



Political Interest: Political Budget Cycles

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ABSTRACT: This paper aims to see the development of research and future directions regarding political budget cycles. This paper is important because it can be a reference for researchers who want to research political budget cycles. This paper uses a critical review analysis method. The results show that research on Political budget cycles at this time is still filled with political financing, government spending, government policies, and economic indices which are the results of performance used as information media in general elections. According to the author, this kind of theme will continue to exist and develop according to the times. So according to the author, new variables are needed that can add to the treasures of research. Research on voter behavior and parties in government is one the interesting studies to study. Such as the level of education and population density of the constituency. In addition, it is interesting to examine the decentralization of social assistance budgets on the basis of incumbent voters.

KEYWORDS: Political Interests, Political Budget Cycles.

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I. INTRODUCTION

As the political year approaches, economic issues have become one of the hottest issues raised by politicians. Important issues in the economy, such as inflation, poverty, job opportunities, and economic growth are the main topics that are always raised. The government has an important role in accelerating economic development, and one of the determining factors is public spending. However, misallocation of funds often occurs, reducing the extent to which public spending can play a positive role in the development process. [1] suggest that regional heads who will run for a second term tend to maintain their reputation with good economic regulation. Meanwhile, regional heads who will not run again tend to be indifferent and increase taxes.

If opportunistic/election issues can influence budget policy a reasonable question arises about how profitable opportunism is. Literature studies that are closely related to Political budget cycles have been carried out by several researchers and have mixed results. So the purpose of this paper is to provide a literature review on research on political budget cycles. The literature on political budget cycles has developed in two phases. The first is that politicians opportunistically manipulate economic policy instruments to gain an electoral advantage [2]. In contrast, the partisan model asserts that politicians use the economy to implement their ideological interests [3]. As a result, both models assume that voters are irrational and rulers use different policies to impact them.

According to Nordhaus [2], incumbents have strong incentives to influence voter behavior by using fiscal policy, especially if elections are imminent and voters base their behavior on the past. Because voters are expected to evaluate the candidates they vote for based on past track records, executives who have full discretion over fiscal policy can deliberately allocate government spending at strategically important points in time during their term to make a good impression on the public and improve prospects. of their re-election. This discretionary expenditure is usually budgeted as grants (grants), social assistance (social assistance funds), or other financial assistance to lower areas (sub-districts or villages).

The second step was carried out in the 1980s. Phase takes into account that voters behave rationally, which means that in balance they are not systematically manipulated, because they can anticipate the inflationary consequences of economic expansion. However, there is information asymmetry between citizens and government, which allows for the emergence of political cycles [4]. [5] argue that the behavior of the fiscal cycle can be demonstrated by providing an interpretation of the balanced signal from voters to describe the current government's unobserved performance. Good performance information can be used by incumbents to influence voters in general elections. In other words, in this concept, signaling is the driving force behind the incumbent behavior in fiscal policy spending aimed at rerunning elections. Incumbents use government

spending to improve fiscal policy performance before election time to signal competence to voters. Government financial reporting should provide information to help users assess their economic, social and political accountability and decision making [6]. Good economic performance can help improve the incumbent's re-election prospects to the extent that expansionary fiscal policy can be used to manipulate macroeconomic outcomes and deliver high growth, which signifies competence and in turn gains votes for the incumbent [7].

The political budget cycle was first proposed by [2] who proposed a model in which incumbents will manipulate macroeconomic policies to gain electoral advantage, assuming that voters vote retrospectively so that incumbents seek to create the most desirable economic conditions before the election by engaging in expansive fiscal policy to stimulate the economy and create "favorable" conditions for electoral gain. The political budget cycle is the politicization of the budget before the election or during the election years. This cycle tends to occur repeatedly at every level of government, especially in new democracies [8]. The political cycle combines budget and political elements to provide an overview of budget behavior around an election year. Political budget cycles arise because incumbents are opportunistically motivated and try to improve the economic welfare of voters before the election [9] as evidence shows that economic conditions affect government support.

Political budget cycles only occur in direct elections [10]. In the Indonesian government, [11] found that the allocation of grant spending and community support in incumbent areas during the election year was higher than before the election. Indonesia's political system is a young democracy with characteristics of low ideological sharing, loyalty to small parties, and the importance of money politics [12]. Both the community and regional heads have an opportunistic attitude in taking advantage of the election period. Political budget cycles are closely embedded in the budget and politics during an election year. This cycle occurs once in five years when regional head elections are held. Regional heads will maximize their efforts to gain community empathy and demonstrate their achievements through various programs.

Many researches on political budget cycles have been carried out, this paper will provide a literature review on several studies on political budget cycles and the factors contained in the cycles. This paper will be organized into three parts, the first part is an introduction which briefly discusses cycles, the second part discusses the literature review on cycles research, and the third part is a conclusion.

II. LITERATURE REVIEW

Political budget cycles are the politicization of the budget before the election or during the election years. This cycle tends to happen repeatedly at every level of government, especially in new democracies [8]. There are many studies on political budget cycles in connection with general elections that occur in a government. Research [1] aims to analyze the behavior of governors in the US from 1950 to 1986 to investigate reputation-building models of political behavior. The researcher argues that differences in the behavior of governors facing term limits and those who can run for re-election provide a usable source of variation in discount rates. To test the political agency model, in line with the research of [10] which states that political budget cycles only occur in direct elections, where incumbents collect their discretionary funds in election years to be donated to institutions or religious activities and/or social like place worship (mosque), community groups or sports to increase their popularity. In some cases, they channeled the funds to finance their campaign activities. This additional fund, which can be spent relatively freely compared to other items, is budgeted as donations (grants) or social assistance (social assistance funds) under administrative expenditure, the subcategory "other".

Furthermore, [13] research aim to prove the existence of opportunistic political budget cycles that are influenced by Regional Original Revenue, General Allocation Funds, and Extra Budget Remaining Calculations in regional head elections in Indonesia and examine whether regional heads who adopt these policies have a high chance of being re-elected or not. The results of [13] research shows that the opportunistic political budget cycle (OPBC) has an effect on the results of re-election while the opportunistic political budget cycle is influenced by general allocation of funds and the remaining more positive and significant budget calculations but local revenue has no effect significant. This shows that changes in the amount of local original income, general allocation funds, and the remaining budget calculations affect the determination of the budget for education, health, infrastructure, social assistance, and grant spending. This is in line with the results of [14] research which shows that the evidence produced shows an opportunistic political budget cycle pattern in the budget balance, total expenditure and investment, and loan receipts. Political budget cycles exist in Greek cities regardless of whether mayors are running for re-election or not, or whether the incumbent is politically aligned with the central government or not.

The political budget cycle can also be seen in the increase in regional budget deficits in election years. Total spending also appears to increase during the election year, along with spending on donations and financial assistance [7]. Pilkada can increase grant spending and social assistance spending, while investment spending increases two years before the election [8]. In addition, the results of research by [15] show that total

expenditure increases in election years in cities with low transparency. Although the literature shows that incumbents refuse to manipulate fiscal policy with the aim of elections in a transparent context. [15] point out that despite high transparency, politicians can use certain fiscal instruments to increase voter support. Incumbents increase capital spending and reduce taxes before elections, regardless of the level of financial transparency. Among the fiscal strategies of incumbents in transparent municipalities to increase their re-election chances, we find no increase in total spending during the pre-election period. This suggests that politicians are aware that the pre-election fiscal aggregate expansion is frowned upon by voters because of their fiscal conservatism. Then, while transparency allows voters to monitor public finances, incumbents refrain from increasing total spending during the pre-election period, but that does not prevent opportunistic behavior. Incumbents running for elections will manipulate the public budget to effectively build a credible perception by the public to increase their chances of achieving electoral success. The causes of Indonesia's political budget cycle related to elections arise from both the expenditure and revenue sides. The pattern of increasing social security spending in Indonesia recently shows an increase in spending which is immediately followed by an increase in income to cover the budget deficit [16].

The research of [17] shows that opportunistic political budget cycles are contained in the budget balance, total expenditure and investment, and loan receipts. Political budget cycles exist in Greek cities regardless of whether the mayor is running for re-election or not. In addition, a prolonged tenure does not seem to affect the city's finances and the magnitude of political budget cycles. Evidence also shows that Greece's attempts to join the EMU have no effect on local opportunistic politics. Furthermore, [17] find that increased spending during a full term, as well as opportunistic deviations during election years, are electorally rewarded because they have a positive impact on the incumbent's probability of being re-elected.

[18] suggest that local governments use their discretion incorrectly and use monetary sanctions for election purposes. Local governments in an election year reduce the percentage of fines, measured either in total non-financial income or in per capita terms. This reduction, compared to pre-election years, suggests that politicians are using their discretionary power to issue fewer fines in election years, as they are aware that penalties are not well rewarded by citizens. However, the assumption that incumbent candidates use their authority to politicize the budget cannot be proven in the research of [8]. In addition, the relationship between central transfers and political budget cycles in the regions cannot be proven in this study.

[19] argues that the political budget cycle does not only occur in regional and city governments separately. Political budget cycles that combine national and local governments can emerge naturally in certain institutional environments. That is when a local government relies on national resources, the central government may have incentives to manipulate intergovernmental transfers in favor of politically allied mayors, to use their help to mobilize voters in national elections which are referred to as the Indirect Political Budget Cycle. The results of research by [19] show that during the election years of the municipality, the government increases the overall number of transfers to the municipality (local government), and that this additional resource is allocated to mayors who have political ties to the central government.

III. CONCLUSION

Politics and economics are like lovers, having different lives but cannot live separately. Research on political and economic interests will always exist as long as a country is still standing. Research on the political interests of the majority is still filled with the interests of general elections, economic decentralization policies, and the formulation of public budgets. Politically motivated fiscal policy behavior arises due to the lack of information by voters and directs political leaders to utilize budgets that are in line with their personal interests [20].

Future research is predicted to be like this but will develop further along with the development of other disciplines such as behavior, tax, and social. Further research also needs to pay attention to the results of previous elections to determine their effect on the incumbent's vote acquisition; incumbent relatives involving elections; and political affiliation in terms of possible re-election, as such behavior may affect the outcome. Further research is also needed, to conduct a more in-depth investigation of the rationale for whether opportunistic fiscal policies by incumbents are associated with an increased likelihood of being re-elected or not [20].

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