Masaaki Higashijima
SRC Research Fellows Working Papers, AUCA, Kyrgyzstan, December, 2011

**Economic Manipulation in the Kyrgyz Elections, 1995-2010: A Tentative Analysis**

**Masaaki Higashijima**[*]

## I. Introduction

This paper explores how and when the Kyrgyz government has manipulated the economy before elections.Recent studies of authoritarian politics contend that dictatorial governments often manipulate the economy prior to elections to collect political support from the citizenry. In this paper, I investigate whether Kyrgyzstan, often categorized as "electoral authoritarianism" or "competitive authoritarianism" under the Akayev and Bakiyev regimes, had engaged in creating such electoral business cycles. My tentative analysis demonstrates that also in Kyrgyzstan the dictatorshave createdthe large size of electoral cycles in order to maintain their rule. I also argue, however, that such propensity to use economic manipulation is quite different across the three regimes that Kyrgyz people have experienced since national independence: Askar Akayev, who had been the president of Kyrgyzstan since independence till 2005, hardly boostedup the economy prior to elections, while Bakiyev regime and the interim government are more willing to use policy instruments before elections to create economic boom. This paper suggests that Akayev's inability to tactfully use fiscal policies at the eve of elections would be one of the contributing factors leading to "the Tulip revolution" in 2005.

This paper proceeds as follows. In next section, I will review previous literature of electoral business cycles while focusing on why it is important for dictators to manipulate the economy before elections. Then, by using monthly data of inflation rate in Kyrgyzstan from 1995 till 2010, I will test whether or not the Kyrgyz government has successfully loosen fiscal policies before elections to buy off support from citizens. Finally, conclusion follows.

## II. Electoral Business Cycles in Authoritarianism

---

[*] Ph.D. Candidate of Political Science, Michigan State University, the U.S.
 Email: isonomia11@gmail.com

Masaaki Higashijima
SRC Research Fellows Working Papers, AUCA, Kyrgyzstan, December, 2011

Since milestone works by Nordhous (1975) and Tufte (1978), political economists have sophisticated theories of political business cycles (PBCs). A series of literature has attempted to explain how governments use expansionary fiscal and monetary policies at the eve of elections. While earlier models assumed that myopic voters evaluate economic booms before elections, subsequent models took rational expectations into account and have focused on how pre-electoral economic booms overcome asymmetric information on government "competence" between public officers and citizens (Alesina, 1987; Rogoff & Silbert, 1988; Rogoff, 1990). Both theoretical perspectives expect that politicians commit to manipulation of the economy to get reelected. Increasing inflation rates after elections or budget deficits before elections have been seen as observable implications to test the existence of PBCs.

Empirical evidence has been accumulated mainly in industrialized democracies (e.g. Hibbs, 1977; Hibbs, 1987; Nishizawa & Kohno, 1989; Berger & Woitek, 1997; Reid, 1998) but the results are mixed and not very robust (Drazen, 2000, pp.238-239; Lewis-Beck, 1988; Alesina, Cohen & Roubini, 1992). More recently, researchers have begun to find stronger evidence that nascent democracies or autocratic governments tend to boost their economies in the run-up to elections. Ames (1987) focused on 17 Latin American countries between 1947 and 1982 and found considerable evidence of extensive public spending at election years. Krueger and Kuran (1993) assert that Turkey was exposed to electoral budget cycles between 1950-1980. Block (2002) used a panel data of 44 sub-Saharan African countries and found systematic electorally-timed interventions to the economies by loosening of monetary and fiscal policies. Grier & Grier (2000) and Gonzalez (2002) show that electoral cycles existed in Mexico under the PRI rule. Magaloni (2006) likewise argues that the Mexican PRI tended to boost the economy before elections and devalue the currency after elections to gain support from citizens. Extensively using a regional monthly panel data of contemporary Russia, Akhmedov & Zhuravskaya (2004) find strong evidence of opportunistic business cycles in a nascent democracy. Blaydes (2006)'s statistical investigation confirms that under Mubarak's Egypt increases in inflation rate and devaluation of its national currency have been observed in the run-up to elections. Evidence from Malaysia showed by Pepinsky (2008) also demonstrated that under a competitive authoritarianism, the Mahathir's rule, government deficits are more likely to increase in electoral periods. According to Shi & Svensson (2002), non-democratic as well as democratic governments tend to increase budget deficits before elections.

The post-Cold War world has been marked by the proliferation of a new type of authoritarianism called "electoral authoritarianism" (Schedler, 2006) or "competitive authoritarianism" (Levitsky & Way, 2002). This emerging autocracy can be distinguished from full-fledged authoritarianism in that the latter does not have multi-party system and its elections are nothing but facade. Electoral authoritarianism can also be distinct from electoral democracy because in the former elections are not free and fair enough to create an equal electoral battlefield between governments and oppositions (Schedlar, 2006).

Under electoral authoritarianism, dictators have three strategies to maintain their rule. First, dictators can resort to violent repression toward oppositions and citizens.

Assassination of opposition leaders, pressures and harassment on free media, military or police interventions in demonstrations are all categorized as such violent repression.

Second, electoral fraud is another important tool for maintaining authoritarian rule (Lehouq & Molina, 2002; Magaloni 2006, Chap 8). Elections are regarded as rigged if electoral districts are arbitrarily manipulated in favor of ruling parties, serious modification of electoral rules (unfairly high election threshold, severe restriction on creating a new party, anomalously tight limit on oppositions' electoral campaign or the other party activities) are committed by dictators, the media is severely regulated at electoral periods, and election results are falsified after elections.

Finally, dictators often attempt to co-opt political elites and citizens in various ways: distribution of governmental posts to political elites, delegation of discretion over certain territory to regional elites, accommodation for business elites with implementing certain economic policies, and direct distribution of state resources toward citizens. Recent studies of autocracy focus more on this aspect of authoritarian governance. Through in-depth case studies of Middle Eastern countries, Lust-Okar (2005) demonstrates that if government allows moderate oppositions to have a few seats in parliament, authoritarian regime is more likely to be maintained. In the same vein, assuming that legislature under autocracy is a significant institutional tool that can co-opt important portions of societies, Gandhi & Przeworski (2007)'s large-N study shows that autocracies which have one party or multiple parties in a parliament tends to last longer than those which have no legislature or no parties. Schatz (2004) quantitatively examines how Kazakhstan's Nazarbaev equally distribute important political posts along three clans in 1990s, which contributed to maintaining stable authoritarianism. According to Arriola (2009), cabinet expansion is more likely to prevent regime breakdown through a coup in Sub-Saharan Africa. Pepinsky (2009)'s case study of Suharto's Indonesia revealed that neo-liberal adjustment policies to recover from Asian financial crisis led to severe conflict between two business elites --Chinese business group with extensively holdings of mobile capital and indigenous entrepreneurs whose capital assets had domestic base, which triggered the breakdown of Suharto regime. Magaloni (2006) finds strong evidence indicating that Mexico's PRI enhanced the size of public expenditure --a poverty relief program called PRONASOL-- in the municipalities where popular support for PRI was relatively weaker.

Repression and electoral fraud might be more costly than co-optation as the measures autocrats use to maintain their rule. First, paradoxically, these strategies often provide opportunities for oppositions to counter against governments. For example, Bratton &van de Walle (1997) and Wood (2000) both argue that African autocracies have confronted strong mobilization for democratization "from below" after adopting harsh state repression. Investigating the experiences of South Asian countries during the Cold War era, Goodwin (2001) also asserts that political revolution is more likely to occur in the countries where government has relied on indiscriminate violence against anti-government forces. Recent "Colored Revolutions" in post-Soviet countries were all followed by rigged elections (Tucker 2008; Kuntz & Thompson, 2009; Bunce & Wolchik, 2010). In the "Tulip Revolution" in Kyrgyzstan, violence perpetrated by state police and electoral fraud exercised by incumbents fueled grievance of opposition forces, which

activated mobilization for toppling the Akayev regime (Jones, 2007). Anecdotal evidence also suggests that dictators cannot rely only on indiscriminate repression and electoral fraud to hold on power.

Second, even if dictators decided to adopt repression and electoral fraud selectively, it may contain high information cost, which makes it difficult to use these strategies selectively. In order to use them effectively, dictators need more accurate information to specify who are supposed to threaten the regime or which electoral districts are exposed to severer competition with oppositions.

The above discussion suggests that rather than simply forcing people to bow down by violence and fraud, dictators need to derive "voluntary" support from people to consolidate their regimes. In order for citizens to "vote for autocracy" (Magaloni, 2006), they will use the third strategy, or economic co-optation (Stokes, 2005; Kitschelt & Wilkinson, 2007; Greene, 2007). One of such strategies under electoral authoritarianism would be to boost the economy before elections i.e. create electoral cycles. The next subsection will be devoted to elucidating whether or not Kyrgyzstan has created political business cycles by using newly collected data during my fieldwork in 2011 summer.

## III. Tentative Statistical Analysis: Kyrgyz Elections, 1995-2010

This section will see the existence of political business cycles in Kyrgyzstan by using monthly economic data of the country between 1995-2010.



Figure 1: Time Series Change in Inflation Rate and Elections
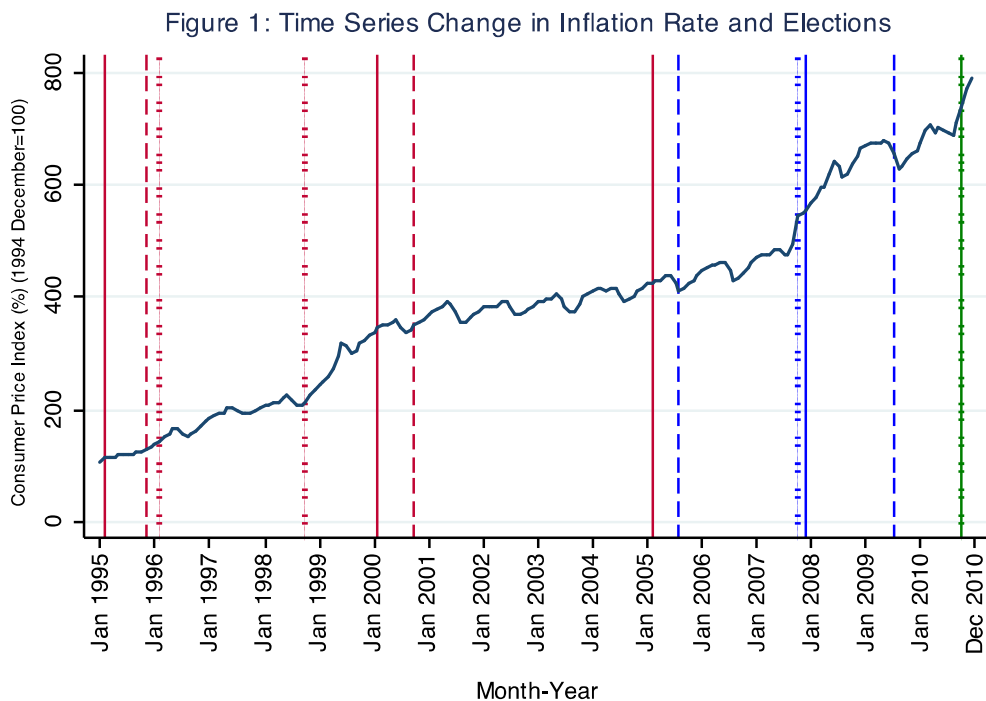
Note: red—Akayev regime, blue—Bakiyev regime, green—Interim government, solid line—parliamentary elections, dash line—presidential elections, dot line—referendum.

As dependent variables, I will use monthly-specified Consumer Price Index (CPI) from *Bulletin of National Bank of Kyrgyz Republic*. Setting the CPI at December 1994as 100, I calculated the CPI between January 1995 and December 2010. As many studies on the PBCs have argued, inflation after elections can be interpreted as strong evidence that governments committed economic manipulation and adopted loosened fiscal and monetary policies before elections. Figure 1 plots the time series changes in CPI. Vertical lines represent the months when elections were held (red—Akayev regime, blue—Bakiyev regime, green—Interim government, solid line—parliamentary elections, dash line—presidential elections, dot line—referendum). In order to explain the variations in CPI, I conducted time-series analysis with inflation rate. To employ time-series data, researchers have to deal with the following two problems: (1) non-stationarity of data and (2) autocorrelation. Since Dickey-Fuller test revealed that all dependent variables are non-stationary, I took the first difference to transform them into stationary data. In addition, because both Breush-Godfrey and Durbin-Watson tests suggested that CPI, FER and unemployment rate all suffer from serious autocorrelation, I coped with it through AR (1) process by Prais-Winsten (PW) method. Monthly dummies (reference category is December) are included in all models on account of controlling for seasonal effects.

The variable of interest is elections. There are three kinds of elections held at the national level in Kyrgyzstan: parliamentary elections (1995, 2000, 2005, 2007, 2010), presidential elections (1995, 2000, 2005, 2009), and referendum (1996, 1998, 2007, 2010). Following Blaydes (2006), I created dummy variables of elections in which 1 is coded if the month is included within 6 months after an election and otherwise 0. If the government manipulates the economy before elections, the coefficient of the dummy variables should be statistically significantly positive.

Masaaki Higashijima
SRC Research Fellows Working Papers, AUCA, Kyrgyzstan, December, 2011

| | Model 1 CPI (first difference) | Model 2 CPI (first difference) | Model 3 CPI (first difference) | Model 4 CPI (first difference) | Model 5 CPI (first difference) | Model 6 CPI (first difference) |
|---|---|---|---|---|---|---|
| All Elections | 4.794*** [1.292] | | | | | |
| Elections (Akayev regime) | | 2.006 [1.466] | | | | |
| Elections (Bakiyev regime) | | 5.786*** [1.878] | | | | |
| Elections (Interim gov) | | 16.70*** [4.523] | | | | |
| Parliamentary (Akayev) | | | 0.854 [2.029] | | | |
| Parliamentary (Bakiyev) | | | 11.76*** [3.245] | | | 11.78*** [3.26] |
| Parliamentary (interim gov) | | | 16.33*** [4.448] | | | 16.28*** [4.464] |
| Presidential (Akayev) | | | | 1.621 [2.749] | | |
| Presidential (Bakiyev) | | | | -0.901 [2.796] | | |
| Referendum (Akayev) | | | | | 3.488 [2.235] | |
| Referendum (Bakiyev) | | | | | 10.58*** [3.114] | |
| Referendum (interim gov) | | | | | 17.55*** [4.322] | |
| Parliamentary 1995 | | | | | | 3.942 [3.299] |
| Parliamentary 2000 | | | | | | 0.0296 [3.299] |
| Parliamentary 2005 | | | | | | -1.381 [3.299] |
| Seasonal dummies | Yes | Yes | Yes | Yes | Yes | Yes |
| N | 192 | 192 | 192 | 192 | 192 | 192 |
| adjusted R squared | 0.5499 | 0.5694 | 0.5759 | 0.5141 | 0.582 | 0.5742 |
| Durbin-Watson | 1.93 | 1.92 | 1.88 | 1.95 | 1.87 | 1.89 |
| F-value | 20.55*** | 19.14*** | 19.62*** | 16.63*** | 20.29*** | 17.18*** |

Table 1: OLS time-series regression

Table 1 reports the results. In Model 1, I examined what impact all types of elections (parliamentary elections, presidential elections, and referendum) have on inflation rate regardless of the regimes (Akayev, Bakiyev, and interim government). The elections dummy is positive and highly statistically significant, meaning that after elections the country is more likely to experience increases in consumer price by 4.8%. This is strong evidence that also in Kyrgyzstan the economy is powerfully manipulated by the government that needs political support from citizens.

In Model 2, I examined which regime is more likely to create political business cycles than others by dividing the elections dummy into three ones under three different regimes (Akayev regime, Bakiyev regime, and interim government). The finding here is interesting: While Bakiyev and interim government are more prone to boost up the economy prior to elections, and hence suffer from inflation after elections (5.76% under Bakiyev regime and 16.7% under interim government), Akayev regime fails to create such electoral business cycles (2% but not statistically significant).

In Models 3 through 6, I investigated in which elections each regime manipulated the economy. As you can see in the table, both of Bakiyev and interim governments tend to create electoral cycles when they face parliamentary elections and referendum. On the

other hand, Akayev government does not engage in such economic manipulation in either of elections.

Finally, in Model 6, I further examined when Akayev tends to manipulate the economy before elections by creating dummy variables of three parliamentary elections (1995, 2000, and 2005). Akayev regime was relatively stable during 1990's, but from 2000's many of researchers point out that the regime came to experience protest movement and finally after 2005 parliamentary elections, Akayev was toppled down because of a popular upsurge called "Tulip Revolution." If economic manipulation before elections mitigates protest movement after elections, then the size of electoral cycles should be the strongest in 1995, and weakest in 2005 followed by the 2000 elections. Empirical results support my prediction. Although all the coefficient are not statistically significant, the 1995 elections tend to rise inflation rate up by about 4%, whereas increases in inflation rate can be hardly observed in the 2000 and 2005 elections (0.02% and -1.381% respectively). This is another evidence on why elections triggered large scale of protest movement under Akayev regime in 2005.

## IV. Conclusion

This paper has examined the existence of electoral business cycles in Kyrgyzstan. My tentative analysis of newly obtained data during my field work in 2011 summer found that also in Kyrgyzstan governments tend to create political business cycles to collect support from the citizenry. Furthermore, I also found that the size of electoral cycle is strikingly different across the regimes. While Akayev regime fails to manipulate the economy before elections, Bakiyev and interim government are willing to employ policy instruments prior to elections. In addition, the propensity of using electoral cycle under Akayev regime tend to blur over time, which I would say is one of the contributing factors that triggered the Tulip revolution at the time of elections.

Of course, this analysis is still tentative, and I plan to make additional analysis by using other index such as exchange rate, unemployment rate, and wage increases to more specify the policy instruments that the Kyrgyz governments have adopted. Furthermore, regional revel socio-economic data enables me to see in which region—south or north the government tends to loosen fiscal policies to target on specific voters. Finally, qualitative analysis also will be keenly needed to trace the process on how the government distributes material favors before elections to maintain their rules. The analysis of political business cycles done in this paper, however, provides the first systematic evidence that economic manipulation did exist also in Kyrgyzstan and its size is totally different across the regimes.

## Works Cited

Akhmedov, A., & Zhuravskaya, E. (2004). Opportunistic political cycles: Test in a young democracy setting. *Quarterly Journal of Economics*, 119 (4), 1301-1338.

Alesina, A.(1987). Macroeconomic policy in a two-party system as a repeated game. *Quarterly Journal of Economics*, 102 (3), 651-678.

Alesina, A., Cohen G.& Roubini N. (1992). Macroeconomic policy and elections in OECD democracies. *Economics andPolitics*, 4 (1), 1-30.

Ames, B. (1987). *Political survival: Politicians and public policy in Latin America.*Berkeley: University of California Press.

Arriola, L. (2009). Patronage and political stability in Africa. *Comparative Political Studies*, 20(10), 1-24.

Berger, H.,& Woitek, U. (1997). Searching for political business cycles in Germany.*Public Choice*, 91 (2),179-197.

Blaydes, L. (2006). Electoral budget cycles under authoritarianism: Economic opportunismin Mubarak's Egypt.Unpublished Manuscript, from http://www.stanford.edu/~blaydes/Budget.pdf.

Block, S. (2002). Political business cycles, democratization, and economic reform: The case of Africa.*Journal of Development Economics*, 67 (1), 205-228.

Bratton, M., &Van de Walle, N. (1997).*Democratic experiments in Africa*, Cambridge: Cambridge University Press.

Bunce, V., & Wolchik, S. (2010). Defeating dictators: Electoral change and stability in competitive authoritarian regimes. *World Politics*, 62 (1), 43-86.

Drazen, A., (2000).*Political economy in macroeconomics*, Princeton, NJ: PrincetonUniversity Press.

Gandhi, J.,& Przeworski, A. (2007). Authoritarian institutions and the survival of autocrats.*Comparative Political Studies*, 40(11), 1279-1301.

Goodwin, J. (2001). *No other way out: States and revolutionary movements, 1945-1991.*Cambridge: Cambridge University Press.

Greene, K. (2007).*Why dominant party lose: Mexico's democratization in comparative perspective.* Cambridge:Cambridge University Press.

Hibbs, D. (1977). Political parties and macroeconomic policy. *American Political Science Review*, 71 (4), 1467-87.

Jones, K. (2007).*The dynamics of political protests: A case study of Kyrgyz Republic*. Ph.D dissertation submitted to University of Maryland.

Kitschelt, H. & Wilkinson, S. (2007). *Patrons, clients, and policies: Patterns of democratic accountability and political competition*. New York: Cambridge University Press.

Kruger, A., & Kuran, I. (1993). The politics of Turkish policy reform in the 1980s. in Robert Bates & Anne Krueger (Eds.), *Political and economic interactions in economic policy reform*. Oxford: Blackwell.

Kuntz, P.& Thompson, M. (2009). More than just the final straw: Stolen elections as revolutionary triggers. *Comparative Politics* 41 (3), 253-273.

Lehoucq, F.& Molina, I. (2002).*Stuffing the ballot box: Fraud, electoral reform, and democratization in Costa Rica*, Cambridge: Cambridge University Press.

Levitsky, S.& Way, L.(2002). The rise of competitive authoritarianism.*Journal of Democracy*, 13(2), 51-65.

Lewis-Beck, M. (1988). *Economics and elections*, Ann Arbor: University of Michigan Press.

Lust-Okar, E. (2005). *Structuring conflict in the Arab world:Incumbents, opponents, and institutions*, Cambridge: Cambridge University Press.

Lust-Okar, E. (2006). Elections under authoritarianism: preliminary lessons from Jordan.D*emocratization*, 13(3), 456-471.

Magaloni, B. (2006). *Voting for autocracy: Hegemonic party survival and its demise in Mexico*, Cambridge University Press.

National Bank of Kyrgyz Republic. *Bulletin of National Bank of Kyrgyz Republic.* Issues between 1995 and 2010.

Nishizawa, Yoshitaka & Masaru Kohno. (1989). A study of the electoral business cycle in Japan: Elections and government spending on public construction.*Comparative Politics*, 22(2), 151-166.

Nordhous, W. (1975). The political business cycle. *Review of Economic Studies*,42, 169-190.

Pepinsky, T. (2007).Autocracy, elections, and fiscal policy: Evidence from Malaysia. *Studies ofComparative International Development*, 42, 136-163.

Pepinsky T. (2009). *Economic crises and the breakdown of authoritarian regimes: Indonesia and Malaysia in comparative perspective*, New York: Cambridge University Press.

Reid, B.(1998). Endogenous elections, electoral budget cycles, and Canadian provincial governments.*Public Choice*, 97 (1-2), 35-48.

Rogoff, K. & Silbert, A.(1988). Elections and macroeconomic policy cycles.*Review of Economic Studies*, 55, 1-16.

Rogoff,K. (1990). Equilibrium political budget cycles. *American Economic Review*, 80 (1),21-36.

Ross, M.(2008). Oil, Islam and women.*American Political Science Review*, 102 (1), 107-123.

Schatz, E.(2004). *Modern clan politics. The power of "blood" in Kazakhstan and beyond.* Seattle & London: University of Washington Press.

Schedler,A. (2006). The logic of electoral authoritarianism. In Andreas Schedler (Ed.), *Electoral authoritarianism: The dynamics of unfree competition* (pp. 1-23).Boulder, London: Lynne Rienner Publishers.

Shi, M.,& Svensson J.(2002). Political business cycles in developed and developing countries.Working Paper, IIES, Stockholm University.

Stokes, S. (2005). Perverse accountability: A formal model of machine politics with evidence from Argentina.*American Political Science Review*, 99 (3), 315-26.

Tucker, J. (2007). Enough! electoral fraud, collective action problems, and post-communist colored revolutions.*Perspective on Politics*, 5(3), 535-551.

Tufte,E. (1978).*Political control of the economy.* Princeton, NJ: Princeton UniversityPress.

Wood E. (2000).*Forging democracy from below: Insurgent transitions in South Africa and El Salvador*, Cambridge: Cambridge University Press.