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Summary of  
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"The Political Economy of Budget Deficits"  
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In the last 20 years, several, but not all, OECD countries have accumulated large government debts. In some countries, debt-to-GNP ratios have reached levels typically associated with wars, rather than peacetime. Other countries, on the contrary, have low and stable debt-to-GNP ratios. What explains these large cross-country differences within a relatively homogeneous group of economies? Why did these fiscal imbalances appear in the last 20 years rather than before?

Purely economic explanations of budget deficits, such as the "tax smoothing" model, cannot answer completely these two questions, particularly the first one. Purely economic differences among OECD economies are unlikely to be sufficient to explain the extremely large cross-country differences in debt/GNP ratios. Therefore, this paper reviews the literature on politico-economic determinants of the government budget. It discusses the two questions highlighted above using six different approaches: (i) models based upon opportunistic policymakers and naive voters with "fiscal illusion;" (ii) models of intergenerational redistributions; (iii) models which emphasize the strategic incentive of today's government to "bind" its successor's fiscal policy by leaving a high deficit; (iv) models in which deficits result from political conflicts of social groups or political party members of the same coalition government; (v) models of geographically dispersed interests and of "pork barrel" politics; and (vi) models emphasizing budget institutions and procedures, or determinants of fiscal outcomes.

Although every one of these different approaches has something to contribute, the paper finds that models of type (iv) and (vi) probably contribute more than others.

The authors conclude with a discussion of institutional reforms which can enhance "fiscal responsibility." In particular, they focus on procedures for budget approval, on budget balance laws, on the relationship between the treasury and the central bank, and on different types of electoral systems.