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**“Political budget cycles, reelection,
and term limits”**

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Political budget cycles, reelection, and term limits

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Abstract: In a framework of individual candidates, constitutional clauses that prohibit the reelection of the president eliminate political budget cycles. Though cycles reduce welfare because of the short-run distortion in economic policy, this might be offset by the information they provide voters. The extent of asymmetric information (not knowing the competency and the character of politicians) and the sophistication of voters (fully or near rational) affects the informative content of cycles. The model is extended to see whether non-immediate reelection shifts the focus from short-run cycles to the long-run soundness of economic policies, and at the same time preserves the incentives of accountability.

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Political budget cycles, elections, and term limits¹

1. Introduction

The U.S. constitution, and practically all Latin American constitutions, impose term limits on the president. Term limits either prohibit the reelection of the president, or set two as the maximum number of consecutive terms an incumbent can serve. Historically, term limits arose to avoid the excessive power of the president. The aim of this paper is to explore analytically the implications of term limits for the misuse of that power through political budget cycles.

Lower taxes and higher expenditures before elections characterize political budget cycles, as the result of attempts by the incumbent to boost its popularity and get reelected. Tufte (1978) introduces early evidence on political budget cycles. Alesina and Roubini (1997) present a recent discussion of the evidence, while Stein and Streb (1999) extend the evidence on political budget cycles to the management of exchange rates. As Rogoff and Sibert (1988) show, political budget cycles need not be based on naïve, backward looking, voters: even with fully rational, forward looking, voters, cycles can arise due to informational asymmetries about the incumbent's competence to run government.

It is quite natural to relate term limits to political budget cycles. The reason is simple: if the president cannot run for immediate reelection, it makes no sense to boost its

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short-run popularity through the manipulation of economic policy. The paper spells out this logic. In this sense, term limits can be seen as a complement to other measures that seek to insulate budget policy from short-run electoral incentives, such as establishing a National Fiscal Council to smooth fiscal policy (Eichengreen, Hausmann, and von Hagen, 1996).

I study term limits within the Rogoff (1990) framework, where elections impose, under asymmetric information, a tradeoff on citizens. Elections are good in that they allow voters to replace an incompetent incumbent. In exchange, elections can tempt an incompetent incumbent to distort policy choices, to try to look competent and be reelected, giving rise to political budget cycles. Term limits can eliminate the cycles, but at the sacrifice of excluding competent candidates from the electoral competition.

In this framework, politicians are driven by their personal ambition, caring above all about their reelection. However, the degree of opportunism is a parameter of the individual's utility function, so this is an additional source of asymmetric information. Following the approach in Stein and Streb (1999), I analyze the signaling game in a generalized setup with asymmetric information about both competency and opportunism.

Beyond the informational asymmetries involved in a voting decision, the complexity of interpreting elaborate signals may make it appropriate to treat voters as near rational, instead of as fully rational. The informative content of cycles turns out to depend on the proportion of near rational voters in the population.

The Rogoff framework treats elections as an adverse selection problem: voters try to sort out individuals who are

competent. However, it ignores a moral hazard problem: the performance of politicians depends on their private actions, an aspect formalized by Ferejohn (1986). I extend the Rogoff framework to see what happens if competence is an endogenous variable that depends not only on type, but also on the action an incumbent undertakes. This allows to evaluate term limits more fully, taking into consideration a claim in the literature: term limits eliminate accountability, since the candidates cannot be rewarded for doing a good job, or punished for doing a bad job.

Note that by concentrating on the incentives that individual politicians face, the present analysis leaves political parties out of the picture. Since that would bring in a host of other issues, parties are not addressed here.

Section 2 presents the constitutional restriction of term limits from a historical perspective. Section 3 relates term limits to political budget cycles. To formally study the influence of term limits on political budget cycles, Section 4 takes a streamlined version of the Rogoff (1990) model as the starting point, and extends it to asymmetric information on both competency and opportunism of political candidates. Finally, the impact of differential levels of rationality of voters is considered. In Section 5, individuals' competency characteristics have a long run component, allowing alternative institutional variants of term limits to be compared. Section 6 studies what happens when the actions of the incumbent depend on the potential reward of being reelected, so accountability can be evaluated. Section 7 presents the conclusions and extensions for future work.

2. Term limits in historical perspective

Constitutional democracy limits political decisions taken by popularly elected representatives. Liberal democracy, in particular, sets a balance between the democratic participation of the people and limited government, so even the majority cannot encroach upon certain individual rights protected by the constitution (cf. Nino, 1996).

Term limits are an instance of constitutional restrictions, one of the most controversial constitutional restrictions. They restrict both the incumbents' political options and the voter's possible choices.² The historical record clearly shows that term limits reduce the welfare of the incumbent president. For example, in Argentina and Brazil the incumbent presidents were the ones that pushed to eliminate the prohibition of reelection: Menem in the 1994 reform of the Argentine constitution, Cardoso in the 1997 reform of the Brazilian constitution. That term limits reduce the welfare of voters is not so obvious. In instances such as the 1949 Argentine constitutional reform that allowed Perón's reelection, which was allegedly the result of the spontaneous demand of the people, the president did not want to openly admit he wanted the reform.

Analytically, based on the idea of freedom of choice, setting up such a restriction should at first glance make voters worse off, since the choice set is restricted to fewer alternatives: the mere possibility of reelection does not force voters to actually reelect the incumbent. Under asymmetric information, however, this claim is not valid, as

² In this sense, Petracca (1992) quotes Thomas Mann on term limitation as an "infringement on individual liberties, both the liberties of the voters and office holders".

the Sections below show.

Presidential term limits have been a big issue in Latin American politics, more so than in the United States. In the U.S., constitutional limits were only put into place in 1951, after Franklin Roosevelt occupied the presidency for four consecutive terms. Before that, an informal two-term tradition existed. This custom goes back to Washington, who set a precedent of not seeking a second reelection. Behind this two-term tradition in the U.S. was the principle of rotation in office, so the government would not depend too much on a particular person, which could hinder the development of strong political institutions. And non-perpetuity in office was stressed as a characteristic of republican, as opposed to monarchic, governments.³

Historically, term limits in Latin America also arose out of the concern of preventing incumbents from perpetuating themselves in office. More specifically, term limits were rooted in the desire to avoid the reappearance of authoritarian governments. For instance, the 1853 Argentine Constitution prohibited the immediate reelection of the president, with the precedent of the Rosas dictatorship in mind. The 1917 Mexican Constitution forbade the reelection of the president, after the experience with the Porfirio Díaz regime. The 1992 Paraguayan Constitution prohibited presidential reelection, after the experience with the Stroessner dictatorship and his periodic victories in mock

³ Struble (1980) quotes George Mason's words that "nothing is so essential to the preservation of a republican government as a periodic rotation". Even though Mason, Jefferson and Lee failed in their insistence on constitutional restrictions to reelection in the presidency and other offices, the objections to perpetuity in office influenced extraconstitutional practice. Though rotation in elective office was on the wane by the end of the XIXth century, parallel to the wane in rotation in the appointive offices of the civil service, the two-term tradition in the presidency was endorsed explicitly by members of both

elections (Serrafero, 1997, chapters 2 and 5). In the presidential systems in America, the only country without term limits of some sort is the Dominican Republic, as Table 1 shows.

Table 1: Presidential term limits in American constitutions

Of the historical reasons for term limits, the specific objective of avoiding authoritarian governments through this constitutional clause does not seem to stand up very well to facts. Introducing reelection does not automatically imply an authoritarian regime, as the cases of Menem and Cardoso show. Nor do term limits avoid per se authoritarian governments. Fujimori, after the anti-constitutional measures of shutting Congress down and intervening the judicial system, was able to muster popular support for the 1994 reform of the Peruvian constitution, doing away with the one-term limit that barred him from running for reelection (Serrafero, 1997, chap. 2).⁴ Presidential term limits, without the checks and balances from the legislative and judicial powers, may be insufficient to avoid an authoritarian government; and, with these checks and balances in place, may not be necessary.⁵ This, however,

houses of Congress.

⁴ Fujimori won popular backing due to his successful stabilization program and to the virtual elimination of the guerrillas. This episode is not exceptional. In relation to authoritarian governments, Jorge Domínguez, in George Lodge and Ezra F. Vogel, eds., Ideology and national competitiveness. An analysis of nine countries, Harvard Business School Press, 1987, chapters 9 and 10, concludes from the experience of Mexico and Brazil that people can end up supporting governments that assure a good economic performance, even when they do not originate from democratic elections (quoted in Grondona, 1997).

⁵ The Federalist, 51, stresses internal limits to the concentration of power, in lieu of term limits. The Legislative and Executive powers are directly and independently elected by the people. The Judicial power, while appointive, is assured independence by permanency in office (nevertheless, if the President packs the court, as Roosevelt tried in the U.S., and Menem achieved in Argentina, the Supreme Court can turn out

does not mean that term limits do not curb the power of the president.

The rotation principle seems to be affected by term limits. For instance, the reforms in Argentina and Brazil affect the rotation in office all down the political system. The reform in Brazil was made possible by negotiations of the president with governors that belonged to opposition parties, trading votes for the reform of the national constitution with votes for the reform of the state constitutions that also enabled governors to run for reelection (Serrafero, 1997, chapter 2). In Argentina, the reform of the national constitution also got tangled up with reforms of the provincial constitutions to allow governors to run for reelection.

The avoidance of authoritarian governments, and the rotation principle to assure republican governments, are important issues that exceed the framework of this paper. Political budget cycles were not one of the explicit concerns in the establishment of term limits. I turn to this now.

3. Political budget cycles and term limits

Elections can be both good and bad. The classical reason for elections is that they allow voters to replace an incompetent incumbent with a candidate that might be better qualified: this is the positive selection effect of elections. At the same time, the possibility of reelection brings about the bad side of elections. Since Schumpeter and Downs, politicians are formally characterized as opportunistic individuals who are mainly concerned about

to not be independent).

winning elections.⁶ In particular, political budget cycles can be seen as a consequence of opportunistic incumbents that manipulate economic policy in order to increase their chances of reelection. The temptation to distort economic policy to boost the chances of reelection is the negative incentive effect of elections.

Section 4 takes Rogoff (1990) as the starting point to discuss this trade-off that reelection imposes on welfare. The evidence of retrospective voting patterns based on past performance is modeled as a forward-looking vote that is based on short-lasting differences in the competency of politicians to run the government. Voters recognize that there is an amount of public goods that only competent incumbents can provide before elections, so, in equilibrium, budget cycles are signals of competency. One-term limits eliminate cycles, because they eliminate the possibility of reelection that drives them. The welfare effect of term limits is ambiguous: it depends on whether the gains from eliminating the distortion in public expenditure outweigh the losses of not being able to reelect competent incumbents.

I also explore what happens in a more general scenario where politicians differ in their ego or opportunism. The double uncertainty about competence and opportunism is a familiar problem in many areas. For example, Covey et al. (1995) distinguish the twin dimensions of competence and character: we want a physician to be both competent, to give us the right treatment, and honest, to not prescribe a costly treatment we do not need (pp. 240-1).

⁶ This is a restricted version of Machiavelli's characterization of politics as a struggle to achieve power by all possible means. The analysis focuses on purely egoistic motivations and abstracts from ideological differences that can lead an incumbent to stick to office in order to implement what it senses are the "right" policies.

Even though what drives politicians is the wish to be reelected, not all political incumbents are willing to go to the same extremes to be reelected: for example, few are willing to go as far (and can get as far) - as Fujimori. As to political budget cycles, once voters are uncertain about the degree of opportunism, they will not be able to distinguish how far each incumbent is willing to go in order to be reelected: this will depend not only on its competence, but also on its degree of opportunism. Once the degree of opportunism is not common knowledge, budget cycles are no longer a sure signal of competency.

Full rationality of voters is a polar case. In the historical evolution of franchise, an early restriction on voters had to do with literacy requirements, which assumed that not all voters were informed enough to vote. In contrast, modern democracies assume that all adult citizens are informed enough to vote. However, this is not the same as assuming that all citizens are equally informed, or have the same access to the relevant information.

In the specific case of budget issues, I consider what happens when a high proportion of voters is near rational and cannot interpret elaborate signals, but only recognize whether the provision of public goods is above or below average. The cycle can turn out to be completely uninformative: when all incumbents are highly opportunistic and pick above average expenditure before elections, voters will realize that cycles only distort the optimal allocation of expenditure from public investment towards current public goods.

Section 5 extends the framework in Section 4 to the case of incumbents that differ not only in their short-run competency, but also in their long-run competency. This

allows to formally compare the influence on political budget cycles of "rigid" and "flexible" term limits that appear in different constitutions. Rigid term limits force the incumbent out of office forever, once a maximum number of terms is reached. For instance, the one-term limit in the Mexican constitution, or the two-term limit in the U.S. constitution. Flexible term limits only bar the incumbent from running immediately for office. For instance, the Argentine 1853 constitution did not allow the reelection of the president until a six-year term had elapsed, but there was no limit on the total number of non-consecutive reelections.

The framework in Sections 4 and 5 does not consider how term limits affect the actions an incumbent undertakes. Competency however is not purely exogenous, a characteristic of the individual. Competency can in part be the result of a costly effort to undertake the appropriate actions. In this sense, term limits eliminate the reward for doing a good job, as Hamilton pointed out long ago in The Federalist, 72 (he pointed out as well the other downside mentioned before, that term limits may exclude a competent candidate from political competition). This is the issue of accountability, analyzed in Section 6. Not all term limits eliminate the possibility of rewarding a good incumbent: rigid term limits do, in the last term, but flexible term limits do not, since they only rule out immediate reelection, and a good reputation can be useful for future terms.

4. Short-run competency differences

This Section considers how term limits affect political budget cycles in a one-dimensional signaling version of

Rogoff (1990). There are opportunistic incumbents that differ in their short-run competency, which is not contemporaneously observable by voters. The signal of competency is the level of current expenditure. It would be equivalent to pick current taxes: the crucial point is the distortion between more and less visible budget items. One and two-term limits, the predominant constitutional restrictions in Table 1, can be compared in this framework.

I first reproduce the results of Rogoff (1999), with incomplete information about competency and rational forward looking voters. The Rogoff setup is then extended to allow incomplete information about both competency and opportunism, as in Stein and Streb (1999). I then analyze what happens with near rational voters that do not interpret elaborate signals, but distinguish instead between above and below average expenditure.

Political opportunism can lead to a political budget cycle: an opportunistic incumbent has an incentive to increase the provision of visible public goods before elections, at the expense of budget items less visible to voters at that point in time. The nature of the political budget cycle depends on the behavior of voters. In the Rogoff model, the cycle can be interpreted as a signal in a separating equilibrium that leads voters to tell competent and incompetent incumbents apart. In the generalized setups, on the other hand, the equilibrium can be semi-separating or pooling.

4.1. The players

Elections depend on how voters perceive the incumbent's competency and personal appeal. Short-run competency c_t can be interpreted as the administrations' IQ to provide public services. Competency c_t follows an MA(1) process, $c_t = c + \varepsilon_{t-1} + \varepsilon_t$.

The ε_t shocks are independent over time, and take either a high or low value, $\varepsilon_t = \pm\varepsilon$. The source of asymmetric information is that the incumbent's competency ε_t is only observable by voters ex-post, with a one period lag. Priors are that both ε and $-\varepsilon$ shocks have probability $\frac{1}{2}$. The administrations' personal appeal or charm η_t stands for other dimensions in which candidates differ, and is observable in the current period. Personal appeal also follows an MA(1) process, $\eta_t = q_{t-1} + q_t$. The q_t shocks have a uniform distribution over the interval $[-q, q]$.

Total expenditure depends on the incumbents' competency. The government has a choice between current, g_t , and capital expenditure, k_{t+1} . Only g_t constitutes visible expenditure in period t . Voters observe the results of government investment k_{t+1} the following period.⁷

$$(1) \quad g_t + k_{t+1} = c_t$$

Voters have separable, strictly concave utility functions in public expenditure, $u(g_t) + v(k_{t+1})$, where $u' > 0$, $v' > 0$, and $v'(0) \rightarrow \infty$ (to assure an interior solution). By budget restriction (1) and the MA(1) process that governs competency c_t , utility of public expenditure is a function of visible expenditure, $U(g_t) \equiv u(g_t) + v(c + \varepsilon_{t-1} + \varepsilon_t - g_t)$. Utility of voters is linear in the personal appeal of incumbent η_t . Lifetime utility Y is the discounted sum of total per period utility.

⁷ Note that the assumption that voters observe k_{t+1} with a one period lag does not assure voters can infer ε_t . Inference depends on the sequence of shocks. If $\varepsilon_{t-1} + \varepsilon_t = -2\varepsilon$ or 2ε , ε_t can be inferred from total expenditure; if $\varepsilon_{t-1} + \varepsilon_t = 0$, then ε_t can be low or high with equal probability (unless, of course, ε_{t-1} is known, i.e., competency is observable ex-post).

$$(2) \quad Y = \sum_{t=0}^T \frac{\eta_t + U(g_t)}{(1+\delta)^t}$$

Politicians have the same preferences as voters, but for the fact that they attach value $K > 0$ to being in office. Let $z_t = 1$ when candidate is incumbent, and 0 when not. Z gives the politician's lifetime utility,

$$(3) \quad Z = Y + \sum_{t=0}^T \frac{z_t K}{(1+\delta)^t}$$

Voters must compare the incumbent with the opposition candidate. Denote the perceived probability that the incumbent has a positive competency shock, $\varepsilon^1_t = \varepsilon$, by θ^1_t . Perceptions will depend on what the signaling game indirectly reveals about its value. In the case of the opposition candidate, ε^0_t cannot be revealed in any way, so the expected value of $\theta^0_t = \frac{1}{2}$. As to the personal appeal of candidates, both q^1_t and q^0_t are observed before elections. To simplify the notation, I henceforth drop the super-indices for incumbent:

$$\varepsilon^1_t \equiv \varepsilon_t, \quad \theta^1_t \equiv \theta_t, \quad q^1_t \equiv q_t.$$

Incumbents last two periods, and there are elections at the end of every even period, $t=2, 4, \dots$. Even and odd periods can be analyzed separately. Let $t+1$ be an odd, off election, period. The incumbent's actions in $t+1$ are only affected by the trade-off between current and capital expenditure, since no signaling is at stake: before elections in $t+2$, voters observe $g_{t+1} + k_{t+2} = c + \varepsilon_t + \varepsilon_{t+1}$. The incumbent's intertemporal optimization problem (3) at $t+1$ reduces to maximizing $U(g_{t+1})$, given competency c_{t+1} : $g_{t+1}^* = g^*(\varepsilon_t + \varepsilon_{t+1})$.

In even period t , the timing is that voters make up their minds after observing the government's spending decision. Voter's decision affects expected utility after

elections (i.e., in $t+1$). If the term limit is binding and the incumbent cannot run for reelection, voters only dispose of information about the expected personal appeal of the alternative candidates: $E[\eta_{t+1}/I_t]=q_t$. Otherwise, decisions are conditional on the incumbent's perceived competency shock ε_t , which can be $\varepsilon_t=\varepsilon$ (competent) or $\varepsilon_t=-\varepsilon$ (incompetent). If ε_t were known, $E[U(g_{t+1}^*)/\varepsilon_t]=\frac{1}{2}U(g^*(\varepsilon_t+\varepsilon))+\frac{1}{2}U(g^*(\varepsilon_t-\varepsilon))$. However, voters' only available information is probability θ_t , for incumbent, and priors $\theta_t^0=\frac{1}{2}$, for opposition candidate, so have that $E[U(g_{t+1}^*)/\theta_t]=\theta_t E[U(g_{t+1}^*)/\varepsilon_t=\varepsilon]+(1-\theta_t)E[U(g_{t+1}^*)/\varepsilon_t=-\varepsilon]$ and $E[U(g_{t+1}^*)/\theta_t^0=\frac{1}{2}]=\frac{1}{2}E[U(g_{t+1}^*)/\varepsilon_t=\varepsilon]+\frac{1}{2}E[U(g_{t+1}^*)/\varepsilon_t=-\varepsilon]$. By (2), the decision of optimizing voters in period t will be to reelect incumbent if expected utility is greater than with alternative candidate:

$$(4) E[U(g_{t+1}^*)/\theta_t]+q_t > E[U(g_{t+1}^*)/\theta_t^0=1/2]+q_t^0$$

For the incumbent, the results of elections are uncertain because the appeals shocks q_t and q_t^0 are only revealed after expenditure decisions. To maximize (3), subject to voting behavior (4), incumbents have an incentive to create the perception they are competent: a higher θ_t increases the probability of reelection $\pi(\theta_t)$. To fix ideas, note that (4) implies that when the incumbent is perceived to be competent with probability $\theta_t=\frac{1}{2}$, the probability of reelection $\pi(\theta_t=\frac{1}{2})=\frac{1}{2}$ (i.e., there is no incumbency bias).

4.2. Asymmetric information on competency

As Rogoff (1990) shows, only the separating equilibrium survives the Cho-Kreps equilibrium dominance refinement of perfect Bayesian equilibrium. Hence, the analysis can be restricted to this case.

Since more competent incumbents can afford more expenditure, voters can form their perception of θ_t on the basis of expenditure g_t . In a separating equilibrium, voter's beliefs will depend on whether an incumbent picks (at least) the separating signal $g_t = g_t^s$, so the probability of reelection depends on visible expenditure, $\pi(\theta(g_t))$. Picking g_t^s gains the incumbent a reputation of competence, $\pi(\theta(g_t^s)) = \pi(1) > \frac{1}{2}$, while not signaling leads to lose any such reputation, $\pi(\theta(g_t^{ns})) = \pi(0) < \frac{1}{2}$.

$$(5) \quad \begin{aligned} g_t &\geq g_t^s \rightarrow \theta = 1 \\ g_t &< g_t^s \rightarrow \theta = 0 \end{aligned}$$

In the separating equilibrium, the optimal decision for an incumbent that does not signal is to pick $g_t^{ns} = g_t^* = g^*(\varepsilon_{t-1} + \varepsilon_t)$, as in odd periods. The temptation to signal is the difference between expected utility at g_t^s , $E[Z(g_t^s) | \varepsilon_{t-1}, \varepsilon_t]$, and at g_t^* , $E[Z(g_t^*) | \varepsilon_{t-1}, \varepsilon_t]$.

$$(6) \quad T(g_t^s / \varepsilon_{t-1}, \varepsilon_t) \equiv E[Z(g_t^s) / \varepsilon_{t-1}, \varepsilon_t] - E[Z(g_t^*) / \varepsilon_{t-1}, \varepsilon_t]$$

To facilitate interpretation, the temptation to signal can be rearranged into the expression $T(g_t^s / \varepsilon_{t-1}, \varepsilon_t) \equiv \text{Gain}(g_t^s) - \text{Cost}(g_t^s / \varepsilon_{t-1}, \varepsilon_t)$. The gain from signaling is the increased probability of being in office the next two periods, and does not depend on competency.

$$(7) \quad \text{Gain}(g_t^s) = (\pi(1) - \pi(0)) \sum_{j=1}^2 \frac{K}{(1+\delta)^j}$$

The cost of signaling has fixed and variable components, $\text{Cost}(g_t^s / \varepsilon_{t-1}, \varepsilon_t) \equiv CF(g_t^s / \varepsilon_t) + CV(g_t^s / \varepsilon_{t-1}, \varepsilon_t)$. The fixed part CF is due to the reduction in the chances an above-average c_t candidate is in office next period. The variable component CV

is due to the distortion in visible expenditure in relation to optimal level $g^*(\varepsilon_{t-1}+\varepsilon_t)$, and is zero when $g_t^s=g_t^*$.

$$CV(g_i^s / \varepsilon_{i-1}, \varepsilon_i) = U(g_i^* / \varepsilon_{i-1}, \varepsilon_i) - U(g_i^s / \varepsilon_{i-1}, \varepsilon_i)$$

$$(8) \quad CF(g_i^s / \varepsilon_i) = (\pi(1) - \pi(0)) \left[\frac{E[U(g_{i+1}^*) / \theta_i^0 = 1/2]}{(1+\delta)} - \frac{E[U(g_{i+1}^*) / \varepsilon_i]}{(1+\delta)} \right]$$

By concavity, variable costs are increasing in $g_t^s > g^*(\varepsilon_{t-1} + \varepsilon_t)$. The relevant range of signals is $g_t^s \geq g^*(\varepsilon_{t-1} + \varepsilon)$, where marginal costs are larger for an incompetent incumbent (i.e., $\varepsilon_t = -\varepsilon$).

(9)

$$\frac{\partial CV}{\partial g_i^s} = - \frac{\partial U(g_i^s / \varepsilon_{i-1}, \varepsilon_i)}{\partial g_i^s} = \frac{\partial v(c + \varepsilon_{i-1} + \varepsilon_i - g_i^s)}{\partial g_i^s} - \frac{\partial u(g_i^s)}{\partial g_i^s} \geq 0 \quad \text{for } g_i^s \geq g^*(\varepsilon_{i-1} + \varepsilon_i)$$

Figure 1 depicts the separating equilibrium. The minimum signaling cost for the incompetent is at a lower level than for competent, since $g^*(\varepsilon_{t-1} - \varepsilon) < g^*(\varepsilon_{t-1} + \varepsilon)$. The fixed cost is negative for a competent candidate, so there is what can be called a "fixed benefit" to voters: $BF(g_t^s / \varepsilon_t) = -CF(g_t^s / \varepsilon_t)$.

Figure 1

A separating signal exists at g_t^s where the gains from reelection equal the signaling costs of an incompetent incumbent, $Gain(g_t^s) = CF(g_t^s / -\varepsilon) + CV(g_t^s / \varepsilon_{t-1}, -\varepsilon)$.⁸ The incompetent picks $g^*(\varepsilon_t - \varepsilon)$ when indifferent between g_t^s and $g^*(\varepsilon_t - \varepsilon)$. The competent incumbent faces the same gain, and a lower cost, at that same point. The separating equilibrium will be $\max \{g_t^s, g^*(\varepsilon_{t-1} + \varepsilon)\}$.

Political budget cycles depend on parameter K . Let K_{\min} be the level of opportunism where $g_t^s = g^*(\varepsilon_{t-1} + \varepsilon)$. Let K_{\max} be

⁸ The incompetent is assumed to pick $g^*(\varepsilon_t - \varepsilon)$ when indifferent.

level of opportunism where $CV(g_t^s/\varepsilon_{t-1}, \varepsilon) - BF(g_t^s/\varepsilon_t) = 0$.

Proposition 1 (short-run competency differences): Political budget cycles are welfare improving iff $K_{min} < K < K_{max}$.

Pf. This is a restatement of Rogoff (1990). When $K < K_{min}$, $g^*(\varepsilon_{t-1} + \varepsilon) > g_t^s$ and the competent can signal its type without distorting current expenditure; cycles arise when $K > K_{min}$, since separating signal $g_t^s > g^*(\varepsilon_{t-1} + \varepsilon)$. Signaling costs equal $CV(g_t^s/\varepsilon_{t-1}, \varepsilon) - BF(g_t^s/\varepsilon_t)$, where variable costs are welfare loss due to cycle, and fixed benefits are welfare gain due to the information revealed to voters. Signaling costs are positive when $K > K_{max}$, reducing welfare of voters.

The indeterminacy of the welfare effects of political budget cycles is due to our a priori ignorance on whether or not actual opportunism $K \geq K_{max}$. In political budget cycles, competent incumbents pick excessive current expenditure and suboptimal investment. Rogoff (1990) remarks that imposing restrictions on policy makers, such as a balanced budget, can lead to distortions in other directions. One term limits do not suffer from this setback: they eliminate all signaling, since the incumbent must leave office at the end of its term (as Rogoff himself observes, in an end period there is no incentive to manipulate economic policy).

Since the welfare effects of political budget cycles are not clear a priori, neither are the welfare effects of term limits. Note that cycles would be larger with no term limits at all, since the gains at stake would include not only current reelection, but also the option value of future reelections (this can be related to Madison's saying that large political stakes are potentially harmful to democracy).

4.3. Asymmetric information on competency and opportunism

I now consider what happens when there is asymmetric

information on both competency and opportunism. This generalizes the Rogoff setup, which assumes that the level of opportunism is observable.

In the Rogoff model, there is no political budget cycle when opportunism is low, while there is a political budget cycle when opportunism is sufficiently high. Accordingly, assume that with probability $\rho = \frac{1}{2}$ the incumbent is non-opportunistic, $K^{op}(1) = 0$, and with probability $1 - \rho = \frac{1}{2}$ the incumbent is highly opportunistic, $K^{op}(1) > K_{min}$. Also assume that opportunism and competence are independently distributed.

Proposition 2 (opportunism and short run competency differences): If $K^{op} < K_{max}$, the political budget cycle leads to a separating equilibrium that is welfare improving. If $K^{op} > K_{max}$, it leads to a semi-separating equilibrium that is welfare reducing.

Pf. When $K^{op} < K_{max}$, signaling costs are negative at g_t^s , according to Proposition 1. All types of competent incumbents are willing to signal: the opportunistic, because political gain is larger than cost; the non-opportunistic, because welfare gains are positive. All incompetent incumbents pick $g_t^*(\varepsilon_{t-1} - \varepsilon)$: the opportunistic, because political gain is smaller than cost; the non-opportunistic, because it has no political gain. Hence, there is a separating equilibrium.

When $K^{op} > K_{max}$, a non-opportunistic competent incumbent is not willing to pick g_t^s , since by Proposition 1 welfare gains are negative, preferring $g_t^*(\varepsilon_{t-1} + \varepsilon)$ instead. An incompetent opportunistic incumbent, to keep a non-zero reputation of competency, can mimic this. There is a semi-separating equilibrium, where the intermediate level of expenditure is

associated with a reputation of competency $\theta = \frac{1}{2}$.⁹

The incompetent opportunistic incumbent may mix between $g_t^*(\varepsilon_{t-1} - \varepsilon)$ and $g_t^*(\varepsilon_{t-1} + \varepsilon)$.

4.4. Nearly rational voters

In the signaling game above, g_t^s is the separating signal sent by a competent incumbent with opportunism K^{op} . However, K^{op} is not obvious to voters because it is a parameter of the subjective utility function of the candidate.

Besides this inference problem, Section 3 argues that voters may be differentially informed. More formally, not all voters may be fully rational. Rather, as in Akerlof and Yellen (1987), there may exist near rational voters that have limited information on the economic model, or find it too costly to "solve" the model and figure out the exact signaling equilibrium. Since near rational voters have more problems inferring the competence of the candidate, they may give more weight in their vote to the candidate's charm.

Say near rational voters adopt a coarse distinction, recognizing whether visible expenditure is above or below average, associating higher expenditure to higher competency. This classification in two sets is almost at the other extreme from the continuum of the previous models. Say voters associate above average expenditure with $g_t^s \geq g_t^*(\varepsilon_{t-1} + \varepsilon)$. This defines a specific model of near rationality, leading to inference rule that replaces rule (5).

Ignore first heterogeneity in opportunism, as in Rogoff model. The equilibrium depends on the degree of opportunism.

⁹ In Stein and Streb (1999), only competency matters for elections, so competent opportunistic incumbent only has incentive to establish that $\theta > \frac{1}{2}$, instead of $\theta = 1$ as here. This leads to semi-separating equilibrium with two values, low or high. In the present model, this would also happen if the appeals shocks were known before expenditure was chosen, and these shocks were favorable, since then an incumbent would at most

With low opportunism, a separating equilibrium similar to (5) still holds, so the inference rule is not biased.

With high opportunism, all incumbents will pick above average expenditure to create the impression they are competent, so the rule leads to a pooling equilibrium. In a pooling equilibrium, the probability that above average expenditure signals competency is only $\theta=1/2$. Initial expectations that associate $\theta=1$ with above average expenditure would be naïve, so voters review that probability downwards. Denote the cutoff level that separates above and below average expenditure $g_t^P = g^*(\varepsilon_{t-1} + \varepsilon)$, to distinguish it from signal g_t^S in a separating equilibrium.

$$(10) \quad \begin{aligned} g_i \geq g_i^P &\rightarrow \theta = 1/2 \\ g_i < g_i^P &\rightarrow \theta = 0 \end{aligned}$$

All incumbents must satisfy the following condition:

$$(11) \quad \begin{aligned} (\pi(1/2) - \pi(0)) \sum_{j=1}^2 \frac{K}{(1+\delta)^j} &\geq [U(g_i^* / \varepsilon_{i-1}, \varepsilon_i) - U(g_i^P / \varepsilon_{i-1}, \varepsilon_i)] \\ &+ (\pi(1/2) - \pi(0)) \left[\frac{E[U(g_{i+1}^*) / \theta_i^0 = 1/2]}{(1+\delta)} - \frac{E[U(g_{i+1}^*) / \varepsilon_i]}{(1+\delta)} \right] \end{aligned}$$

A pooling equilibrium implies that an incompetent finds the gains from picking g_t^P larger than the costs, $\text{Gain}(g_t^P) > CF(g_t^P / -\varepsilon) + CV(g_t^P / \varepsilon_{t-1}, -\varepsilon)$. Given the inference rule of voters, competent incumbents will also pick expenditure equal to $g_t^P = g^*(\varepsilon_{t-1} + \varepsilon)$.¹⁰

need to establish average competency to be reelected.

¹⁰ Note that pooling equilibria is for some $K > K_{min}$. For lower values of K , the incompetent incumbents may mix between $g^*(\varepsilon_{t-1} - \varepsilon)$ and $g^*(\varepsilon_{t-1} + \varepsilon)$, so equilibrium is semi-separating.

Proposition 1' (short-run competency differences): A political budget cycle that leads to pooling equilibrium is welfare reducing.

Pf. In a pooling equilibrium, the probability incumbent is competent equals probability opposition candidate is competent, namely $\theta = \frac{1}{2}$. Since no information is revealed, and incompetent incumbents distort current expenditure upwards, the cycle is welfare reducing.

This result has some of the flavor of Lohman (1996). In Lohman, a pooling equilibrium obtains in a setup where voters are fully rational but incumbents select policy before they observe their own competency.¹¹ The political budget cycle in Lohman is entirely wasteful, since it conveys no information. This is true here too, so term limits are of course welfare improving.

When some types are highly opportunistic and others are not, there is a key difference. Incompetent, non-opportunistic incumbents always pick $g_t^*(c + \varepsilon_{t-1} - \varepsilon)$. Competent incumbents, and incompetent, opportunistic incumbents, may pick $g_t^{ss} = g_t^*(c + \varepsilon_{t-1} + \varepsilon)$.¹²

Proposition 2' (opportunism and short-run competency differences): Political budget cycles are semi-separating, and can be welfare enhancing if they are informative enough.

Pf. The higher ρ is, the lower the informative content: with full flung opportunism ($\rho=1$), all incumbents pick it, so we are back to the case in Proposition 1' where no information is revealed; with no opportunism ($\rho=0$), only competent incumbents pick above average expenditure. Have to contrast

¹¹ Persson and Tabellini (1997) characterize Lohman (1996) as a moral hazard problem, in contrast to the adverse selection problem in Rogoff and Sibert (1988), Rogoff (1990), and Persson and Tabellini (1990) - and in Section 4 -.

the distortion introduced by incompetent opportunistic incumbent to the information revealed by fact that not all incumbents pick high expenditure $g_t^*(c+\varepsilon_{t-1}+\varepsilon)$.

Because of majority rule, note that not all voters need be near rational in Propositions 1' and 2'. If there is a mix of fully rational and near rational voters, as in Akerlof and Yellen's mix of intelligent and slightly dumb price setters, elections are dominated by the majority type. If near rational voters are more than 50% of the electorate, their decisions swing elections.

5. Long-run competency differences

Successful political careers tend to last very long. A simple way to explain it is as the consequence of long-run competency characteristics of individual candidates. Though personal appeal also has a permanent component, it is ignored here.

Formally, competency can be expressed as the sum of permanent and transitory components, $c_t = c + \varepsilon^p + \varepsilon^{np}$. In Machiavelli's words, we can think of ε^p as virtue (competent or incompetent) and ε^{np} as fortune (good or bad luck). To track as closely as possible the model in Section 4, I assume that the timing is as follows. The incumbent receives the transitory shock ε^{np} in the odd, off-election, period $t-1$, and the permanent shock ε^p in the even, election, period t . The inference problem voters face when they must decide whether to reelect the incumbent in t is formally similar to the signaling game in Section 4.

$$(12) \text{ For } t-1 \text{ odd and } t \text{ even, } c_{t-1} = c + \varepsilon_{t-1}^{np} + \varepsilon_{t-2}^p \text{ and } c_t = c + \varepsilon_t^p + \varepsilon_{t-1}^{np}$$

¹² There may be mixing by incompetent opportunistic incumbent.

This formulation supposes that, in the first half of the term in office, overall competency is affected by the permanent competency of the predecessor. This is in accord with the behavior of U.S. voters. Voters do not take into account the president's full four year term to evaluate his performance, only the last two years. They acknowledge that the first two years are affected by the policies of the previous president.¹³

This setup allows to consider one term limits with non-immediate reelections, as well as rigid one term limits, as variants to two-term limits. Provisions of this sort appear in several constitutions, as listed in Table 1. In the basic Rogoff setup, both institutional variants are identical.¹⁴ However, history is full of long lasting political reputations, cases such as president's Roca and Perón in Argentina, and Sanguinetti in Uruguay.

5.1. Asymmetric information on competency

The signaling game resembles that in Section 4.2, so the following comments are brief. The equilibria with immediate reelection (two-term limit) and non-immediate reelection (one-term limit with one non-consecutive reelection) are described.

Voters follow rule (4), amended to take into account that permanent competency differences affect the full two periods of the next presidential term, not only one.

$$(13) \sum_{j=1}^2 E[U(g_{i+j}^*)/\theta_i] + q_i > \sum_{j=1}^2 E[U(g_{i+j}^*)/\theta_i^0 = 1/2] + q_i^0$$

¹³ I owe this observation to Jeff Frieden.

¹⁴ If competency advantages are only transitory, flexible and rigid term limits impose identical restrictions on candidates: non-immediate reelection deprives the incumbent of any reputation, since all effects last at most one more period, while the next possible incumbency is within three periods.

With immediate reelection, the temptation to signal in (6) becomes $Gain(g_t^s) - CF(g_t^s/\varepsilon_t^P) - CV(g_t^s/\varepsilon_{t-1}^{np}, \varepsilon_t^P)$. Temptation changes due to the fact that competency is high (ε) or low ($-\varepsilon$) for two future periods, instead of one, setting the fixed costs $CF(g_t^s/\varepsilon_t^P)$ of competent and incompetent types further apart, but they do not affect the variable costs $CV(g_t^s/\varepsilon_{t-1}^{np}, \varepsilon_t^P)$. The separating signal is determined at g_t^s . $Gain(g_t^s) = CF(g_t^s/|\varepsilon) + CV(g_t^s/\varepsilon_{t-1}^{np}, -\varepsilon)$ for incompetent. A competent incumbent has lower costs, so it will prefer g_t^s . A separating equilibrium always exists, as before.

As in Proposition 1, political budget cycles arise when separating signal $g_t^s > g^*(\varepsilon_{t-1}^{np}, \varepsilon)$, leading the competent to incur $CV(g_t^s/\varepsilon_{t-1}^{np}, \varepsilon) > 0$. Cycles are welfare enhancing as long as variable costs do not exceed fixed benefits. The welfare analysis of two-term limits and one-term limits is similar to Section 4.2: eliminating reelection improves welfare when political budget cycles reduce welfare.

With non-immediate reelection, the incumbent must let a full presidential term elapse before running for reelection. Current expenditure can no longer be used in t to signal future competency, since besides observing investment in $t+1$, voters observe permanent competency ε_t^P , and can use that information in election at $t+2$, or beyond. In this framework, flexible one-term limits with non-immediate reelection can be compared to rigid one-term limits do.

Proposition 3 (long-run competency differences) One-term limits with non-immediate reelection are welfare superior to one-term limits with no reelection.

Pf. Both types of term limits eliminate political budget

cycles, so they eliminate the variable costs of signaling $CV(g_t^s/\varepsilon_{t-1}^{np}, \varepsilon)$. However, allowing non-immediate reelection has the advantage that, after a waiting period, voters get the option of reelecting in the future a competent incumbent. Thus, the fixed benefits are not reduced to zero, but to $BF(g_t^s/\varepsilon)/(1+\delta)^2$ instead.

Note that if $BF(g_t^s/\varepsilon)[1-1/(1+\delta)^2] < CV(g_t^s/\varepsilon_{t-1}^{np}, \varepsilon)$, non-immediate reelection is welfare improving in relation to immediate reelection (with a rigid one term limit, $BF(g_t^s/\varepsilon) < CV(g_t^s/\varepsilon_{t-1}^{np}, \varepsilon)$ for the limitation to be welfare improving). So even if the cycles are welfare improving, it may be Pareto improving to impose a waiting period to reinstate a competent incumbent.

5.2. Asymmetric information on competency

Immediate reelection is similar to Section 4.3, with the caveat that permanent competency difference affect the next two periods. Non-immediate reelection follows the lines just sketched above: since voters get to observe competency ex-post, the equilibrium is completely revealing. (Proposition 4?)

5.3. Near rational voters

As in Section 4.4, voters inference rule is based on whether current expenditure is above or below $g^*(c+\varepsilon_{t-1}^{np}+\varepsilon)$. I compare two-term limits to its variants.

With homogeneous opportunism, and immediate reelection, permanent competency differences make signaling more costly for incompetent incumbents, and less costly for competent incumbents, so future fixed costs change the temptation to signal. Results remain qualitatively the same: with low opportunism there is a separating equilibrium, with high opportunism there is a pooling equilibrium where all

incumbents pick above average expenditure (there is besides an intermediate case of semi-separating equilibrium).

With non-consecutive reelection, current expenditure can no longer be used to signal competency in t , so all incumbents pick their optimal level of current expenditure g_t^* . The equilibrium is separating.

Barring reelection eliminates these cycles, but so does barring immediate reelection. Despite the existence of near rational voters, incumbents are still forced to give more weight to the long-run implications of economic policy, represented in the model by investment k_{t+1} .

Term limits help to change the focus of economic policy from short-run visible expenditure to long-run investment. This does not point in the direction of no reelection, it points in the direction of non-immediate reelection. Allowing non-immediate reelection has the advantage of allowing competent incumbents to compete for office again in the future.¹⁵

Proposition 4' (opportunism and long run competency differences) One-term limits with non-immediate reelection are welfare superior to one-term limits with no reelection. Pf. With no reelection, expected utility from public goods at t is

$$(14) \quad \frac{U(g^s(\varepsilon_{t-1}^{np} - \varepsilon) + U(g^s(\varepsilon_{t-1}^{np} + \varepsilon))}{2} + \sum_{j=1}^T \frac{E[U(g_{t+j}^*) / \theta_{t+j-1} = 1/2]}{(1+\delta)^{t+j}}$$

With non-immediate reelection, expected utility is the same, but for the fact that in $t+2$ voters can reelect current incumbent (which they will if $\varepsilon_t^p = \varepsilon$), so in periods $t+3$ and $t+4$ the terms $E[U(g_{t+j}^*) / \theta_{t+j-1} = 1/2]$ are replaced by

¹⁵ Machiavelli mentions another scenario in The prince: the mistakes and abuses of an incumbent's successors can make its previous misdeeds be

$1/2E[U(g_{t+j}^*)/\theta_t=1]+1/2E[U(g_{t+j}^*)/\theta_t=1/2]$. Welfare increases by $1/4\{E[U(g_{t+3}^*)/\theta_t=1]/(1+\delta)^3+E[U(g_{t+4}^*)/\theta_t=1]/(1+\delta)^4\}$.

The welfare analysis of political budget cycles is not conclusive, since the positive welfare effects of cycles again hinges on the informative content to voters (only when equilibrium is pooling, welfare cycle is undoubtedly welfare reducing). What is clear is that non-immediate term limits are better than one term limits.

Note that in this framework it does not make any sense to limit the number of non-consecutive reelection to one. This can bring an additional bonus to this scheme in relation to non-immediate reelection.

6. Accountability and competency

The models in Sections 4 and 5 take competency as a characteristic of the individual, so voters are basically confronted with a problem of adverse selection. However, there is another strand of literature that treats elections as a principal-agent problem, where voters can use elections as a way to reward or punish the good behavior of the incumbent (Ferejohn, 1986).

Term limits, by eliminating reelection, can eliminate the reward elections provide. If competent behavior actually depends on costly effort, then term limits will eliminate competency, since it makes no sense to undertake a costly effort if the incumbent cannot be reelected.

Barro (1973) already confronted this unravelling result when there is an end-period (suggesting it could be overcome with incentives such as loss of pension after the term in office is over). In our benchmark scenario of a two-term

forgotten.

limit, if competency only depends on political gain, individuals will exert no effort in the second term. Voters should not reelect them, even if they are competent in their first term. Incumbents should exert no effort in the first term, to start with. So all incumbents would be incompetent.

A simple way to overcome this unravelling result is a setting of heterogeneous individuals.¹⁶ Some are always competent, notwithstanding term limits. Others are in it only for the political rents and will not exert high effort in their last period in office. It is obvious that not all presidents exert low effort in their last term (the issue of lame-duck president has to do with less presidential power). This differential behavior is also apparent in other areas, for example some individuals quit their effort once they get tenure, while others do not. To keep with the previous sections, the degree of opportunism and competency are independent. Opportunism represents the value that incumbents attach to the job. Non-opportunistic incompetent incumbents have no incentive to try to be reelected, while opportunistic competent incumbents do.

(15) $competent : \varepsilon_i^p = \varepsilon$
 $incompetent : \varepsilon_i^p = \varepsilon \text{ with } C(\varepsilon) > 0, \varepsilon_i^p = -\varepsilon \text{ with } C(-\varepsilon) = 0$

An example of this difference in administrative IQ might be the Reagan and Carter: Reagan could always take time off for leisure activities, while Carter always worked long hours on administrative issues.

This affects the results in the previous sections. A one-term limit not only can exclude a competent incumbent

¹⁶ Lott and Reed (1989), for instance, introduce politicians with heterogeneous preferences. Reelection allows to sort out the incumbents that deviate most from median voter.

from the job, it may lead an incompetent opportunistic incumbent to exert low effort in the first term. This increases the welfare cost of a one-term limit.

A one-term limit with non-immediate reelection has the advantage that it allows competent incumbents to be reelected, after a waiting period. Furthermore, an incompetent, opportunistic incumbent may still want to do a good job in the first presidency.

And non-immediate reelection, with no limit on the total number of reelections, does not face the end-period problem (though the option value of being reelected decreases as the time horizon of the individual decreases).

7. Conclusions

This paper studied the role of term limits on political budget cycles. Political budget cycles can have a positive welfare effect if they have an informative content for voters, as Rogoff (1990) demonstrated. However, this informative content depends on how sophisticated voters are: if the political budget cycle leads to a pooling equilibrium, it provides no information, and hence it is purely wasteful.

Non-consecutive reelection, when candidates differ in their long-run competency, turns out to be welfare superior to rigid one-term limits. It eliminates cycles, but allows at the same time to reinstate a competent incumbent in the future. In relation to two-term limits, the welfare effects are ambiguous. What can be said is that it allows the voting decision to be based on the whole tenure in office, shifting in turn the focus of economic policy from short-run view to long-run view.

When competency is endogenous and some incumbents respond to the possibility of reelection to do a good job,

this increases the welfare costs of one-term limits. One-term limits with non-immediate reelection do not have such a negative incentive effect, because the incumbent can return after a waiting period. And if there is no limit on the total number of terms, there is no end-period problem, unlike other limits.

However, how term limits affect the effort a politician puts into the job is complicated by the issue of procrastination, in the sense of Akerlof (1991): a politician with a deadline cannot kid itself about the time it has to carry out a given agenda. This can influence the productivity of a president positively, if it has a personal interest at stake in the job.

On deadlines and procrastination, Tufte (1978) remarks that U.S. presidents may limit their first term policy actions to not jeopardize reelection. The examples are not only economic: Kennedy wished to stop the Vietnam war, but decided to postpone that measure until after reelection, to avoid short-run controversy and criticism (p. 56). Putting things off is only possible if the incumbent thinks it has time in the future to carry out that action.

Self-interest is clearly the driving force in political careers. In that vein, this paper considered the impact of term limits on the actions of individual candidates. In other words, political budget cycles are exclusively related to the incumbent's personal attempts to be reelected.

An interesting extension is to consider politicians that are embedded in political parties. Even if an incumbent cannot run for reelection, the party can. If the president is interested in the election of the party candidate, and the competency of the party candidate is identified by voters with the competency of the current administration, political

budget cycles can arise even though the incumbent is not up for reelection. This raises the issue of how political reputations are transferred, and on how the successor candidate is chosen. This points in the direction of a framework that models elections as a two-stage process, first internal party elections and then general elections.

Anyhow, the analysis in the present paper may remain valid even if political reputations are transferable, as long as the president does not have a great stake in the victory of the party candidate. The conditions under which this seems likely to be the case are when the president cannot influence the nomination of the new party candidate, and there is a low degree of political polarization between parties.¹⁷



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¹⁷ Governor Duhalde, who blocked the attempt of president Menem to seek a new Constitutional reform to allow his third consecutive term in office, does not count with Menem's backing to run as presidential candidate of the Peronist party. The conflicts about presidential succession within the ruling political party can get out of hand, as the assassination in 1994 of the presidential candidate Colosio in Mexico, or the disputes in 1998 between Wasmosy and Oviedo in Paraguay, show. And Tufte (1978), p. 24, observes the ambivalence of out-going U.S. presidents toward their party's nomination of a successor, determined through primaries: Truman-Stevenson in 1952, Eisenhower-Nixon in 1960, and Johnston-Humphrey in 1968.

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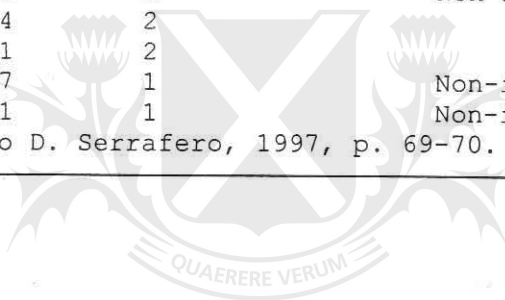
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Table 1: Presidential term limits in American Constitutions

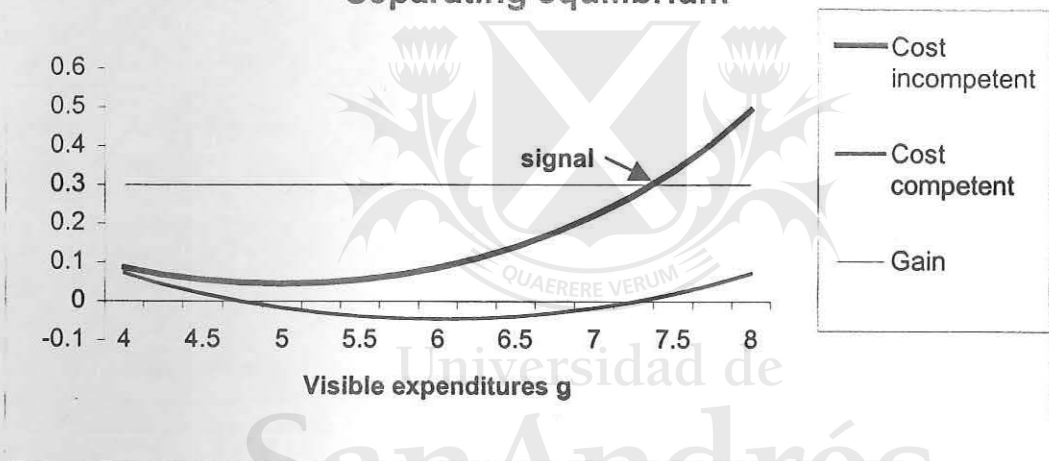
Country	Year	Terms	Observation
Argentina	1853	1	Non-immediate reelection
	1994	2	Non-immediate reelection
Bolivia	1967	1	Non-immediate reelection
Brazil	1988	1	Non-immediate reelection
	1997	2	
Chile	1980	1	Non-immediate reelection
Costa Rica	1949	1	
Colombia	1991	1	
Dominican Rep.	1966	-	
Ecuador	1979	1	
El Salvador	1983	1	Non-immediate reelection
Guatemala	1985	1	
Honduras	1982	1	
Mexico	1917	1	
Panama	1972	1	Non-immediate reelection
Paraguay	1992	1	
Peru	1979	1	Non-immediate reelection
	1994	2	
United States	1951	2	
Uruguay	1967	1	Non-immediate reelection
Venezuela	1961	1	Non-immediate reelection

Source: Based on Mario D. Serrafero, 1997, p. 69-70.



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Separating equilibrium



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