International Scrutiny and Pre-Electoral Fiscal Manipulation

in Developing Countries

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Abstract

Pre-electoral fiscal manipulation—spending more or taxing less prior to an election—is an important tool that governments possess to enhance their chances for reelection. Existing explanations of pre-electoral fiscal manipulation focus primarily on domestic characteristics. We extend this line of inquiry by examining international influences on governments’ decisions to engage in pre-electoral fiscal manipulation. We find that international scrutiny of the economy and international scrutiny of elections affect pre-electoral fiscal manipulation in cross-cutting ways. Using data from 1990-2004 for 94 developing countries, we show that pre-electoral fiscal manipulation is more likely when international election monitors make direct election manipulation more difficult, and it is less likely when governments are subject to international economic scrutiny resulting from an IMF agreement.
Pre-electoral fiscal manipulation—spending more or taxing less prior to an election—is an important tool that governments may use to enhance their chances for reelection.\(^1\) Recent studies document that it is employed most often in new democracies (Brender and Drazen 2005) and developing countries (Shi and Svensson 2006). Existing explanations for why incumbents in these countries engage in pre-electoral fiscal manipulation focus on domestic characteristics, and scholars have shown that pre-electoral fiscal manipulation is more likely the less consolidated the democracy (Akhmedov and Zhuravskaya 2004; Gonzalez 2002), the less transparent the political system (Alt and Lassen 2006), the less independent the media (Akhmedov and Zhuravskaya 2004; Brender 2003), the less aware the voters (Brender and Drazen 2005), and the poorer the country (Schuknecht 2000; Shi and Svensson 2006).

Despite widespread recognition of the impact of the international environment on developing countries’ fiscal policies (Mosley 2002; Wibbels 2006), scholars have not examined the effect of the international environment on pre-electoral fiscal manipulation among these countries. In this article, we explore how two potentially cross-cutting sources of international scrutiny influence governments’ decisions to engage in pre-electoral fiscal manipulation. Specifically, we argue that international scrutiny of the electoral process increases the likelihood of pre-electoral fiscal manipulation, while international scrutiny of the economy decreases the likelihood of pre-electoral fiscal manipulation.

Politically, developing countries that wish to be considered democratic, as demonstrated through free and fair elections, are increasingly subject to scrutiny of their electoral process from international election monitors. Monitors focus primarily on documenting direct electoral fraud, and publicize information about election quality to domestic and international audiences.

\(^1\) See Kayser (2005) Franzese (2003), and Drazen (2001) for an overview of this literature.
Negative reports frequently trigger negative consequences. Elections declared fraudulent by reputable observers have been used to justify reductions in foreign aid, internationally supported post-election domestic uprising, economic sanctions targeted at the regime, suspension from international organizations, and the withholding of other benefits that would have otherwise been awarded following an internationally certified election (Bjornlund 2004; Bratton 1998).

Because international election monitors raise the cost of engaging in obvious and illegal (but more direct) methods of gaining votes, the presence of election monitors should reduce the likelihood of direct election fraud (___). In contrast, pre-electoral fiscal manipulation has the advantage of being a legal and often legitimate means of increasing government popularity prior to an election. Fiscal manipulation rarely provokes criticism from international observers. Therefore, legal methods of increasing electoral support should become more attractive when more direct methods of stealing an election become more difficult due to election monitoring. Pre-electoral fiscal manipulation should be more likely when international monitors are present.

Developing countries under International Monetary Fund (IMF) agreements also face international economic scrutiny as the IMF determines whether or not these countries meet the conditionality requirements of their programs. Preventing economic manipulation prior to an election is not a particular remit of the IMF. Quite to the contrary, the IMF tries to avoid making big decisions or releasing sensitive information about a country prior to an election. Nonetheless, the IMF does monitor governments’ finances and emphasizes the implementation of sustainable macroeconomic policies, generally conceived of as an improvement in the government’s budget deficit. A country under an IMF agreement experiences increased attention to government

2 Available reports from international observers reveal no cases in which pre-electoral fiscal manipulation was criticized, although some observers criticize misuse of state resources.
expenditures, which may make it more difficult to engage in pre-electoral fiscal manipulation. As a result, governments under an IMF agreement should be less likely to engage in pre-electoral fiscal manipulation. Our argument is not that IMF scrutiny is the only form of international scrutiny with the potential to reduce pre-electoral fiscal manipulation. Rather, IMF scrutiny is a useful proxy for heightened international attention to a government’s fiscal stance.

The central contribution of this article is to examine whether a government’s decision to engage in pre-electoral fiscal manipulation is affected by international political and economic scrutiny. The evidence supports the argument that governments are more likely to manipulate the economy prior to an election when international election monitors constrain their ability to engage in direct electoral fraud. In contrast, governments are less likely to engage in pre-electoral fiscal manipulation when the country is under an IMF agreement, as scrutiny by the IMF makes pre-electoral fiscal manipulation more difficult. Taken together, these two effects suggest that pre-electoral fiscal manipulation is most likely when incumbents are subject to international political scrutiny from election monitors, but are not subject to international economic scrutiny resulting from an IMF agreement. Previous research has demonstrated that developing countries are predisposed to engage in pre-electoral fiscal manipulation. This article builds on this research by showing that among developing countries, international political and economic scrutiny are important factors mediating when governments choose to manipulating the economy in order to enhance their chances for reelection.

**International Scrutiny and Pre-electoral Fiscal Manipulation**

Politicians enjoy a wide range of tools that can be used to bias an election in their favor. Andreas Schedler has called this set of options the “menu of manipulation” (2002). Some forms of election manipulation are direct and are therefore more certain ways to guarantee an election
victory, such as widespread stuffing of ballot boxes, banning opponents from electoral competition, or falsifying vote totals. Other forms of manipulation are less direct and therefore less certain ways to assure an electoral victory, such as monopolizing state-owned media, spreading false information about opponents, vote-buying, or, as highlighted here, increasing public spending or decreasing taxation in advance of the election (pre-electoral fiscal manipulation). Within this set of options, pre-electoral fiscal manipulation is both uncertain (because it does not guarantee victory) and expensive (because it typically requires significant government funds), but represents a legal means by which a government can increase its own probability of victory in the run-up to an election.

Leaders wish to guarantee their reelection while minimizing the cost of doing so, both financially and reputationally. This tradeoff between the certainty and costliness of electoral victory influences which options a leader chooses from the menu of manipulation. When leaders are not constrained in their use of election fraud, either normatively by their own commitment to democracy or procedurally through oversight mechanisms that would detect and punish such manipulation, such as those that exist in consolidated democracies, leaders should be more likely to use electoral fraud because it is a more direct and therefore more certain tactic. As constraints on extra-legal electoral manipulation are introduced, such as international election monitoring and the associated enforcement of standards for democratic elections, leaders should abandon direct and obvious electoral manipulation in favor of less certain but legal options in order to avoid international condemnation.³ As Pepinsky writes, “political manipulation of the economy may be less costly politically, both domestically and internationally, than electoral fraud…Even a low probability event of public outcry in response to rigged elections is likely to be far costlier

³Observers do not eliminate fraud, but make it more costly or more likely to be discovered.
for the regime than subtle—and perhaps more welcome—fiscal policy manipulation.” (2007, 142). Fiscal manipulation should become a more likely choice for increasing governments’ reelection chances when international election monitors are present.

Until the 1990s, election monitoring was a rare practice, and most governments did not consider inviting international election monitors. Since the early 1990s, most governments in the developing world have invited official delegations of foreign observers to judge the quality of their elections. Refusing to invite observers has become a signal that the government has something to hide, and unmonitored elections are widely viewed with suspicion by international and domestic actors (Bjornlund 2004; Kelley 2008; Rich 2001). To illustrate, in 2003 observers were not invited to elections in Cuba, Guinea, Jordan, Kuwait, Mauritania, North Korea, Oman, Syria, Turkmenistan, and Yemen—countries widely perceived to be nondemocratic. Although election monitoring existed in the 1960s-1980s, it was rare and usually inconsequential. As it spread throughout the developing world, international observers improved their methods of fraud detection and increased their willingness to criticize problematic elections (Bjornlund 2004; Carothers 1997). The increased rigor and comprehensiveness of election monitoring has made direct election fraud more costly. All else held equally, the presence of observers should make pre-electoral fiscal manipulation a more attractive option, leading to Hypothesis 1.

**H1: Pre-electoral fiscal manipulation is more likely when election monitors are present.**

International political scrutiny from election monitors is not the only form of international attention that can influence the government’s decision to manipulate fiscal policy prior to an election. International economic scrutiny, in the guise of IMF monitoring, may have the opposite effect on the use of pre-electoral fiscal manipulation. This influence may occur in two ways. First, IMF conditionality may constrain governments’ ability to engage in pre-electoral fiscal
manipulation. Second, IMF reporting on governments’ fiscal policies plays an informational role that may dissuade some governments from engaging in pre-electoral fiscal manipulation.

Countries that enter into IMF agreements to borrow money are subject to conditionality. One key component of programs’ conditionality is the adoption of sustainable macroeconomic policies, which generally means a reduction in the government’s budget deficit (Fischer 2004). As a result, if implemented, conditionality constrains government finances, making it difficult for governments to engage in the expansionary policies that are the cornerstone of pre-electoral fiscal manipulation. It is unclear, however, that countries actually implement conditionality, and recent studies have found relatively low levels of compliance (Bird 2007). This suggests that government finances may not be as constrained as IMF conditionality implies. That said, even when controlling for compliance rates, countries that are under IMF agreements appear to have an improvement in their fiscal balance (Dreher 2005). Additionally, individual country studies suggest that governments are concerned about IMF agreements constraining their ability to engage in fiscal manipulation (Pepinsky 2007; Treisman and Gimpelson 2001). Even when governments do not fully comply with conditionality, government expenditures may be limited by IMF agreements and the associated international scrutiny of their fiscal balance.

Moreover, recent economic studies have shown that IMF monitoring has an informational role beyond the conditionality of an IMF agreement. As Eichengreen, Kletzer and Mody (2006, 1337) argue, “the monitoring that accompanies the core conditionality in all IMF programs helps creditors gain confidence in the likelihood of reduced policy variability.” Thus, IMF monitoring

4 For the theoretic foundation for the IMF’s delegated monitor role, see Tirole (2002) and Cottarelli and Giannini (2006). For empirical support for the importance of IMF signalling to international bond markets, see Bordo, Mody and Oomes (2004) and Mody and Saravia (2006).
provides an important signal to international markets about a government’s commitment to sound macroeconomic practices. To engage in fiscal manipulation, governments must either increase spending or decrease revenues, calling into question the soundness of their finances. Therefore, fiscal manipulation may jeopardize a favorable IMF report, potentially reducing the country’s access to international capital, both from the IMF and from international bond markets.

A few examples help illustrate this dynamic. Russian President Boris Yeltsin came under criticism from the IMF in 1996 for ordering the transfer of central bank money to government coffers in order to cover his pre-election spending and tax breaks.5 In contrast to the previous year in which Russia was praised by the IMF for successful implementation of their fiscal austerity program (and received an additional $525 million loan), the 1996 spending provoked stern IMF warnings and drew attention to Yeltsin’s electorally motivated change of course.6

Similarly, following an IMF projection that pre-election spending would bloat the budget deficit, the Philippine government sought to reassure investors, arguing that government spending would be “a matter of socioeconomic priority and not a matter of political expediency.”7 In other cases IMF officials have also used high levels of pre-election spending to justify caution in extending post-election loans, as in Sri Lanka,8 or to apply pressure on

7 “Philippine FY deficit will not be bloated by election spending.” Feb. 3, 2003. AFX.
governments to cancel pre-election promises of tax cuts, as in Croatia. This pattern of reaction by the IMF is visible to other leaders facing similar forms of international scrutiny.

Additionally, scholars have argued that governments prefer not to be under IMF agreements during elections, and research has shown that governments are more likely to enter into IMF agreements after elections (Przeworski and Vreeland 2000). Entering an IMF agreement early in a government’s term increases the likelihood that “the stigma of signing an agreement will be forgiven or forgotten before the next elections” (Przeworski and Vreeland 2000, 394). It also increases the likelihood that the short-term pain of an economic reform program will be forgotten or superseded by the benefits of the reforms by the next election.

Although governments may prefer not to enter into new IMF agreements until after an election, the majority of elections in the developing world are held while countries are already under an IMF agreement. Many countries use IMF facilities for prolonged periods of time (Bird 2007; Conway 2007). In fact, the average time a given country is under an IMF agreement is more than five years, with many countries continuously under IMF agreements for ten years or more (Vreeland 2007, 56-58). For the developing countries in our study’s sample, more than half of all elections were held during periods in which countries were under IMF agreements. Incumbents therefore often campaign during periods in which government expenditures are constrained by IMF scrutiny. It should be more difficult for countries to engage in pre-electoral fiscal manipulation when under an IMF agreement than when not under an IMF agreement. As a result, lower levels of pre-electoral fiscal manipulation are expected when countries are under an IMF agreement, leading to Hypothesis 2.

**H2: Pre-electoral fiscal manipulation is less likely when countries are under an IMF**

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The presence of an IMF agreement should reduce the likelihood of pre-electoral fiscal manipulation. This should only matter, however, if the government would have been likely to engage in pre-electoral fiscal manipulation in the absence of an IMF agreement. Whether or not the government manipulates the economy prior to an election is influenced by other variables, particularly the other options available to the government for increasing its electoral chances. When the government plans to commit direct electoral fraud, it should be less likely to engage in pre-electoral fiscal manipulation. There is less need to persuade voters with indirect tactics like social spending or tax breaks if, for example, opposition parties have been repressed or if planned election fraud means that the election outcome is not in question. The effect of an IMF program on pre-electoral fiscal manipulation should depend on whether election monitors are present. In the absence of election monitors, the constraint imposed upon government finances by IMF conditionality may be irrelevant—they were unlikely to engage in pre-electoral fiscal manipulation anyway. In contrast, pre-electoral fiscal manipulation becomes a more likely policy choice when international election observers are present. Therefore, the constraining effect of an IMF agreement on pre-electoral fiscal manipulation will be much greater when election monitors are present than when election monitors are absent, generating Hypothesis 3.

**H3: The negative effect of an IMF agreement on pre-electoral fiscal manipulation is stronger when election monitors are present.**

Similarly, the effect of election monitors on the use of pre-electoral fiscal manipulation should be tempered by IMF agreements. Governments experiencing both types of international scrutiny must weigh the increased cost of electoral fraud due to election monitors against the constraints of the IMF agreement. As a result, the presence of election monitors should have less
of an effect on the use of pre-electoral fiscal manipulation when the country is under an IMF agreement than when the country is not under an IMF agreement, leading to Hypothesis 4.

**H4: The positive effect of election monitors on pre-electoral fiscal manipulation is weaker when the country is under an IMF agreement.**

Overall, pre-electoral fiscal manipulation is most likely when election monitors are present and the country is not under an IMF agreement. The larger implication is that governments facing both types of international scrutiny will be more constrained in their ability to manipulate elections in their favor, either through fiscal manipulation or election fraud.

**Illustrative Cases**

Before evaluating these hypotheses with cross-national quantitative data, we first describe elections in Hungary, Zambia and Georgia to document these dynamics in greater detail. These cases were selected because they exhibit variation in our central explanatory variables: whether governments were under an IMF agreement and whether elections were monitored. No set of elections in our study includes the ideal conditions for a natural experiment in which all other variables are held constant and IMF agreements and international monitors are randomly assigned to countries. Nevertheless, documentation of overtime variation within these countries supplements the quantitative analysis by underscoring four points: 1) governments use fiscal manipulation to increase their chances for reelection, 2) government use of this tactic has occurred as a response to international scrutiny of elections, 3) IMF scrutiny of the economy constrains the use of fiscal manipulation, and 4) depending on their unique circumstances, governments facing both international scrutiny of their elections and their economy may be willing to risk criticism of their elections in order to avoid suspension of an IMF agreement, or vice versa.
The Hungarian elections of 1994, 1998, and 2002 were all internationally monitored and exhibited low levels of overt election fraud, but varied in IMF scrutiny over time. In 1991, Hungary and the IMF negotiated an agreement to provide the country with access to $100 million over three years to ease the country’s post-communist transition. The agreement mandated that the government reduce its budget deficit to 3.5% of GDP prior to the disbursement of funds. By 1993, the government had not met this target, and the IMF had refused to release funds. As a result, the IMF and the government renegotiated the agreement, loosening the deficit requirement in return for incorporating austerity measures in the 1994 budget.\(^\text{10}\) This budget hampered the government’s ability to engage in fiscal manipulation prior to the 1994 election, which the incumbent government lost to a socialist led left-liberal coalition. Although economic conditions leading up to the 1994 elections were poor and the governing coalition was not popular, the government was constrained by both international political and economic scrutiny, and there is little evidence that it employed fiscal manipulation.

Projecting itself as the party of competent economic governance, in 1996 the new government negotiated a two-year IMF agreement predicated on the implementation of broad structural reforms, including budget deficits not to exceed 3% and early repayment of outstanding loans.\(^\text{11}\) The government adhered to the agreement, and the IMF approved access to

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\[\text{\textsuperscript{11}} \text{On the technocratic basis of the Hungarian socialist party, see Bozóki 1997; Tóka and Enyedi 1999, 198-223; Racz 2003; Körösényi 1999. “IMF delegation to visit Hungary to discuss standby deal,”} AFP, 4 Sept 1995. \text{“Hungary to repay 620 mln dlr IMF loan early”}, AFX, 2 Nov 1995.\]
all installments of the loan. Yet the government chose not to withdraw the funds. Even before negotiating the agreement, Hungary did not need the loan but wanted the appearance of compliance with an IMF agreement. As the finance minister explained, “…we no longer needed the money, only a signal from the IMF that our economic policy is on the right course.”\(^{12}\) This policy of fiscal constraint under IMF scrutiny carried into the 1998 election. The government kept the budget deficit low, although there were some signs of fiscal manipulation, including free public transportation for senior citizens.\(^ {13}\) The IMF also noted fiscal electioneering during local elections held after the national elections, yet the national budget won praise in the same IMF report, as the deficit was smaller than expected.

Taking back power from the socialist-led coalition, conservatives won the 1998 election and chose not to negotiate a new IMF agreement (IMF 1999a). Although the conservative government initially continued its predecessor’s economic approach, by 2001 the IMF was cautioning the government over its expansionary fiscal policies (IMF 2002).\(^ {14}\) Confident in the durability of Hungary’s new reputation for economic responsibility, Prime Minister Viktor Orban rebuked IMF criticism, noting that the country could now obtain credit from a diverse range of financial institutions, and stating that, “[t]he Hungarian economy is strong enough that an IMF report can be taken as but one opinion that is worthy of consideration.”\(^ {15}\) Engaging in


\(^{14}\) “IMF urges Hungary to tighten fiscal policy to lower inflation before EU entry” AFX European Focus, 18 May 2001.

\(^{15}\) “Hungarian Prime Minister Critices IMF Report,” Deutsche Presse, 6 June 2001.
overt fiscal manipulation prior to the 2002 elections, the government rolled out a series of tax
cuts and spending increases, which resulted in a doubling of the budget deficit, reaching a decade
high of 9.4%. The IMF was unsparing in its analysis: “[W]ith elections in 2002, fiscal policy was
highly politically-charged and turned very expansionary, contributing to macroeconomic
imbalance and an inordinate burden on monetary policy” (IMF 2003a). The conservatives lost
power despite their use of fiscal manipulation, and the new socialist government quickly moved
to repair relations with the IMF, reducing the deficit to 5.9% by 2003.

A comparison of the 1991 and 1996 elections in Zambia reveals a similar dynamic, but
provides evidence of a government choosing direct election fraud and paying the price of a
negative report from election observers in favor of maintaining fiscal austerity under IMF
agreements. Caught between international creditor demands for repayment and widespread
public pressure for domestic subsidies, Zambian President Kenneth Kaunda’s economic policy
vacillated throughout the 1980s. IMF insistence that the government reduce maize subsidies
repeatedly provoked opposition riots, and in 1987 led the government to abandon IMF-mandated
reform programs (Baylies and Szeftel 1992). IMF loan disbursements were suspended until the
government resumed its economic reforms in 1989. As before, the reforms provoked widespread
public protests and galvanized the opposition (Bratton 1992; Nasong’o 2005). Facing increased
international and domestic pressure, Kaunda promised to hold democratic elections in 1991, and
agreed to invite international election observers (NDI 1992). In the face of stiff electoral
competition, Kaunda attempted to create favorable economic conditions to enhance his
popularity, abandoning the IMF-mandated economic reform package and further loosening fiscal
policy (Rakner 2003, 66). The IMF officially suspended cooperation in September 1991, just a
month before the election.\textsuperscript{16} Despite his efforts, Kaunda lost to Fredrick Chiluba after twenty-seven years in power.

Chiluba quickly negotiated a new IMF program, remaining responsive to the IMF throughout his tenure in office even as his political support deteriorated.\textsuperscript{17} Facing a challenge from former president Kaunda in the 1996 elections, Chiluba turned to more direct methods of election manipulation and engineered constitutional amendments that effectively prohibited Kaunda from participating in the presidential election (Gould 2002, Baylies and Szeftel 1997). Kaunda and his party launched an official election boycott, and several major international monitors protested the new rules by refusing to send delegations to monitor the elections, although the elections were still monitored by NDI and the United Nations (Gould 2002, 304). Several donors, including the US, suspended bilateral aid in response to the election manipulation.\textsuperscript{18} The electoral process itself was marred by further controversies over voter registration (Gould 2002, Baylies and Szeftel 1997, Donge 1998). The NDI delegation, the foreign press, and most large domestic monitoring groups reported the elections as flawed (Gould 2002; Bratton 1998). The IMF, on the other hand, did not criticize the government’s electoral conduct. Chiluba adhered to agreed policies and Zambia’s deficit shrank between 1995 and 1996 (IMF 1999b, 29). Highlighting the conflict between international political and economic scrutiny, several key IMF member-states pressured the IMF to curtail its relationship with Chiluba because of his reliance on election fraud. As a diplomat stationed in Zambia


\textsuperscript{18}``IMF and World Bank aid to Zambia continues,” *Deutsche Presse*, 20 July 1996.
remarked, “The irony is that the problem arose partly because Chiluba was 'good' by stringently sticking to IMF and World Bank demands for economic reform.”

Georgia presents a somewhat more nuanced case that nevertheless demonstrates the clear use of pre-electoral fiscal manipulation and government response to international economic and political scrutiny. Legislative elections in October 1999 and presidential elections in April 2000 were internationally monitored by the OSCE/ODIHR. The lead up to the 1999 legislative election saw intensive negotiations between the Georgian government and the IMF, as the Georgians sought to secure the final installments of a three-year IMF program and develop plans for a successor program. Relations between Georgia and the IMF had been souring for some time, and IMF officials were particularly critical of Georgia’s increasing budget deficit and pushed the country to limit expenditures and increase tax collection. To smooth IMF relations, Georgian President Eduard Shevardnadze agreed to an $8 million cut, though acknowledged that this amount was "rather symbolic compared to the expected one." Firm steps were not taken to improve tax collection, and revenues declined after years of steady growth (IMF 2000a). The government’s failure to restrain spending led the IMF to break cooperation with Georgia shortly before the legislative election. Domestically, critics blamed Shevardnadze’s supporters for the


21 “Georgia cuts budget expenses at IMF demand” TASS, 9 July 1999.
large 1999 deficit, pointing to increases in state funded electricity provision and road construction in the run-up to the vote (Areshidze 2007). The IMF concurred, stating that “increased pressure from the weak fiscal position…and the run-up to the parliamentary elections led to a more rapid expansion of net credit to government in the last four months of 1999” (IMF 2000c). Following the legislative elections, continuing disputes over the 2000 budget led the IMF to extend its freeze in cooperation with Georgia. Shevardnadze, meanwhile, won the presidential election easily. Despite his popularity, however, election observers criticized the elections, and pointed out widespread electoral tampering on Shevardnadze’s behalf. Even Shevardnadze’s party acknowledged that “local governors showed too much zeal” in their electoral efforts.

In early 2001 a newly negotiated IMF agreement overlapped with steady improvement in fiscal conditions between 1999 and 2002 (IMF 2003b). In the lead up to the 2003 legislative elections, however, IMF officials repeatedly expressed concerns about the deteriorating fiscal outlook. They pushed the government to rollback recent reductions in electricity tariffs in order to boost revenue, an unpopular demand Shevardnadze complied with shortly before the election. The incumbent president showed additional signs of fiscal restraint, such as his initial


24 The budget deficit was 6.7% in 1999, 4.0% in 2000, and 2.0% in 2001, and 2002.

resistance to calls by an opposition-led hunger strike to disburse delayed pension payments (Areshidze 2007). Ultimately the government’s failure to make significant cuts to the budget led to a temporary suspension of further IMF loans shortly before the election.26

Meanwhile, Shevardnadze’s political bloc was facing stiff competition in the legislative elections. Accusations of massive electoral violations by foreign and domestic observers prompted a post-election protest movement led by opposition parties, which was legitimized by international condemnation of government-sponsored election fraud, and eventually led to Shevardnadze’s resignation in the ‘Rose Revolution.’27 Opposition leader Mikheil Saakashvili won an overwhelming victory in the January 2004 presidential election and his bloc was victorious in subsequent legislative elections held in March. The minor growth in the fiscal deficit that occurred in 2003 was followed by significant increases in income in 2004, leaving the country with a budget surplus for the first-time in its post-communist history.28 Overall, this case illustrates that international political and economic scrutiny constrained Georgian government behavior despite efforts to engage in election fraud and overtime changes in IMF agreements.

28 Areshidze points out that a significant portion of the revenue increase came from one-time fines paid by public officials and businessmen that were detained during the anti-corruption sweeps of the newly installed government (2007, 211-17).
Quantitative Analysis

This section explores the hypotheses presented above with a quantitative analysis of fiscal manipulation in 94 developing countries, 1990-2004.\textsuperscript{29} The results are consistent with our expectations: fiscal manipulation is most likely when elections are internationally monitored and countries are not under IMF agreements.\textsuperscript{30} The baseline model used in this article is similar to Brender and Drazen’s (2005) analysis of fiscal manipulation. This model was chosen for two reasons. First, findings from Brender and Drazen (2005) and Shi and Svennson (2006) represent the alternative hypothesis for this project—that developing countries engage in pre-electoral fiscal manipulation regardless of international scrutiny. Second, Brender and Drazen (2005) adopt a well-accepted array of controls for fiscal policy analyses in developing countries. The estimation technique is ordinary least squares regression with panel corrected standard errors.\textsuperscript{31}

The dependent variable, Change in Government Balance, represents a change in the central government fiscal balance. It is positive when the current year’s budget is in greater surplus

\textsuperscript{29} Countries are listed in Online Appendix A, at http://__. We focus on developing countries because most IMF loans are made to developing countries and election monitoring is prevalent. We selected 1990-2004 because election monitoring was relatively rare before 1990 and because IMF conditionality was more comprehensive after the 1980s.

\textsuperscript{30} As shown in Online Appendix C, these findings are robust to alternative model specifications, alternative measures of the dependent variable, different data samples, exclusion of outliers, and re-coding of explanatory variables.

\textsuperscript{31} As shown in online Appendix C, to ensure that the results are not a function of the specific estimation technique, we also run a random effects model, and models with country and year fixed effects, each of which provides significant support for our argument.
(smaller deficit) than in the previous year. Fiscal manipulation should be inversely related to Change in Government Balance—the more manipulation, the more negative the dependent variable will be. Data on government balance come from two sources—IMF (2007) and Brender and Drazen (2005). The IMF publishes information on government fiscal balance in its International Financial Statistics (IFS). However, not all countries’ government balance data are included in IFS. Brender and Drazen augment these data based on other IMF publications, which we use to substitute for countries where IFS data are missing.32

Election data were collected by ___ and include descriptive information on all elections for national office, even those occurring in the most undemocratic countries.33 The theory developed in this article presupposes that holding an election implies some risk that the incumbent will give up power. In some elections, however, opposition is banned or otherwise restricted. To exclude elections that are a priori uncompetitive, Election is coded from three questions in the ____ data: Was opposition allowed? Was more than one party legal? Was there a choice of candidates on the ballot?34 Election is coded 1 if the answer to all three questions is “yes” and 0 otherwise, generating a list of elections in which competition is possible.

Data for Monitors are from ____, and indicate whether an official delegation of foreign observers was present at a given election. Excluded from this measure are international monitors from a priori “friendly” organizations that had never previously criticized an election, as these ____________________________

32To verify that there is no systematic bias caused by splicing two data sources, we re-run our analyses using each data source separately. The results are comparable but somewhat weaker.

33 A country may have more than one election in a given year. For consistency, the analysis considers that a given event occurred if it took place in any election during the country-year.

34 Appendix B describes data on elections and election monitoring in greater detail.
monitors were unlikely to criticize an election even if fraud were widespread, and therefore were unlikely to increase the costs or risks for election fraud. Thus, an election is only considered monitored if at least one of the monitoring organizations present had previously condemned an election as fraudulent.\textsuperscript{35} \textit{IMF Agreement}, coded 1 when a country is under an IMF agreement and 0 otherwise, is included in the analyses to capture the effect of IMF program participation on a government’s fiscal stance. Data on IMF program participation are from Vreeland (2003).\textsuperscript{36}

Figure 1 presents the mean value of \textit{Change in Government Balance} for eleven different sets of observations in the data and the total number of observations in each category, which vary by elections, election monitoring and IMF program participation. In this comparison of mean values, pre-electoral fiscal manipulation is highest when election monitors are present and the country is not under an IMF agreement, which is consistent with our argument.

[Figure 1 about here]

In addition to elections, election monitoring, and IMF agreements, the analyses include a series of economic and demographic control variables.\textsuperscript{37} \textit{GDP per capita} (logged) is intended to control for income effects. Richer countries tend to run smaller budget deficits; thus, the expectation is that \textit{GDP per capita} and \textit{Change in Government Balance} are positively correlated. Similarly, higher \textit{GDP Growth} should lead to greater budget surpluses. \textit{Trade} is also included as a constraint on the size of budget deficits. \textit{Population between 15 and 64} represents the fraction of the population presumed to be of working age. The greater the working age population, the

\textsuperscript{35} If all groups are included the effect is about 1/3 the size and significant at the 90\% level.

\textsuperscript{36} IMF program participation post-2000 was provided by James Vreeland.

greater the tax base, all else equal. In contrast, the greater the Population 65 and above, the
greater the demand for government expenditures. Government Balance, lagged is included to
control for temporal dependence in the dependent variable.

Table 1 presents the results. Model 1 shows that elections are associated with a 0.48
percentage point decline in government balance. This confirms previous evidence of pre-
electoral fiscal manipulation in developing countries, and supports the alternative hypothesis that
developing countries engage in pre-electoral fiscal manipulation unconditionally. Model 1 also
shows that subsequent evidence of international scrutiny’s constraining effect does not stem from
an analysis biased against the alternative hypothesis that developing countries engage in pre-
electoral fiscal manipulation regardless of international scrutiny.

[Table 1 about here]

Turning to the non-election variables, an improvement in the government’s budget balance
is positively associated with IMF, GDP per capita, GDP Growth and Trade, and negatively
associated with a budget improvement in the previous year.

To test Hypothesis 1—that fiscal manipulation should be larger when election monitors are
present--Model 2 includes an interaction between Election and Monitors. To better gauge
support for Hypothesis 1, Figure 2 graphically displays the marginal effect of the presence of
election monitors on pre-electoral fiscal manipulation. When monitors are present, elections are
associated with a 0.88 percentage point decline in government balance, which is more than three

38 Election monitors cannot be considered in the absence of elections—if there is no election, it is
necessarily the case that there are no election monitors. As such, Model 2 does not include an un-
interacted Monitors variable because it is identical to Election x Monitors, and Model 4 does not
include Monitors x IMF Agreement, which is identical to Election x Monitors x IMF Agreement.
times the size of the statistically insignificant decline when monitors are not present. These results suggest that governments in developing countries engage in higher levels of fiscal manipulation when election monitors are present.

Hypothesis 2 suggests that pre-electoral fiscal manipulation is less likely under an IMF agreement. To test this hypothesis, we include an interaction between *Elections* and *IMF Agreement*. These results are also presented graphically in Figure 2. In support of Hypothesis 2, pre-electoral fiscal manipulation is estimated to be nine times larger in countries that are not under an IMF agreement compared to those that are. For these countries, elections are associated with a 0.9 percentage point decline in government balance.

Although Models 2 and 3 provide support for Hypotheses 1 and 2, if the effects of international economic and political scrutiny are interrelated, then Models 2 and 3 are improperly specified. Model 4 includes a three-way interaction between *Election, Monitors and IMF Agreement* to evaluate the potential endogeneity of pre-electoral fiscal manipulation to both international political and economic scrutiny.

If Hypothesis 3—that the constraining effect of an IMF agreement is stronger when election monitors are present—is correct, then fiscal manipulation should be significantly higher when election monitors are present and the country is not under an IMF agreement than when election monitors are present and the country is under an IMF agreement. Conversely, when election monitors are not present, the level of pre-electoral fiscal manipulation should not be significantly different whether or not the country is under an IMF agreement. Based on the results presented in Figure 2, Hypothesis 3 receives strong support. When monitors are present

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39 An IMF agreement was signed post-election in 7 cases, but recoding does not change results.
but countries do not participate in an IMF program, elections are associated with a two percentage point decline in government balance. In contrast, when international election monitors are absent, there is no statistically significant evidence of pre-electoral fiscal manipulation regardless of IMF program participation.

As with Hypothesis 3, Hypothesis 4—that the presence of election monitors is more likely to increase pre-electoral fiscal manipulation when countries are not under an IMF agreement—receives strong support. When countries are not under an IMF agreement, fiscal manipulation is four times greater when election monitors are present than when election monitors are absent. In contrast, when countries are under an IMF agreement, there is no statistically significant evidence of pre-electoral fiscal manipulation, regardless of the presence of election monitors.

With respect to international scrutiny, countries that face election monitoring but are not under an IMF agreement appear most likely to employ pre-electoral fiscal manipulation in order to enhance their chances for re-election. In the absence of election monitors, fiscal manipulation appears less likely, indicating that such indirect means of electoral manipulation are less desirable when direct election manipulation is easier. Similarly, pre-electoral fiscal manipulation is insignificant when a country is under an IMF agreement, suggesting that being under an IMF agreement consistently acts as a constraint on fiscal policy.

**Alternative Explanations**

The primary alternative explanation tested in this article comes from the existing literature: pre-electoral fiscal manipulation is likely in developing countries, regardless of international scrutiny. In this section, we consider several additional alternative explanations, some of which are presented in greater detail in the article’s online appendix due to space constraints.

First, we reconsider the argument that being under an IMF program constrains the use of
fiscal manipulation by evaluating several potentially confounding trends. The first set of tests evaluates whether the constraining effect of an IMF agreement is the result of the non-randomness of IMF program participation, and that rather than capturing increased international economic scrutiny, IMF agreements are actually a proxy for poor economic conditions.

In the analyses presented above, participation in an IMF program has been treated as exogenous; however, it is well-established that because the IMF and governments negotiate agreements, there is a selection effect to IMF program participation. This effect could confound the analysis if the same factors that lead countries to participate in an IMF agreement also affect fiscal manipulation. To account for selection in IMF program participation, in Model 5 in Table 2 we replicate Model 4, replacing IMF Agreement with IMF Hazard Ratio, which captures countries’ likelihood of participating in an IMF program.40 When monitors are present and the likelihood that a country will enter into an IMF agreement is low, this model predicts an almost three percentage point decline in Change in Government Balance.41 In contrast, when the likelihood that a country will enter into an IMF agreement is high, there is no statistically significant evidence of pre-electoral fiscal manipulation. Similarly, governments do not appear to engage in fiscal manipulation in the absence of election monitors. These results support our central finding that pre-electoral fiscal manipulation is most likely when countries are under

40 The selection model replicates Nooruddin and Simmons’ (2006) model of IMF program participation, and is presented in the Online Appendix. To address the temporal dependence issues associated with binary data, we include four alternative selection models. The derived IMF hazard ratios correlate at 0.98% and the second-stage results are almost identical.

41 The control variables from Table 1 are included in subsequent models but not reported. All interactions included in Table 2 are presented graphically in Online Appendix C.
international political scrutiny but not under international economic scrutiny.

[Table 2 about here]

The next alternative explanation evaluates whether the constraining nature of an IMF agreement is a proxy for poor economic conditions such as low GDP growth, high external debt, or a financial crisis. Under this alternative hypothesis, governments forego pre-electoral fiscal manipulation not because they face IMF scrutiny, but because they lack the fiscal wherewithal to engage in fiscal manipulation. Poor economic conditions may constrain fiscal manipulation in two ways. First, poor economic conditions reduce the amount of money governments have at their disposal to manipulate the economy prior to an election. Second, poor economic conditions reduce a country’s attractiveness to international creditors, thus reducing the government’s ability to borrow internationally in order to fund pre-electoral fiscal manipulation. We test this alternative hypothesis in several ways. In each case, we replicate Model 4, substituting IMF Agreement with proxies for poor economic conditions.42

Model 6 evaluates whether low GDP growth acts as a constraint on pre-electoral fiscal manipulation. If this alternative hypothesis is correct, then pre-electoral fiscal manipulation should be positively correlated with GDP Growth. This is not the case. Although GDP Growth is positively associated with Change in Government Balance, there is no statistically significant relationship between a country’s economic growth and pre-electoral fiscal manipulation.

A high level of external debt may also constrain pre-electoral fiscal manipulation by increasing the amount of a government’s budget devoted to debt service and by reducing the government’s ability to borrow additional capital. If so, then pre-electoral fiscal manipulation

42 We also rerun Model 4 including each of these variables independently to demonstrate that the results are not due to changes to the baseline equation, reported in online appendix C.
should be negatively correlated with external debt. To test this hypothesis, Model 7 includes *External Debt as a percent of Exports*, and shows that higher external debt is associated with larger deficits. However, debt does not appear to constrain pre-electoral fiscal manipulation.

It is also possible that the deleterious effects of financial crises limit governments’ ability to engage in pre-electoral fiscal manipulation. To test this alternative hypothesis, we create *Financial Crisis*, which is equal to one in the first and second years of a banking, currency or debt crisis, and zero otherwise.\(^{43}\) If it is correct, then fiscal manipulation should be most likely when election monitors are present and the country is not suffering a financial crisis. Based on the results in Model 8, this appears to hold. When election monitors are present and the country is not in the midst of a financial crisis, elections are associated with a one percentage point decline in the fiscal balance. In contrast, there is no evidence of fiscal manipulation when election monitors are absent or when the country is suffering a financial crisis.

These results suggest that financial crises limit governments’ ability to engage in fiscal manipulation, and complement our existing findings. However, if the constraining effect of IMF agreements is limited to periods of financial crises, then the negative relationship between IMF program participation and pre-electoral fiscal manipulation reported in Model 4 may be spurious—IMF agreements may simply serve as a proxy for financial crises. To assess this claim, in Model 9 we re-estimate Model 4, limiting the sample to non-crisis observations. Model 9 provides even stronger support for our argument. In non-crisis periods, when countries are not under an IMF agreement but monitors are present, elections are associated with a 3.04 percentage point decline in government balance. In contrast, when monitors are not present, or countries are under an IMF agreement, there is no evidence of pre-electoral fiscal manipulation.

\(^{43}\) Data from Laeven and Valencia (2008). Results are similar if a 1 or 3 year window is used.
Taken together, these four analyses suggest that the constraining effect of an IMF agreement on pre-electoral fiscal manipulation is not a proxy for the effect of poor economic conditions.

Finally, we consider a finding from recent studies that the credibility of IMF conditionality, and therefore the constraining effect of IMF scrutiny, may vary depending on country-level characteristics. In particular, countries that are politically important to the United States may be less constrained by IMF scrutiny (Dreher and Sturm 2006). If this hypothesis is correct, then pre-electoral fiscal manipulation should be positively correlated with a country’s importance to the United States. To test this hypothesis, we follow Thacker (1999) and Dreher and Sturm (2006) in using the degree to which countries vote with the United States in the United Nations General Assembly (UNGA Voting Record) as a proxy for political importance.\textsuperscript{44} We limit the sample to country-years under IMF agreements because this hypothesized effect is only relevant when countries are under an IMF agreement. Contrary to the alternative hypothesis, the results reported in Model 6 in Table 2 suggest that there is no significant relationship between a country’s voting affinity with the United States and pre-electoral fiscal manipulation.

A second set of alternative explanations relate to the scope conditions of our argument, and are presented in detail in Online Appendix C. Briefly, our study focuses on the subset of 94 developing countries where fiscal manipulation is believed to be most likely (Brender and Drazen 2005; Shi and Svensson 2006). However, country-specific research on political business cycles in developing countries suggests that even within the subset of developing countries the likelihood of pre-electoral fiscal manipulation varies based on countries’ political characteristics. As a result, there may be important variations among the countries included in our study that have so far been omitted from the analysis. As Akhmedov and Zhuravskaya (2004) and

\textsuperscript{44} Data from Dreher and Sturm (2006). Higher values denote greater congruence in voting.
Gonzalez (2002) argue, pre-electoral fiscal manipulation should be less likely the more democratic the country. Similarly, Brender (2003) argues that fiscal manipulation is prevalent in new democracies because voters have not yet learned to expect it. We assess whether the results reported in Table 1 are an artifact of competitive elections in non-democratic or newly-democratic regimes in two ways. First, we limit the analysis to countries that are nominally democratic according to the widely used POLITY dataset’s cross-national index of regime type (Marshall and Jaggers 2002). Second, we divide the sample by whether countries maintained a POLITY score greater than zero for the entire 1990-2004 period. The argument developed in this article receives support in each of these truncated samples, suggesting that pre-electoral fiscal manipulation is not limited to relatively non-democratic or newly-democratic regimes.

**Conclusion**

International scrutiny of elections and the economy act as constraints on government behavior throughout the developing world. International election observers make indirect or legal tactics of election manipulation more likely by increasing the costs of overt forms of election fraud. IMF scrutiny of the economy and pressure on governments to maintain a sustainable fiscal policy make pre-electoral fiscal manipulation less likely, and should also make direct forms of manipulation such as election fraud more likely. Together, these forms of international scrutiny influence the use of pre-electoral fiscal manipulation in cross-cutting ways, increasing the use of pre-electoral fiscal manipulation when elections are internationally observed and decreasing it when a government is under an IMF agreement. We have explored the consequences of international scrutiny on government use of pre-electoral fiscal manipulation, a tactic that recent scholarship highlights as an important tool that governments use to bias elections throughout the world.

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45 We use two POLITY thresholds to evaluate this hypothesis: POLITY 0 and POLITY 6.
developing world. Our research suggests that scholars are correct in arguing that incumbents in developing countries may have greater incentives to engage in pre-electoral fiscal manipulation but, by omitting the cross-cutting effects of international scrutiny, they are missing important constraints on these governments’ scope for maneuver.

More generally, evaluating whether international scrutiny is “good” or “bad” is not straightforward. Pre-electoral fiscal manipulation may make it difficult to maintain a sustainable budget deficit, but it is not clear that fiscal manipulation is normatively better or worse than blatant election theft. Across other areas of election manipulation, increased international scrutiny should have similarly cross-cutting effects. There are many methods of election manipulation, and increasing international scrutiny across multiple issue areas should constrain governments in a manner that makes real electoral competition more likely, a proposition that we intend to explore in future research.
References


Table 1: International Scrutiny and Pre-Electoral Fiscal Manipulation

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<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
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<td>-0.39 **</td>
<td>-0.38 **</td>
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<td>(0.08)</td>
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<td>-0.90 **</td>
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<td>(0.34)</td>
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<td>(0.49)</td>
<td></td>
</tr>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>GDP per capita (logged)</td>
<td>0.36 *</td>
<td>0.33 ^</td>
<td>0.36 *</td>
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<td>(0.17)</td>
<td>(0.17)</td>
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<td>0.09 **</td>
<td>0.09 **</td>
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^p<0.1, *p<0.05, **p<0.01. Standard Errors in parentheses.
### Table 2: Alternative Hypotheses

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<th></th>
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<td>(1.42)</td>
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^p <0.1, *p< 0.05, **p<0.01. Standard Errors in parentheses.

Note: Included control variables not reported due to space constraints, see Footnote 41 and Online Appendix C.
Figure 1: Mean Change in Government Balance Across Categories included in Models 1-4

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<th>Category</th>
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<td>Monitored, under IMF</td>
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<td>Full Sample</td>
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<td>978</td>
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<tr>
<td>Election under IMF</td>
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<td>153</td>
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<td>Unmonitored, under IMF</td>
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<td>Unmonitored Election</td>
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<td>x</td>
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Figure 2: Marginal Effect of Elections on the use of Pre-Electoral Fiscal Manipulation, as IMF Program Participation and International Election Monitoring Vary