular conception of the electoral considerations of authoritarian regimes that focuses on the legitimacy goal of nondemocratic states and the tactics that incumbent regimes in these states employ to attain this goal. This article suggests that other conventional conceptions of authoritarian governance may not be attentive to all of the relevant political determinants of policymaking in areas other than macroeconomic policy. More thorough study of the institutional foundations of policymaking in nondemocratic states has lagged behind similar studies in democratic regimes, but this study shows that there is interesting work to be done.

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Appendix

Estimators and Functional Forms

I identify using standard techniques a four-period seasonal effect, and also check that no other autoregressive or moving average effects influence the temporal distribution of Government Deficit (see also above). The functional form of a seasonal autoregressive estimator is

$$\begin{gathered} Y_t = \beta * X_t + u_t \\ \left(1 - \phi L^k\right) u_t = \varepsilon_t \end{gathered} \tag{1}$$

where $L^n\, x_t = x_{t-n}$. See Mills (1990: 164–198) for a discussion of the identification of seasonality in time-series data.

Equation 2 describes the model of the balance of government accounts employed in the estimations.

$$\mathrm{GOVSUR}_t = \beta_0 + \beta_{1t \ldots kt} * X_{1t \ldots kt} + \beta_{k+1t} * \mathrm{ELECTCURR}_t + \varphi_{t-4} + \varepsilon_t \tag{2}$$

In this equation, the variables X_1 to X_k correspond to the vector of k confounding independent variables included in each specification; φ_{t-4} is the seasonality term, lagged four quarters; and ε_t is a disturbance term.

Table 6 Estimation results with autocorrelation terms

Independent variable	Model 12	Model 13	Model 14	Model 15
Constant	0.003023	0.006769	−0.00671	0.135313
	(0.13107)	(0.096721)	(0.006503)	(1.359767)
GDP	0.024875	0.175924	0.333964	0.193698
	(0.276733)	(0.215561)	(0.267249)	(0.231836)
REVENUE	0.308436**	0.27908**	0.209269**	0.3043**
	(0.097141)	(0.089972)	(0.076874)	(0.099512)
ELECTCURR	−0.06747*	−0.06561*	−0.0491*	−0.06027*
	(0.028284)	(0.025278)	(0.02353)	(0.024528)
AR(1)	−0.58503***	−0.8026***	−0.97802***	−0.62755***
	(0.091413)	(0.075257)	(0.029002)	(0.08606)
AR(2)	–	−0.3764***	−0.96733***	−0.21147****
		(0.084578)	(0.037856)	(0.118976)
AR(3)	–	–	−0.96329***	0.046092
			(0.051746)	(0.133053)
AR(4)	–	–	–	−0.31355**
				(0.09777)
SAR(4)	0.951301***	0.956764***	−0.19415****	0.995967***
	(0.053723)	(0.05873)	(0.115305)	(0.036349)
Adjusted R^2	0.865234	0.882442	0.87828	0.898072
Log-likelihood	94.57561	101.8265	99.00632	108.4345

Standard errors in parentheses
*Statistically significant at the α<.05 level
**Statistically significant at the α<.01 level
***Statistically significant at the α<.001 level
****Statistically significant at the α<.1 level

Estimation Results with Autocorrelation Terms

Table 6 builds on the results for Model 2 in the text (Table 3), progressively adding autocorrelation terms to check for time-series effects in the formation of government budgets.

GARCH Estimation

GARCH models do not require stationarity in the variance of the dependent variable, an important assumption in time-series least squares regressions. Instead, GARCH models estimate the variance of the dependent variable as a function of the past variance of the dependent variable and the estimated past variance of the dependent variable. I further correct for residual heteroskedasticity by reporting Bollerslev-Wooldridge robust standard errors—analogous to White's heteroskedasticity—consistent standard errors in the context of a GARCH model (Bollerslev and Wooldridge 1992).

Equation 3 describes the mean equation, and Eq. 4 describes the variance equation.

$$\begin{gathered}\mathrm{GOVSUR}_t = \beta_0 + \beta_{1t \ldots kt} * X_{1t \ldots kt} + \beta_{k+1t} * \mathrm{ELECTCURR}_t + \varphi_{t-4} + \varepsilon_t \\ \varepsilon_t | \psi_{t-1} = N(0, h_t)\end{gathered} \tag{3}$$

$$h_t = \alpha_0 + \alpha_1 \varepsilon_{t-1}^2 + \alpha_2 h_{t-1} \tag{4}$$

Table 7 GARCH (1,1) estimation

Independent variable	Model 16	Model 17	Model 18
C	−0.04447	−0.03963	0.036232
	(0.124528)	(0.188206)	(0.063496)
GDP	−0.24547	−0.21387	−0.162467
	(0.268467)	(0.334772)	(0.352170)
REVENUE	–	0.295913***	0.106983***
		(0.078585)	(0.029164)
OPEN	–	–	−0.130030
			(0.096237)
ELECTCURR	−0.03129	−0.07648**	−0.047506**
	(0.03919)	(0.023627)	(0.017721)
SAR(4)	0.93049***	0.954104***	0.907790***
	(0.031772)	(0.033209)	(0.050257)
Variation equation			
C	0.01505***	0.014213	0.000118***
	(0.00286)	(0.009145)	(0.0000003)
ARCH(1)	0.566006***	0.304882**	−0.042611
	(0.130422)	(0.096699)	(0.038434)
GARCH(1)	−0.26337***	−0.31417	1.073026***
	(0.058032)	(0.415509)	(0.042185)
Adjusted R^2	0.77427	0.793348	0.784075
Log-likelihood	74.24653	80.67327	92.33670

Standard errors in parentheses
*Statistically significant at the α<.05 level
**Statistically significant at the α<.01 level
***Statistically significant at the α<.001 level

The mean equation is identical to Eq. 2 above, except for now ε_t is distributed with zero mean and variance h_t conditional on previous information ψ_{t-1}. The variance equation models h_t as a function of variance of the previous observation ε_{t-1}^2 and of the estimated variance of the previous observation h_{t-1}.[21] Table 7 shows parameter estimates from a specification including those for the seasonality term and the estimated variance equation.

Although the significance of *ELECTCURR* drops out in the Model 16, its coefficient remains consistent and highly statistically significant in Models 17 and 18.

Data Sources

I derived the variables *GDP*, *REVENUE*, *OPEN*, and *GOVSUR* come from the International Monetary Fund's International Financial Statistics database. I adjusted the variables using the implicit GDP deflator to obtain figures in constant 2002 ringgit. Because of data limitations, an average quarterly GDP level based on annual GDP is a proxy for quarterly GDP from 1967–1990. The dates of Malaysian general elections were obtained from Stearn (1997).

[21] I estimate here a GARCH(1,1) model. I choose this functional form by employing a likelihood ratio test in the most general model that includes all hypothesized regressors. The LR-test statistic is .89693, which cannot reject the null hypothesis that no additional information is obtained using a GARCH(2,1) specification (critical $\chi^2(.05, 1)=3.84$).

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