

composition of government spending or taxation. To fill this gap in the literature, Annett addresses the effects of political variables—type of electoral system, fragmentation of policymaking, and degree of political instability—on fiscal outturns, as well as the relationship between these same political variables and the size and quality of fiscal adjustment undertaken by 19 industrial countries from the early 1980s through the late 1990s.

In his study, Annett regresses the fiscal variables—expenditure and revenue, as well as their major components—on a number of control variables combined with the political variables. His compositional results offer new evidence and make a significant contribution to the existing literature (see the working paper for details about methodology and an explanation of the results.)

Annett shows, ultimately, that politics matters in determining the size and composition of expenditure and revenue, as well as the overall budget balance. Certain political factors, such as an electoral system that emphasizes proportionality or a fragmented parliament or government, lead simultaneously to higher transfers,

bigger government, and a revenue system that emphasizes labor taxes over consumption taxes.

The review of industrial countries' fiscal adjustment efforts, Annett says, clearly demonstrates that these countries did, indeed, make an effort to reverse the politically induced pattern of high expenditure, high revenue, or deficits over the past two decades, but only when conditions were favorable or when initial debt was high enough to be problematic. Then, he notes, these countries were more likely to curb the growth of transfers and switch from labor taxes to consumption taxes. Annett concludes that this does not bode well for the quality of adjustment in low-growth periods. But the newly instituted fiscal policy frameworks may prevent the emergence of politically motivated fiscal policy in the future. ■

Copies of IMF Working Paper 02/162, *Politics, Government Size, and Fiscal Adjustment in Industrial Countries*, by Anthony Annett, are available for \$15.00 each from IMF Publication Services. See page 44 for ordering information. The full text is also available on the IMF's website (www.imf.org).

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Press Releases

- 03/09: IMF Approves Transitional Stand-By Credit Support for Argentina, January 24
- 03/10: IMF Approves \$4 Million in Emergency Assistance for Grenada, January 27
- 03/11: IMF Managing Director Meets Brazilian President Lula da Silva, January 28
- 03/12: IMF Welcomes Arab Republic of Egypt's Decision to Adopt a Floating Exchange Rate Regime, January 30
- 03/13: IMF Approves 14-month, \$146 Million Stand-By Credit for Croatia, February 3
- 03/14: IMF Board of Governors Approves Conclusion of Quota Review, February 4
- 03/15: IMF Completes Review and Approves \$36 Million Tranche Under Stand-By Credit for Bulgaria, February 7
- 03/16: Press Release: IMF Managing Director Meets Ecuadoran President Lucio Gutiérrez, February 10
- 03/17: IMF Publishes 2001 Global Portfolio Investment Survey, February 11

Public Information Notices

- 03/10: IMF Concludes 2002 Article IV Consultation with Grenada, February 4
- 03/11: IMF Concludes 2002 Article IV Consultation with the Federated States of Micronesia, February 10
- 03/12: IMF Board Discusses the Fund's Role in Signaling Assessments of Members' Policies, February 13

Speeches

- "Sovereign Debt Restructuring and the International Financial Architecture," Thomas C. Dawson, Director, IMF External Relations Department, XV Regional Seminar on Fiscal Policy, CEPAL (ECLAC), United Nations, Santiago, Chile, January 28
- "Global Finance—Operating in a Politicized World: New Rules, New Game?" Jack Boorman, Special Advisor to the IMF Managing Director, 20th Annual Midwinter Strategic Conference of the Banker's Association for Finance and Trade, Washington, D.C., January 28
- "Current Issues in the Design and Conduct of Monetary Policy," Mohsin S. Khan, Director, IMF Institute, RBI/IGIDR Fifth Annual Conference on Money and Finance in the Indian Economy, Mumbai, India, January 30

Transcripts

- IMF Economic Forum (panel discussion at the IMF's Sovereign Debt Restructuring Mechanism Conference), "A New Approach to Sovereign Debt Restructuring: An IMF Proposal," January 22
- Press Briefing by Thomas C. Dawson, Director, IMF External Relations Department, January 31
- IMF Economic Forum (panel discussion at the IMF's Global Linkages Conference), "The 'Links' That Bind," January 31