Thesis Economie en Bedrijfseconomie

Political Business Cycles: The Case of Russia

ABSTRACT

This paper examines the existence of political budget cycles in Russia between 1993 and 2014. Time series are used to find a relationship between election timing and policies pursued by the incumbent government. There seems to be an impact of the timing of elections on both monetary and fiscal policies, as well as on the economy through the real gross domestic product and inflation. The government budget surplus decreases during election years, while money growth is shown to increase. These policies pursued seem to have had a positive effect on the real gross domestic product and inflation. Although not all results are statistically very significant, the results are in line with theoretical predictions.

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Table of Contents:

1. Introduction

A democracy takes some time to get used to, for both the voters and the politicians. The first Russian presidential election took place in 1991. One would expect the democracy to improve as it matures. However, the Economic Intelligence Unit downgraded Russia's democracy index in 2011, which has seen the federation falling from a Hybrid regime to an Authoritarian regime, the worst possible category. The democracy index has only decreased since that period, having Russia ranked 132nd out of 167 countries in 2015. The Economic Intelligence Unit has also reported a 30% fall in the Voice and Accountability index between 2007 and 2014 (graph 1), which takes into account the Democracy Index, vested interests, accountability of public officials, human rights and freedom of association.

A low score in the Democracy index could lead the way for politicians to adjust their policies in times of elections, in order to please the voters and hence increasing their probability of being re-elected. If the incumbent government decides to do so, it is said to be creating political business cycles.

In the last decade, many studies have been done regarding political business cycles in various countries. This paper examines whether there have been political business cycles in Russia since the country had its first presidential election in 1991. The fact that it is a relatively new democracy could explain why a large portion of voters in Russia is thought to be myopic, naïve and uninformed. The country is particularly interesting as the state exerts control over media outlets, thus restricting the availability of information regarding government actions. The latest shock came in 2012 when Russia decided to withdraw from the Open Government Partnership. The OGP is "an organization launched to provide an international platform for domestic reformers committed to making their governments more open, accountable and responsive to citizens". The reason to withdraw from this program was that the Kremlin had decided to pursue an open government on its own terms.

Political business cycles could arise through various channels, for example by increasing the money supply or by engaging in expansionary fiscal policy around election times. Both policies would lead to a higher level of income.

Economic conditions do influence voting behaviour, according to Richard Nixon. The Republican candidate lost to the Democratic John F. Kennedy and blamed his defeat on rising unemployment in the month prior to the elections. The president that held office before election day was Republican. Voters allegedly punished the Republican government for the negative effect on the economy, and voted for change.

Empirical support for political business cycles has been mixed so far. The results of previous papers depend on the denotation of the variables used in the analysis. Another problem of previous studies is that not all data are available for Russia, as it takes some time to be published. This paper takes into account data available before April 2016.

Given the democracy index deterioration in the last decade, is there a causal effect in Russia between election timing on the one hand and government budget, money supply inflation, unemployment and Real GDP on the other hand?

There are various theories regarding the political business cycles, to be discussed in section 2. The previous literature will be discussed in section 3. The dataset will be explained in section 4, with the results being presented in section 5. The conclusion can be found in section 6.

2. Theory

There are two main divisions in theories regarding political budget cycles, being opportunistic models and partisan models. The latter model describes how incumbent government change their policies, given their political affiliation. Left-wing governments are known to increase spending and consumer taxes more than right-wing governments do. The left-wing parties are more concerned with reducing the unemployment level and avoiding recession, even when this comes with the cost of inflation. This is opposed to the right-wing parties, who generally prefer to keep the costs of inflation low (Pettersson, 2000).

From now on, this paper will focus on the rational opportunistic model. The difference with the traditional opportunistic model is that expectations are not adaptive, which implies that for example the expected inflation in time t is equal to the inflation in time t_{-1}. However, in the rational model, the expectations of the economy are considered to be rational, and voters cast an expectation based on all information that is available and used by them. The expectations of the future state of the economy play a major role in the voting behaviour. The incumbent government cares only about being re-elected in the next period and has the incentive to stimulate the economy as much as possible before the election period begins. Citizens will perceive this as a positive signal and are thus more likely to vote for the incumbent government.

Alesina, Roubini and Cohen (1997) found that monetary and fiscal policy are expansionary in the year before an election, and contractionary in the year after the election has taken place. Which instruments are used varies, depending on the situation and can be controlled directly by policy makers. Compared to the traditional opportunistic model, effects of the political business cycle on the economy are shorter lived. This is because citizens realize that the incumbent government will try to stimulate the economy in order to gain votes, and citizens will change their expectations of the economy accordingly. Frey and Schneider (1978) assume that the incumbent government will try to aim for their ideological goal when they are leading comfortably in election polls. However, when the expected vote share compared to the opposition is decreasing, the incumbent has an incentive to artificially stimulate the economy in order to gain more votes.

The politicians can manipulate the economy through the Lucas aggregate supply function:

$$y_t = y^* + a[p_t - E_{t-1}p_t]$$

A higher price level in period t, compared to its expected value at time t_{-1}, will increase income – holding potential income in the economy constant. This higher price level can be achieved through expansionary monetary policy, as explained by the Quantity Equation of Money:

$$MV = PT$$

Money supply times the velocity of circulation must equal the average price level times the volume of transactions of goods and services. An increase in the money supply, holding the velocity and the volume of transaction constant, will lead to an increase in the average price level. In order to manipulate the Lucas aggregate supply function, the government must expand its monetary policy after time t_{-1}. If it would be done before time t_{-1}, the economy would not be affected as the expected price level already takes the expansionary policy into account.

The same time constraint holds if income is to be increased through fiscal policy. The government will have to increase its expenditures, or decrease the tax rate, between time t_{-1} and t in order to be effective. The AD curve in the AD-AS model will shift to the right as a result of any expansionary policy. This shift will result in both a higher real income and price level, holding the aggregate supply curve constant – as shown in figure 1.

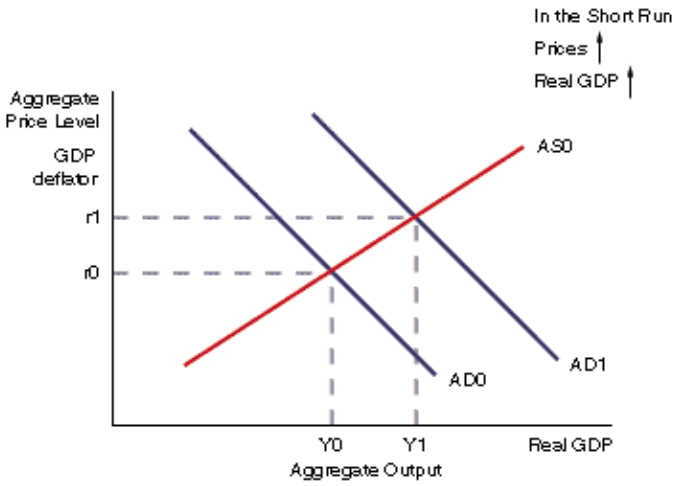


Figure 1

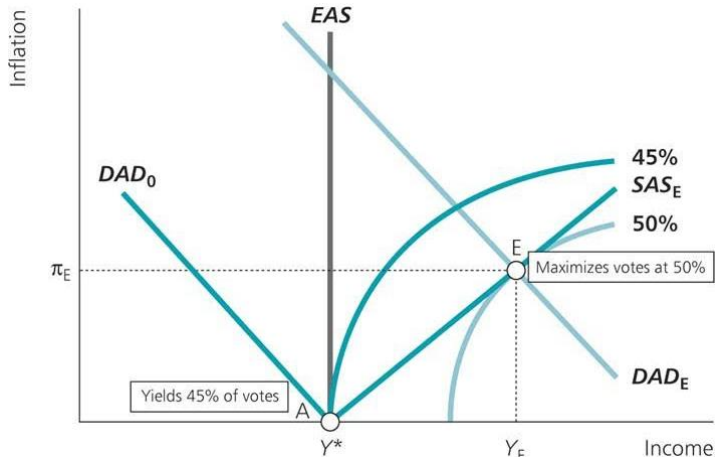
Citizens vote for a candidate as they expect their utility to be the highest when the candidate is finally elected. According to Treisman and Gimpelson (2001), their utility is positively correlated with high real wages, income, increasing real pensions, and increased spending on health, education, social policy and transfers to their regions. Citizens generally dislike inflation, unemployment, high taxes and high interest rates.

As inflation will be increased in the election year, it is important for the government to know how much inflation is permitted by the voters, in order to have a higher level of income. There are various theories on which type of voter would be the most important for an election: the median voter and the swing voter.

The median voter theorem states that in a Majoritarian election, the outcome selected by political parties is that outcome that is preferred by the median voter – the voter who has 50% of the other electorates to its left and 50% to its right. This leads to opportunistic politicians being moderate in their ideological views just prior to the election, in order to capture the median voter.

The swing voter is not affiliated to any party's ideological views and will cast a vote purely based on maximizing his utility given the party lines. The final decision of this type of voter is hard to predict and is able to swing the outcome of the election either way. One out of six voters in the United States of America were swing voters between 1952 and 2004, but they do not seem to radically change election outcomes as they spread across the political spectrum at election time, leaving the outcome balanced.

It is assumed that past GDP growth increases the government's vote share, while unemployment and inflation have negative effects on the probability of being re-elected. Furthermore, the expectation of inflation and other economic variables depend on all information available on the day that the election takes place. Voters decide whom to vote for based on who maximizes their expected utility. The problem is however that not all voters have the incentive to keep up with the news regarding the economic situation of the region. Hence, not all economic factors are taken into account by the voters. They are thus expected to be rational towards all the information they have in hands – not towards all information available (Gärtner, 2013). Examples are information asymmetry and invisible government competence, which can only be assessed by observing certain economic policies.



The DAD_E curve is the DAD curve during election years and intersects with the SAS curve at point E – where 50% of the votes are received. Point A is the starting point, where the incumbent government would receive 45% of the votes.

Figure 2

A political business cycle can be illustrated using figure 2. The difference between figure 1 and figure 2 is that the latter uses SAS and DAD curves instead of AS and AD curves. The axis has now changed from *price level* to *inflation*. Assume that the government has 45% of votes if it does not move the DAD curve during election periods. Inflation is zero and income is equal to its potential level. However, given the SAS curve in election year, the government can decide to shift the DAD curve in such a way that it intersects with the SAS curve further to the right. The shift can be either caused by expansionary monetary policy or expansionary fiscal policy. The ISO-support curves demonstrate how many votes the incumbent government would receive, given where the intersection of DAD and SAS takes place. The further to the right the ISO-support curve is, the more votes the incumbent government will receive. The government can maximize the votes at 50% as a result of the increase in income beyond its potential level, which comes at a cost of higher inflation. Using adaptive inflation expectations, the citizens will expect the inflation to be high in the period after the election. However, this will not become reality. The government will artificially create a recession during non-election years. If it would not create a recession, the economy would reach a point with higher inflation than initially, although the income remains the same. The economy in the year after the election year will hence end up at an income level below its potential level, and at an inflation level of zero. This is how a political business cycle arises between election and non-election periods.

The lack of information leads to the politicians being incentivized to provide sufficiently large levels of public goods in the period before the election, which is expected to increase the probability of winning the election. Voters prefer high income in combination with low unemployment and inflation, but cannot derive whether this unemployment level comes from contractionary monetary/fiscal policy or from political competence. They can sometimes only observe the policy outcomes of the incumbent government, who is expected to use hidden efforts. These efforts negatively influence the economy but are not immediately visible to the voters. The difference between incumbent governments and their opposition is that only the incumbent is able to credibly signal the positive effects of their policies (Rogoff and Sibert, 1988).

3. Previous empirical studies

There are various studies on the existence of political business cycles. The studies to be discussed in this section are selected, on the following criteria: is the study done in Russia? Are specific studies done in countries similar to Russia? Are political budget cycles being analysed in a similar way as in this paper?

Akhmedov and Zhuravskaya (2003) found strong evidence for budgetary spending cycles in Russia, between 1996 and 2003. The paper focused on regions and the regional elections, and concluded that elections seem to impact the economy the most within two months of an upcoming election. They also found that information symmetry, maturity of democracy, government transparency and the freedom of media decrease the effect of an electoral cycle. The last two are especially interesting as Russia decided not to join the Open Government Partnership in 2013. This program was set up in order to make governments more open, accountable and responsive to citizens. It was launched in 2011, and since then 69 countries have joined the program.

Coverage of economic news by the New York Times increases at election times (Fogarty, 2005). If there is no freedom of media, which seems to be the case in Russia, this could imply that the government can manipulate the media in such a way that the future of a country will look a lot brighter when the voters re-elect the incumbent government. This view is supported by Alt and Lassen (2006), who find that, in OECD countries, media controlled by the state are less transparent about their fiscal policy. Furthermore, they find that electoral cycles are more likely to occur, the less transparent the government is.

Brender and Drazen (2004) found that the political business cycles especially arise in new democracies. The voters lack electoral experience and there is less information available to the voters than is the case in established democracies. When voters learn more about elections and more information becomes available, it will lead to a diminishing size of political business cycles. As a result, the voters' expectations of the economy will move closer to where the economy ends up during election years. Established democracies do not have political budget cycles in the government surplus, nor in total expenditure. This is in contrast with new democracies, where strong evidence is found for a lower surplus and more fiscal expenditure in the year of election. Compared to established democracies, new democracies have the power to exploit citizen's (wrong) expectations of the economy.

An example of a new democracy is Brazil. The Latin-American country had its first election by direct popular ballot in 1989, just four years before Russia. Noteworthy is the difference in their ranking in the democracy index of 2015. Brazil is ranked 51st out of 167 and is considered a flawed democracy (the second best category), whilst Russia is ranked 132nd and is considered to be authoritarian (the 4th and worst category). Sakurai and Menezes-Filho (2011) considered PBCs in Brazilian municipalities between 1989 and 2005. The result was that opportunistic cycles exist – through current expenditures, investments, own tax revenues and the budget balance. As predicted, only the former has a positive sign, while the other variables are shown to decrease in the year of election. The tax-effect has also been found in Canadian municipalities, where the tax rate does not increase in election years (Kneebone and Mckenzie, 2001). This is interesting as Canada is the 7th best democracy in the world according to the Economic Intelligence Unit.

Asutay (2004) focused on Turkey, in a period between 1980 and 2002. Turkey is ranked 97th in the Democracy Index and are considered to be a hybrid regime. Surprisingly, there has been weak evidence for political business cycles through inflationary policies. Stronger effects were found in government expenditures, money in circulation, M1, M2Y and domestic credits. Not only did the government expand fiscally and monetarily, it also adopted contractionary policies after the election took place, as is in line with theoretical predictions.

Mink and De Haan (2006) examined whether EU countries in the Euro area encounter political business cycles, even though they have adopted the Stability and Growth Pact. This pact is used in the European Monetary Union in order to maintain stability of the currency through fiscal discipline.

The national debt is not allowed to be higher than 60% whereas the annual budget deficit should not exceed 3% of GDP. Despite these restrictions, various governments have indeed been pursuing expansionary fiscal policies before the election takes place – in a period between 1999 and 2004. In line with the findings of Akhmedov and Zhuravskaya (2003), the budget deficit decreases prior to an election.

A more elaborate study on the existence of PBCs has been done in Portuguese municipalities. The study by Aidt, Veiga and Veiga (2010) found that a higher level of expenditures leads to a bigger voting gap between the incumbent government and its opposition. The cycles will be larger as the office term decreases and the need to show competency is high. The latter is especially interesting in the opportunistic voting model, as this means that when voters want their government to be the most competent – it has to distort the economy in order to win votes.

The cycles are also found to arise in Sub-Saharan Africa (Block, 1999). Fiscal deficits, government consumption and public spending increase as a percentage of GDP during the election year. The main difference with the papers discussed before, is the timing – the cycles were previously found in the year before the election. In compliance with Asutay (2004), inflation does not appear to increase before or during the election year. Block (2002) found that inflation actually increases in the year after the election and that some developing countries actually devaluated their currency.

Another way of creating a political business cycle is by increasing employment. Dahlberg and Monk (2008)'s study shows that municipalities in Sweden and Finland have seen a rise in local public employment in the election year. This effect was also accompanied by the lower local tax rate (0.25%) and the higher consumption level (2.3%) in the same period.

That creating PBCs is different for various countries is clear, and we have found several ways of doing so. Multiple characteristics have an effect on how the cycles arise, one of them is the exchange rate policy. The Mundell-Fleming model shows that countries cannot have free capital mobility, a fixed exchange rate and an independent monetary policy. Countries with a fixed exchange rate are unable to manipulate the economy by altering the monetary policy (assuming that there is free capital mobility), whereas countries with a flexible exchange rate cannot engage in expansionary fiscal policy. Such policy will lead to an appreciation of the currency, as the interest rate in the small economy is too high compared to the world interest rate. Clark and Nair-Reichert (2003)'s study shows that governments of countries with a fixed exchange rate in combination with either highly mobile capital, or a high level of independency of central banks, are less likely to create political business cycles.

Hallenberg, De Souza and Clark (2000) examined whether the Mundell-Fleming model holds in election years, by testing 10 countries that wanted to join the EU between 1990 and 1999. The study concludes that PBCs in countries with fixed exchange rates arise through a fall in the budget surplus, and that they arise in flexible exchange rate countries through monetary policy. This is in line with the Mundell-Fleming model. One of the countries willing to join the EU in that period was Romania, a country with a managed float regime – the country does have a flexible exchange rate, but its central bank attempts to respond to unpredicted shocks to the economy by buying or selling its own currency. Roman, Jaba and Roman (2009) confirmed Hallenberg, de Souza and Clark (2000)'s finding that there have been PBCs in Romania. Surprisingly, the cycles are driven by expansionary policy – in contrast to the Mundell-Fleming model with flexible exchange rates. Even after joining the EU in 2007, Romania's government still created a cycle in 2008, when GDP significantly increased in the period before the election. The cost of this policy was that inflation was relatively high compared to other EU members – reducing exports. However, the inflation cost is not the only costs countries

might encounter, as the governments of developing countries might be punished with lower agency ratings due to incompetent behaviour in election years (Block and Vaaler, 2004).

4. Data

In order to examine the existence of political business cycles in Russia, data between 1993 and 2014 will be used. The rational opportunistic model explains how incumbent governments can manipulate voters' beliefs about the economy by manipulating the trade-off between inflation and income through the Lucas aggregate supply function, as described in section 2.

Graph 2 shows how the government surplus changed over time and shows peaks and falls but is relatively steady after 2011. Graph 3 illustrates that the money growth was rather high until 2008, but diminished drastically since that year. The annual Real GDP growth was at least 5% in the years between 1999 and 2007, however it has strongly declined since 2008 and is captured in graph 4. Inflation averaged above 24% between 1996 and 2008 but has decreased to an average of less than 9% after 2008 until 2014.

Elections took place in 1995, 1999, 2003, 2007 and 2011. The government budget is expected to decrease during election years, while the real GDP and inflation are expected to increase during the same period. The money supply is expected to increase as well, but this policy can only be effective if it is done one year before the election time, as it takes time to affect the real economy.

Table 1

Data	**Specification**	**Source**	**Variables**	**Min**	**Max**
Government Budget	Budget surplus as a % of GDP – compared to trend	Trading Economics	TrendGovt	-9.53	8.25
Real GDP Growth	Annual growth rate - compared to trend	OECD	TrendRGDP	-11.37	6.43
Election Time Dummy	1 if election year, 0 if not	Central Election Commission of the Russian Federation	Edummy	0	1
Pre-Election Time Dummy	1 if pre-election year, 0 if not	Central Election Commission of the Russian Federation	PreEdummy	0	1
Unemployment	% of labour force – compared to trend	OECD	TrendUNE	-2.40	2.00
Inflation	Annual growth rate	GDP Deflator, annual % - compared to trend	TrendINF	-121.32	535.18
Money Growth	Money and Quasi Money Growth – compared to trend	World Bank	TrendMG	-31.69	172.71
Money Growth, lagged	Money and Quasi Money Growth with a one year lag – compared to trend	World Bank	TrendMG_lag	-31.69	172.71

An overview of variables used in the regression can be found in table 1. The table includes what the specification of the variable is, from which database the data is retrieved and descriptive statistics.

The model used in this paper will be similar to Mink and De Haan (2006)'s, who studied the existence of political business cycles in EU countries between 1999 and 2004. The similarity lies in using the

government budget as a dependent variable, with GPD growth, election year dummies, and inflation as the main independent variables. The OLS regression includes time series, and contains eighteen observations. In addition to using government budget as a dependent variable, this paper will also use money growth, real gross domestic product and inflation as dependent variables.

Government budget and money growth are the policy measures by the incumbent government. Through these instruments, it can manipulate the economy. The former measure is expected to decrease, as the government will try to appear competent towards the citizens by increasing fiscal expenditures - which will lead to a decreased surplus, holding revenues constant. The latter is expected to increase, as an expansionary monetary policy will decrease interest rates. This decrease in interest rates will, in theory, lead to an increase in both income and inflation. Real GDP and inflation are then used as dependent variables to see whether there are changes to the economy in periods of elections. The regressions are as follows:

(1) $TrendGovt = \beta_0 + \beta_1 TrendRGDP + \beta_2 Edummy + \beta_3 PreEdummy + \beta_4 TrendUNE + \beta_5 TrendINF + \beta_6 TrendMG + \epsilon$
(2) $TrendMG = \beta_0 + \beta_1 TrendGovt + \beta_2 TrendRGDP + \beta_3 Edummy + \beta_4 PreEdummy + \beta_5 TrendUNE + \beta_6 TrendINF + \epsilon$
(3) $TrendRGDP = \beta_0 + \beta_1 Edummy + \beta_2 TrendUNE + \beta_3 TrendINF + \beta_4 TrendMG + \epsilon$
(4) $TrendINF = \beta_0 + \beta_1 TrendGovt + \beta_2 TrendRGDP + \beta_3 Edummy + \beta_4 PreEdummy + \beta_5 PostEdummy + \beta_6 TrendUNE + \beta_7 TrendMG\_lag + \epsilon$

5. Results

Table 2

	(1) TrendGovt	(2) TrendMG	(3) TrendRGDP	(4) TrendINF
TrendGovt	-	0.1328 [0.11]	-	3.0589 [1.40]
TrendRGDP	1.0178*** [3.28]	1.2766 [0.72]	-	-6.6930 [-2.14]
Edummy	-2.0588 [-0.84]	-5.2414 [-0.51]	3.3369 [1.67]	-3.5241 [-0.17]
PreEdummy	0.4223 [0.18]	10.7912 [1.18]	-	-13.0193 [-0.74]
PostEdummy	-	-	-	23.1175 [1.40]
TrendUNE	0.9228 [0.73]	7.6536 [1.59]	-3.1582 [-4.52]	-9.0869 [-1.07]
TrendINF	0.0380 [1.09]	-0.0459 [-0.30]	-0.0233 [-0.78]	-
TrendMG	0.0077 [0.11]	-	0.0609 [1.00]	-
TrendMG_lag	-	-	-	0.5982 [1.07]
Constant	2.6887 [1.15]	-15.6555 [-1.71]	-1.6752 [-0.79]	-63.4478*** [-4.21]
R^2	0.6544	0.3052	0.6772	0.4957
Adj. R^2	0.4659	-0.0738	0.5778	0.1748
Observations	18	18	18	18

*note: values of t-statistics are in brackets. ***: statistically significant at a 1% level.*

Following the results as described in table 2, the timing of elections still seems to affect the economic variables in Russia. It looks as though the effect of the fall in the democracy index has had more impact on the elections than the voters have gained expertise in terms of realising that the incumbent government might manipulate the economy in order to gain votes. However, this is hard to test as there are no data available that capture the expertise of voters over time.

As can be derived from column 1, the effect of the election time dummy on the government budget is negative, which was expected by theoretical predictions. However, it is not statistically significant at either a 5 or 10% level. Note that the dependent variable is *government budget*, so a decrease in the budget leads to an increase in the deficit. The budget decreases as the government has an incentive to manipulate the economy through fiscal policy. This could be through investments, or a shift in expenditure towards immediately visible policies. The tax rate mechanism is not used by the Russian government, as the personal income tax rate remained fixed over the years. The magnitude of the dummy variable is quite large, as it is expected that the government budget will deviate with 2 percentage points in election years from its trend. The control variables are real gross national product, unemployment, inflation and money growth – all of which are compared to its trend level. Of all these variables, only the real gross national product has a significant effect on the government budget. The regression captures about 65% of the dependent variable's variance.

As shown in column 2, the money growth does not increase in election years. In fact, it decreases drastically in election years and is found to increase during the year before the election. This is because it takes between twelve and eighteen months for an increase in the money supply to affect the real economy (Dimitrijevic and Macesich, 1994). If the government wants to manipulate the economy through monetary policy, it has to do so in the year before the election. The pre-election year dummy is not very significant but its effect is large compared to the election year dummy in the government budget regression. This adds to the finding that it is more likely for the Russian government to engage in monetary policies rather than in expansionary policies as the exchange rate of the country is flexible.

If the dependent variable is changed to being the real gross domestic product compared to its trend value, as is done in column 3, one perceives a higher level of statistical significance of the election time dummy. It is almost significant at a 10% level, which means that the election time dummy variable is more likely to influence the real gross domestic product than it is to influence the government budget. The sign is positive, as expected, and this is due to the theoretical prediction that income is increased as voters find this pleasurable. The dependent variable is corrected for unemployment, inflation and money growth, and account for 68% of the dependent variable's variation.

Both the real gross domestic product and the level of inflation are results of the policy conducted by the incumbent government. The former is shown to increase during election years, while inflation appears to decrease in both pre-election and election years. The inflation decreases the most one year before the election takes place. Then, one year after the election, the inflation increases again. The effect of the post-election year increase in inflation is larger in absolute terms than the decrease of inflation in both pre-election and election years. None of the three effects are significant, however the size appears to be rather large.

6. Conclusion

In this paper, the existence of political business cycles in Russia was tested. As expected following the huge fall in the Russian democracy index, the political business cycles still seem to exist in the Russian federation. It seems as though the fall in the democracy index had more impact on the voting behaviour than the expected increase in citizen's expertise regarding the incumbent government's incentive to manipulate the economy. As described in section 2, the worse a democracy is, the more likely it becomes that the incumbent government creates political business cycles. These cycles can arise through various policies. The support seems to be in favour of the expansionary monetary policy, where the money supply is increased in the year before the election takes place. The Russian government has also engaged in expansionary fiscal policy during election years. However, as the country has a flexible exchange rate, the effect of the latter policy is smaller than the effect of increasing the money supply.

The impact of election years on policy measures is rather large. Compared to similar studies, e.g. Mink and De Haan (2006), the impact of timing is twice as large. This could be due to the fact that Russia has a low score in the democracy index, while Mink and De Haan studied EU Accession countries, who generally have a better democracy.

Support for the political budgets cycles in Russia do exist, but one has to be careful in drawing conclusions. This paper is based on only 22 years of data in one country only, which may lead to inaccurate findings. In general, the findings of political budget cycles depend heavily on which variables are used in the regressions. Strong, unexceptional evidence for these cycles can only be found if the right variables are used and future papers should focus on this aspect of analysing economies.

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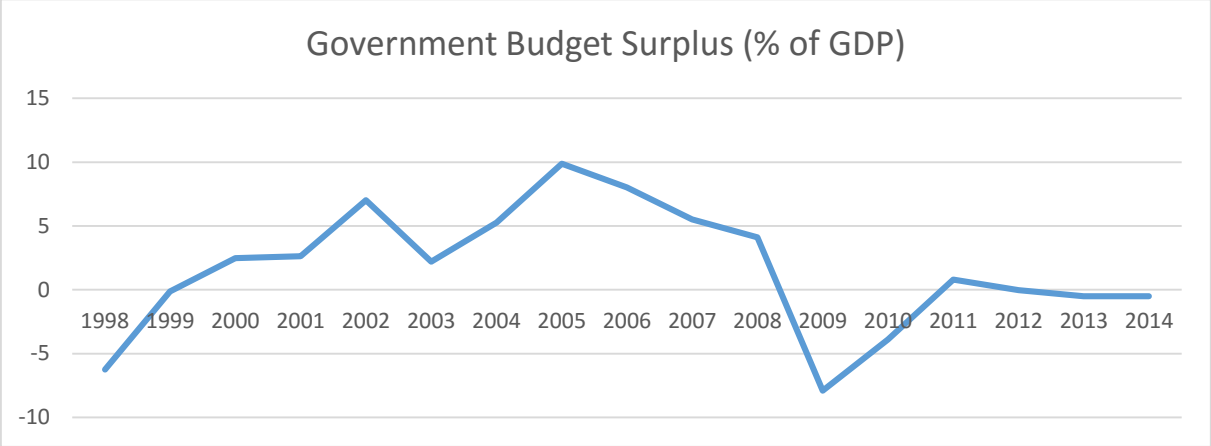
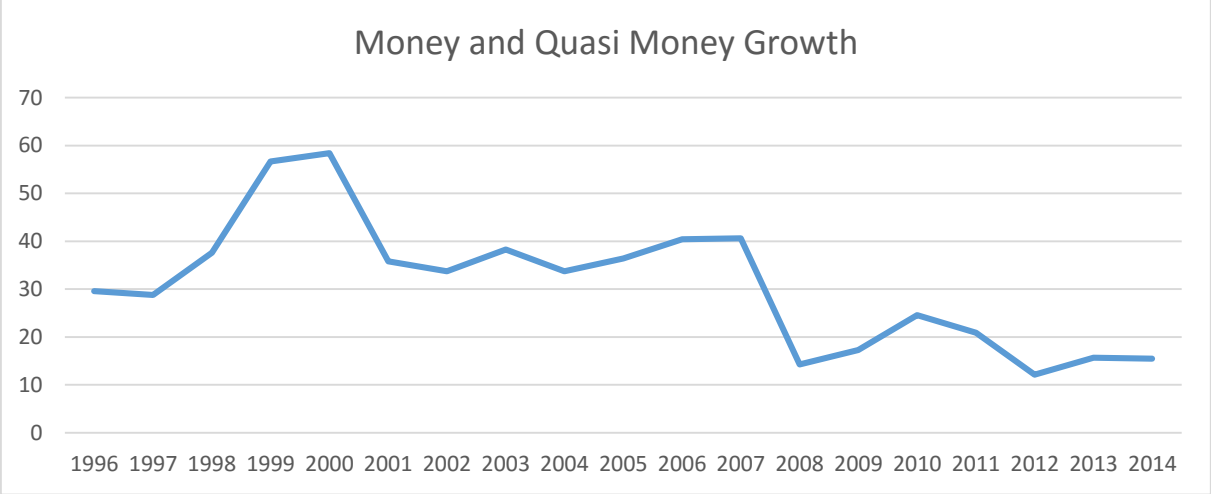
8. Appendix

Graph 1

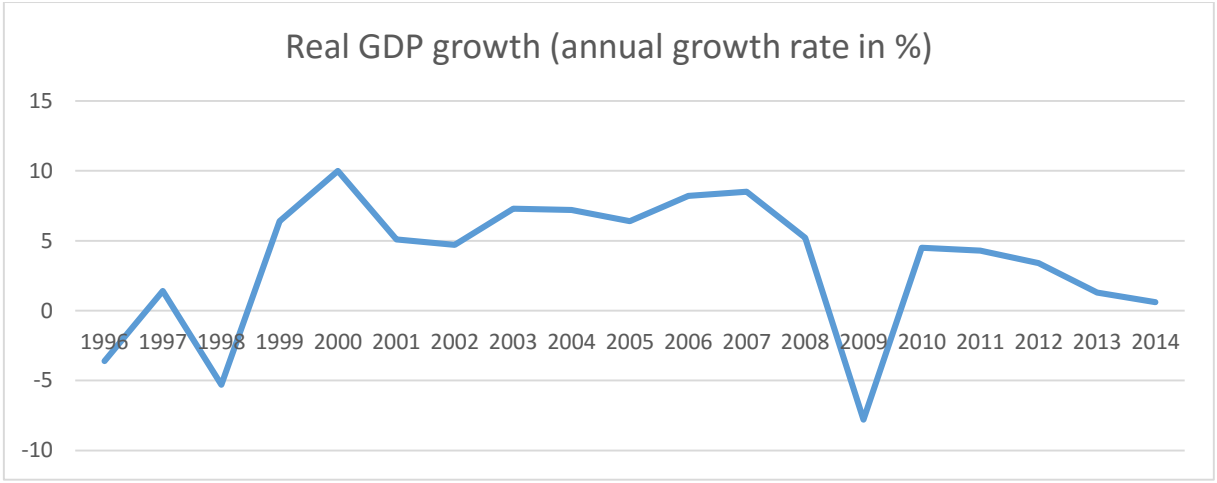
Graph 2



Graph 3



Graph 4



Graph 5