

Institutions, Democracy, and Fiscal Outcomes in Latin America

Instituições, democracia e resultados fiscais na América Latina

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Abstract: This article examines the relationship between institutional and democratic indicators and fiscal behavior in Latin American countries. The study reveals that democratic conditions affect not only expenditure patterns but also public debt levels. Furthermore, debt levels are influenced by other political-institutional framework characteristics. The results suggest that democratic advancement in Latin America has the potential to curb the scale of State intervention in the region's economies and to provide the stability needed to reduce public debt and improve fiscal performance.

Keywords: fiscal policy; democracy; institutions.

JEL Classification: E62; D72; E02.

Resumo: Este artigo tem como objetivo examinar as relações entre os indicadores institucionais e democráticos e o comportamento fiscal dos países da América Latina. O estudo revela que o padrão de democracia não somente gera efeitos sobre o padrão de gastos, mas também sobre o tamanho do endividamento público. Além disso, o patamar de endividamento é afetado por outras características do arcabouço político-institucional. Os resultados sugerem que o avanço da democracia na América Latina tem o potencial de conter o tamanho da intervenção estatal nas economias da região e proporcionar a estabilidade necessária para a redução da dívida pública e a melhoria do desempenho fiscal.

Palavras-chave: política fiscal; democracia; instituições.

Classificação JEL: E62; D72; E02.

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1. Introduction

Fiscal and budgetary balance stands as a cornerstone principle for economic solidity and stability, essential to sustain long-term economic growth. Persistent budget deficits, resulting from fiscally irresponsible policies, are widely regarded as a serious constraint on economic policy efficiency, with detrimental effects on employment, investment, and inflation.

The primary objective of this study is to empirically examine the relationship between the political-institutional framework and fiscal behavior in Latin American countries, using panel data for the 1990–2017 period. Seeking to contribute new insights to the literature, this study aims to verify the extent to which political and institutional indicators influence fiscal outcomes. The analysis incorporates variables assessing governmental legislative strength, democratic development, fiscal rules, political stability, and partisan ideology, based on indicators from Marshal, Gurr, and Jagers (2017) and Cruz, Keefer, and Scartascini (2021).

The hypothesis posits that robust institutions and effective governance—defined as governmental capacity to formulate, implement sound policies, and deliver public services (Kaufmann, Kraay, and Zoido, 1999)—are capable of mitigating inconsistent short-term politically driven fiscal measures. This perspective stems from the understanding that institutional frameworks—through their general societal rules, organizational structures, and governance systems—interact with political systems to critically shape economic policy choices, implementation capacity, and outcomes. Regulations and legal restrictions aimed at controlling fiscal policy and stabilizing public debt play an essential role; however, they are insufficient to explain fiscal outcomes, which also depend on established political conditions (Loureiro, 2001). These conditions are affected by the characteristics of the government system, party structure, and electoral rules, which produce more or less stable majority or coalition governments and, therefore, more or less capable of imposing the proposed fiscal targets (Roubini and Sachs, 1989).

Understanding how fiscal policies respond to the institutional framework is essential for guiding economic management decisions and measures aimed at improving governance and promoting the fiscal stability of countries. The interconnectedness of these factors cannot be overlooked; therefore, the joint analysis of their interactions proposed in this article aims to provide a more holistic and comprehensive understanding of their dynamics by incorporating parameters previously underexplored together.

Consequently, the study seeks to test relationships not yet applied to the Latin American region in this specific manner, enabling comparisons with findings from other contexts and yielding insights that can inform the evaluation and enhancement of fiscal policy amidst political-institutional constraints and opportunities.

To address the proposed questions and achieve the objectives outlined in this work, the text is structured as follows: the subsequent section provides a review of prior empirical studies on the topic; the third section details the methodology, including the econometric model adopted and the data utilized in the research; in the fourth part, the estimation results

are presented and discussed; finally, the conclusion offers considerations on the study's findings.

2. Literature Review and Empirical Evidence

The literature has advanced in the study of the relationships that involve the fiscal behavior of countries and their political-institutional characteristics, involving issues such as party ideology, electoral systems and rules, regime, composition and political fragmentation of governments, governance indicators in general, among other institutional factors.

Roubini and Sachs (1988) analyzed the political and economic determinants of budget deficits in industrial democracies. Employing econometric models, they tested how political factors—associated with electoral systems such as presidentialism or parliamentarism—and the influence of national governments' political cohesion impact fiscal outcomes. Their findings indicated that countries with weaker governments, characterized by shorter mandates and multiparty coalitions, tend to exhibit higher deficits. This highlights that a comprehensive understanding of these political and economic determinants is crucial for formulating effective fiscal policies in industrial democracies.

In line with this, Roubini (1991) posits that budget deficits can be partially explained by political instability. Increased instability, measured by the frequency of government changes, tends to generate larger deficits. This suggests that political factors, such as volatility in power control, significantly affect the conduct of fiscal policy and governments' ability to maintain budgetary balance.

Barisik and Barris (2017) examined the relationship between budget deficits and governance in a sample of 123 developing countries from 2002 to 2014, using panel data. Their findings indicated that stronger governance—as measured by indicators reflecting political stability and regulatory quality—is associated with lower budget deficits, suggesting that improved governance practices help control the deficit. Improving governance may therefore be essential to reducing fiscal deficits and promoting economic stability in developing countries.

Bougharriou, Benayed, and Gabsi (2018) investigated the impact of democracy on public debt in a sample of 16 Arab countries during 2002–2013, using a dynamic panel approach. Their results suggest that democracy has a significant, yet non-linear, effect on public debt. The effect is only positive at lower levels of democracy, but shifts to negative upon reaching a certain threshold. The findings imply that democracy is associated with higher government spending, and Arab countries should be aware, especially in the early stages of democratization, of the possible adverse macroeconomic consequences that this movement may have on public finances.

More recently, Nguyen and Tran (2023) investigated how electoral cycles affect fiscal policy in emerging and developing countries. They analyzed patterns of fiscal manipulation throughout electoral cycles using econometric models and budgetary and electoral data. Their findings revealed that governments tend to increase spending and

reduce taxes close to elections to gain popular support, especially in countries with weaker institutions. This suggests that need for institutional reforms to improve fiscal responsibility and reduce political influence on budget decisions.

The limited number of studies that have focused on Latin America highlight the importance of political and institutional factors in the fiscal outcomes obtained by countries in the region. Amorim Neto, Blanco, and Borsani (2001) employed a generalized least squares panel to analyze 10 countries in the American continent, covering the 1980s and 1990s. Their results indicated that countries' public deficits are influenced by political and ideological motivations: centralized fiscal policies, stable governments, and majority governments lead to lower deficits, while governments composed of many parties and electoral years generate higher deficits.

Acosta and Coppedge (2001) demonstrated that government spending for six Latin American countries can be partially explained by the complex interplay of political variables. The study showed that characteristics related to the president's party and the political context significantly influence the ability to maintain fiscal discipline. Larger and more disciplined parties, high party loyalty to the president, and less ideological polarization of voters tend to correlate with improved fiscal outcomes. These results suggest that strengthening political institutions may be crucial to improving fiscal management and promoting economic stability in the region.

On the other hand, Bittencourt (2015), when using dynamic panels with data from nine South American countries, did not find significant effects of institutional restrictions imposed on the decision-making power of heads of government, nor of variables such as inequality or inflation, on general and external public debt. Nevertheless, the results indicated that the level of economic activity had a relevant impact, suggesting that factors related to economic growth play a more decisive role in determining public debt in these emerging democracies.

3. Data and methodological aspects

An econometric analysis was conducted to empirically estimate the relationships between political-institutional factors and fiscal performance in Latin American economies. The analysis utilized a panel dataset covering 19 countries in the region, with information collected from 1990 to 2017. The use of panel data allows for control over both temporal and cross-country variation, enabling more accurate parameter inference and greater efficiency in addressing the issue of omitted variables, as it is possible to isolate the effects of unobserved factors that may influence fiscal performance by controlling for country- and time-specific characteristics (Hsiao, 2006).

The data were obtained from sources such as the World Bank (World Development Indicators and International Debt Statistics), the Economic Commission for Latin America and the Caribbean (ECLAC - Cepalstat), the International Monetary Fund (World Economic Outlook and Government Finance Statistics – GFS), the Polity IV Project and the Inter-American Development Bank (Database of Political Institutions).

The estimated model employed an empirical specification aligned with the approaches used by Bougharriou, Benayed, and Gabsi (2018) and Arif and Hussain (2018), aiming to assess the effects of democracy and political-institutional patterns on fiscal policy in Latin America, using a fixed or random effects panel¹. The basic model adopted for the regressions follows the general specification:

$$Y_{i,t} = \alpha X_{i,t} + \beta DEM_{i,t} + \sigma DEM^2_{i,t} + \delta INST_{i,t} + \gamma_i + \eta_t + E_{i,t} \quad (1)$$

where $Y_{i,t}$ is the fiscal indicator of country i at time t , $X_{i,t}$ is a set of control variables, $DEM_{i,t}$ ² is the level of democracy in country i in period t , $INST_{i,t}$ represents a set of variables describing the political-institutional framework of country i in period t , γ_i , captures unobserved country-specific effects, η_t are unobserved time effects, and $E_{i,t}$ is the random error term.

The regressions were performed using the following dependent variables representing the fiscal aggregates³: (i) total government expenditure (GTOT); (ii) current government expenditure (GCOR); (iii) government capital expenditure (GCAP); (iv) government tax revenues (TRIB); (v) government subsidy and other transfers (SUB); (vi) government expenditures on gross fixed capital formation (GACAPF); (vii) primary balance as a share of GDP (RPP); (viii) overall/operational balance as a share of GDP (RGP); (ix) central government gross debt as a share of GDP (DB); (x) central government external debt as a share of GDP (DEG); and, (xi) total external debt-to-GDP ratio (DET).

The control variables were selected based on the existing literature on the subject⁴: international trade as a share of GDP (COMER); percentage of the population living in urban areas (URBAN); total population aged 15–64 as a percentage of the total population (POP1564); population aged 65 and over as a percentage of the total population (POP65); real interest rate (TJR⁵); and total reserves to total external debt (RESER).

¹ Model selection was based on the Hausman test. This strategy was also adopted by Arif and Hussain (2018) and Barisik and Baris (2017). Additionally, robust estimators were applied to the variance-covariance matrix of the regression coefficients to address potential problems of heteroskedasticity.

² The level of democracy is measured using the Polity2 index from Marshall, Gurr, and Jaggers (2017). The index ranges from –10 to 10, values toward the upper end signify more democratic regimes. Cases involving interruptions of mandates, gaps, or regime transitions are assigned a value of 0.

³ All variables related to government spending are expressed as a share of GDP. The variables M2 and DPIB were collected at current prices in local currency, converted to real terms, and logged; data was obtained from ECLAC. The conversion of data into real terms was carried out using the annual general consumer price index based on 2010, calculated by ECLAC. The CÂMBIO variable (exchange rate) was sourced from the World Bank database and is expressed in real terms.

⁴ See Brender and Drazen (2004); Bougharriou, Benayed and Gabsi (2018); Persson and Tabellini (2002); Vergne (2011); Gámez and Ibarra-Yúnez (2009); Tujula and Wolswijk (2004); and Drazen and Eslava (2003).

⁵ The real interest rate used corresponds to the lending interest rate adjusted for inflation, as measured by the GDP deflator. Data source: World Bank (World Development Indicators).

The vector $\Sigma dINST_{it}$ is composed of the following variables: (a) institutional constraints (XCONST⁶); (b) executive absolute majority in parliament (MABS⁷); (c) regulation of political participation (PARREG⁸); (d) duration of democracy (DURABLE⁹); and (e) left-wing executive party (ESQ¹⁰).

The variables DEM and DEM² aim to capture the linear and non-linear effects of the democracy index on fiscal policy, under the assumption that, in its early stages, democracy tends to demand higher government spending—as observed by Bougharriou, Benayed, and Gabsi (2018).

The variable representing institutional constraints (XCONST) captures the framework that limits the decision-making power of executive leaders. It reflects the extent to which executive authority—whether individual or collective—is constrained by accountability groups such as legislatures, political parties, councils, or the military. These constraints range from a complete absence of limitations to full parity of authority between the executive and the control groups, promoting a balance in the decision-making process and ensuring checks and balances. Its inclusion allows for testing the hypothesis proposed by Roubini and Sachs (1988), which suggests that weaker governments tend to run higher deficits. This logic also applies to the absolute majority variable (MABS).

The regulation of political participation (PARREG) refers to the extent to which there are rules and limits governing the expression of political preferences. It ranges from a lack of control—where political participation is fluid and fragmented—to systems in which stable political groups compete in a regulated and largely inclusive manner. The aim is to measure how political participation is organized and controlled across different regimes. It is expected that the higher the degree of regulation of political participation, the more fiscal policy tends to follow a stable and balanced path, resulting in smaller deficits—as suggested by Amorim Neto, Blanco, and Borsani (2001), and Safdar and Padda (2017). When political competition takes place among relatively stable and enduring political groups that regularly participate in elections, act without coercion, and respect established electoral rules, fiscal policy is presumed to be less unstable.

⁶ Index reported in Marshall, Gurr and Jagers (2017). It ranges from 01 (unlimited authority) to 07 (restricted authority).

⁷ Dummy variable coded as 01 when the executive holds an absolute majority in both legislative chambers, and 0 otherwise. This variable was retrieved from the Inter-American Development Bank's Political Institutions Database and corresponds specifically to the variable labeled "Allhouse." For further details, see Cruz, Keefer, and Scartascini (2021).

⁸ Index reported in Marshall, Gurr and Jagers (2017). The index ranges from 01 (unregulated) to 05 (fully regulated).

⁹ Number of years since the adoption of the democratic regime. Also reported in Marshall, Gurr, and Jagers (2017).

¹⁰ Dummy variable coded as 01 when the executive's party is classified as left-wing, and 0 otherwise. This variable was retrieved from the Inter-American Development Bank's Political Institutions Database and corresponds specifically to the variable labeled "Execrlc." For further details, see Cruz, Keefer, and Scartascini (2021).

The variable that captures the duration of democracy (DURABLE) records the number of consecutive years under a democratic regime. As discussed in Brender and Drazen (2004), the maturity of democracy may influence the conduct of fiscal policy. It is reasonable to assume that countries with a consolidated democratic regime tend to have stronger institutions and peaceful government transitions—leading to less volatile fiscal policies and greater fiscal discipline.

The left-wing variable (ESQ) tests the widely accepted notion that governments with a left-wing ideological affiliation are more likely to adopt populist fiscal policies compared to right-leaning or centrist parties. Hibbs (1977) and Alesina (1987), for instance, support the thesis that governments led by left-wing parties tend to be more expansionary and more tolerant of inflation than those administered by right-wing parties¹¹.

3. Empirical results

3.1. Democracy, Political-Institutional Framework, and Fiscal Outcomes

Table 1 presents the estimates considering aspects related to the democratic pattern and the political-institutional framework, and their effects on the following fiscal measures: (1) total government expenditures as a share of GDP (GTOTP); (2) current government expenditures as a share of GDP (GCORP); (3) government capital expenditure as a share of GDP (GCAPP); (4) government tax revenues as a share of GDP (TRIBP); (5) government expenditures on subsidies and transfers as a share of GDP (SUBP); and (6) government expenditures on goods and services as a share of GDP (BESP).

The regressions indicate that the countries' degree of democracy (DEM) has statistically significant effects on fiscal outcomes and public expenditures, following a non-linear relationship—confirming the findings of Bougharriou, Benayed, and Gabssi (2018). A one-unit increase in the level of democracy leads to a positive adjustment of approximately 0.41% in total expenditures, 0.45% in capital expenditures, 0.41% in tax revenues, and 0.21% in expenditures on goods and services, respectively. On the other hand, the quadratic term of democracy (DEM²) shows a negative relationship with the same expenditure components—by 0.09%, 0.06%, 0.06%, and 0.01%, in the same order.

These results indicate that countries in the process of democratic solidification tend to finance the achievement of representation and popular acceptance through a greater presence of the State—i.e., through an increase in public spending and taxes to finance them. As democracy progresses—and as it fosters institutional development—the private sector expands its share of output, while the relative size of the State declines.

¹¹ Alesina, Mirrlees, and Neumann (1989), analyzing data from developed economies, concluded that differences in real economic outcomes under different governments are mostly temporary and concentrated at the beginning of the term. Conservative parties tend to start their terms with below-average growth, rising cyclical unemployment, and falling inflation—while the opposite tends to occur under left-wing governments.

Table 1 - Estimates of the effects of democracy and political-institutional framework on public expenditures (1990–2017)

Variables/Estimates	GTOTP	GCORP	GCAPP	TRIBP	SUBP	BESP
	EA	EF	EA	EA	EF	EF
	(1)	(2)	(3)	(4)	(5)	(6)
DEM	0.41675** (0.050)	0.07414 (0.744)	0.45954** (0.048)	0.41677** (0.050)	0.03193 (0.877)	0.21101* (0.000)
DEM²	-0.09566* (0.011)	-0.0387 (0.136)	-0.06707** (0.011)	-0.06527* (0.011)	-0.02250 (0.298)	-0.01910* (0.002)
XCONST	0.00480 (0.983)	0.32229 (0.160)	-0.08364 (0.847)	0.00487 (0.982)	0.21363 (0.200)	-0.07077 (0.214)
PARREG	-0.07331 (0.852)	-0.45212 (0.184)	0.03710 (0.847)	-0.07329 (0.852)	-0.48796*** (0.059)	0.00635 (0.889)
DURABLE	0.08572*** (0.094)	0.07343 (0.718)	0.05739*** (0.102)	0.08572*** (0.094)	0.02294 (0.655)	0.00260 (0.775)
DURABLE²	-0.00109** (0.045)	-0.00059 (0.567)	-0.00093** (0.026)	-0.00109** (0.045)	-0.00052 (0.438)	-0.00042*** (0.001)
ESQ	0.73035 (0.130)	-0.13967 (0.765)	0.07486 (0.816)	0.73026 (0.130)	0.111111 (0.792)	0.07407 (0.231)
MABS	-0.00051 (0.654)	-0.00167 (0.177)	0.00164* (0.001)	-0.00051 (0.654)	-0.0000003 (0.997)	0.00061** (0.024)
POPU1564	0.00770 (0.961)	0.06761 (0.796)	0.09156 (0.418)	0.00770 (0.961)	-0.04568 (0.815)	-0.01408 (0.673)
POP65	0.88117** (0.023)	1.34381** (0.099)	0.66692* (0.009)	0.88115** (0.023)	1.48447** (0.025)	0.23545** (0.027)
COMER	0.05338* (0.000)	0.01418 (0.334)	0.00793 (0.467)	0.05339* (0.000)	0.01460*** (0.097)	0.00275 (0.431)
URBAN	0.11413** (0.043)	0.07629 (0.483)	-0.05567 (0.201)	0.11415** (0.043)	-0.00436 (0.953)	0.03255* (0.011)
CONST	-3.74612 (0.550)	-2.3925 (0.805)	-2.00816 (0.621)	-3.74766 (0.550)	0.08402 (0.991)	-0.92634 (0.519)
Obs.	509	509	509	509	495	474
r² within	0.5467	0.3757	0.3515	0.5693	0.3840	0.2897

r² between	0.3396	0.3640	0.0023	0.3673	0.4046	0.0427
r² overall	0.3987	0.3638	0.0333	0.4250	0.4152	0.0664
F-Statistic	-	11.56	-	-	102.95	-
P>F (p-value)	-	0.0000	-	-	0.0000	-
Wald	4579.23	172.09	16442.09	6011.38		31363.80
WaldP>chi2	0.0000	0.0000	0.0000	0.0000		0.0000
Hausman test	5.98	21.8	9.71	5.99	21.28	39.76
Prob>Chi2	0.9169	0.0260	0.6414	0.9167	0.0478	0.0001
Turning Point	2.17	-	3.42	3.19	-	5.5
Zero Effect Point	4.35	-	6.85	6.38	-	11

Source: Own elaboration based on the study results, using Stata12 software to estimate the regression models. Notes: p-values are shown in parentheses. Statistically significant coefficients are in bold, with *, **, and ***, indicating significance at the 1%, 5%, and 10% levels, respectively. Models labeled EA correspond to random effects estimations; EF correspond to fixed effects estimations.

The average democracy index (DEM) in Latin America in 2017 (the final year of the sample) was 7.21 points¹². Considering the turning points¹³ and zero effect points estimated for this variable's impact, it can be argued that, on average, countries have reached a level of democracy that curbs the expansion of the State in terms of the share of public expenditures and revenues in GDP. However, there is still room for further democratic consolidation in most countries—a process that could lead to increased prevalence of the private sector and, consequently, to a relative reduction in public revenues and expenditures within the economy.

Conversely, governments with a strong parliamentary majority (MABS) face fewer barriers to increasing public expenditures. Therefore, it is reasonable to observe slightly higher expenditures on goods and services (BESP) and capital expenditure (GCAPP)—approximately 0.0006% and 0.0016% of GDP.

The regulation of political participation (PARREG) is negatively and significantly associated with government spending on subsidies and transfers (SUBP)¹⁴. This result is consistent with the notion that in settings where political groups are cohesive, stable, and long-lasting, governments are less inclined to distribute subsidies indiscriminately to favor particular constituencies, instead adopting a more restrained and selective approach.

¹² Chile, Costa Rica, and Uruguay stand out with the maximum score of 10, while Venezuela ranks lowest with -3.

¹³ The turning point was calculated as the maximum of the quadratic function, identifying the level at which the direction of democracy's effect on fiscal indicators reverses. That is, when *democ* is used as the explanatory variable for public debt indicators, the turning points are computed using the formula $-b/2a$.

¹⁴ In countries where political participation is fully regulated—index level 05—expenditures on subsidies and transfers tend to be approximately 1.56 percentage points lower (as a share of GDP) compared to those with unrestricted authority—index level 01.

Another important conclusion drawn from the regressions is that it is not only the level of democracy that matters, but also its continuity over time. In other words, democratic stability and maturity, encompassing factors such as interruptions, coups, impeachments, and transitions of leadership that follow previously established and accepted electoral rules by both political contenders and society as a whole. Accordingly, the regressions show that, much like the democracy index (DEM), the variable capturing the duration of democracy (DURABLE) exhibits a nonlinear relationship with public spending indicators. Therefore, in periods when countries are beginning the process of democratic consolidation, public spending tends to increase as a share of GDP. This rise is likely tied to the search for legitimacy by governments and political regimes—achieved through the expanded provision of public goods and services.

Indeed, regression (1), which refers to Total Government Expenditure (GTOTP), shows that the linear coefficient for democratic duration (DURABLE) is associated with an increase of 0.085% of GDP in expenditures, while the quadratic term (DURABLE²) implies a reduction of 0.0010%. Based on these parameters, from the 39th year of democratic duration – which in the sample only Colombia and Costa Rica surpassed¹⁵ – the direction of public spending growth begins to reverse. Regressions (3) and (4), referring to Capital Expenditures (GCAPP) and Tax Revenues (TRIBP), report linear coefficients for democratic duration (DURABLE) of 0.4595% and 0.4167%, and quadratic terms of –0.0670% and –0.0652%, respectively. For these last two cases, the turning points related to democratic continuity are estimated at 30 and 39 years. Finally, spending on goods and services (BESP) is negatively affected by the duration of democracy (DURABLE). As the regime persists, the share of this expenditure type in GDP tends to decline.

Finally, it is worth noting that no evidence was found to suggest any significant difference in the share of public spending in GDP based on the ideological orientation of the government. The notion that left-wing parties are inherently more “populist”¹⁶—thus contributing to an expansion of the State—does not hold in this case. This finding aligns with Guerra, Paixão, and Leite Filho (2018), who argued that there are no substantive differences in the fiscal policy management of Brazilian states across governments with differing ideological profiles.

Table 2 presents the estimation results examining the effects of democracy and the political-institutional framework on the following dependent variables: Gross Debt (DB), Government External Debt (DEG), Total External Debt (DET), Primary Balance (RPP), and Overall Balance (RGP), as shown in columns (1) through (5), respectively.

¹⁵ In 2017, Colombia had recorded 60 years of uninterrupted democracy, and Costa Rica, 98 years. Honduras and Bolivia reported 35 years, Argentina 34, and Brazil and Uruguay 32—making them the countries with the longest democratic duration after the top two.

¹⁶ Populism, as used here, refers broadly to the commonly accepted understanding of short-term expansionary fiscal policies, typically marked by excessive spending financed through public debt or monetary issuance, the granting of subsidies, and price controls.

The first notable finding is that the degree of democracy can, in fact, be a relevant factor in shaping how countries manage public debt. The data reveal a linear and negative relationship—approximately 7.22%—between the democracy index (DEM) and gross public debt (DB). A similar pattern emerges for government external debt (DEG), where the coefficient is also negative, around 4.24%. This result is further supported by the statistical relationship observed between the democracy index (DEM) and the primary and overall balances (RPP and RGP), suggesting that democratic advancement may contribute to improved fiscal outcomes.

Table 2 - Estimates of the effects of democracy and the political-institutional framework on debt indicators and fiscal performance (1990–2017)

Variables/Estimates	DB	DEG	DET	RPP	RGP
	EF	EF	EF	EF	EF
	(1)	(2)	(3)	(4)	(5)
DEM	-7.2200** (0.027)	-4.2419** (0.022)	-9.5373 (0.144)	0.4062** (0.028)	0.0402* (0.009)
DEM²	0.51628 (0.122)	0.27566 (0.121)	-0.57136 (0.523)	-0.0306*** (0.096)	-0.02191 (0.267)
XCONST	4.81788 (0.233)	2.12882 (0.236)	25.00489 (0.275)	-0.08890 (0.603)	-0.23512 (0.185)
PARREG	-8.98842 (0.138)	-4.06194*** (0.079)	-39.28406 (0.263)	0.27689*** (0.108)	0.32401 (0.146)
DURABLE	-0.39175 (0.285)	-0.85584* (0.014)	1.22487 (0.367)	-0.02837 (0.225)	-0.0498** (0.036)
DURABLE²	0.00506 (0.470)	0.00550 (0.208)	-0.012374 (0.471)	0.00056 (0.210)	0.00069*** (0.107)
ESQ	-4.71895 (0.325)	-3.87834 (0.205)	-28.8124 (0.291)	0.32597 (0.384)	0.63311*** (0.084)
MABS	0.01613 (0.251)	0.00850 (0.257)	-0.04051 (0.233)	0.28136 (0.280)	0.13585 (0.699)
POP1564	3.44201 (0.162)	2.87425 (0.134)	14.13006 (0.200)	0.10900 (0.304)	0.19884 (0.157)
POP65	-0.25167 (0.954)	-7.59448** (0.046)	- (0.104)	-1.17394* (0.002)	-1.00658** (0.028)
COMER	0.67278	0.41754	0.06121	0.04151*	0.04923*

	(0.003)*	(0.008)*	(0.917)	(0.004)	(0.003)
URBAN	-1.52278	0.35932	-2.75081	0.01160	-0.03317
	(0.157)	(0.572)	(0.330)	(0.824)	(0.565)
TJR	-	-	-	-0.03199*	-0.02522**
	-	-	-	(0.001)	(0.018)
RESER	-0.10219	-0.16101**	-0.23941***	-	-
	(0.285)	(0.019)	(0.057)	-	-
CONST	-80.5322	-125.89***	-470.14	-4.0124	-
	(0.397)	(0.108)	(0.227)	(0.373)	9.5374***
Obs.	409	370	391	409	410
r² within	0.1718	0.3270	0.0709	0.2906	0.2727
r² between	0.0260	0.0000	0.0152	0.0148	0.0026
r² overall	0.0077	0.0451	0.0308	0.0007	0.0085
F-Statistic	1943.41	1081.27	13.02	21.29	12.20
P>F (p-value)	0.0000	0.0000	0.0000	0.0000	0.0000
Wald		-	-	-	-
WaldP>chi		-	-	-	-
2		-	-	-	-
Hausman test	37.74	53.27	35.86	92.75	35.03
Prob>Chi2	0.0003	0.0000	0.0003	0.0000	0.0008

Source: Own elaboration based on the study results, using Stata12 software to estimate the regression models. Notes: p-values are shown in parentheses. Statistically significant coefficients are in bold, with *, **, and ***, indicating significance at the 1%, 5%, and 10% levels, respectively. Models labeled EA correspond to random effects estimations; EF correspond to fixed effects estimations.

These findings diverge from those reported by Bougharriou, Benayed, and Gabsi (2018), which may suggest that democracy in Latin America is at a more advanced stage than in the Arab region examined in their study. While this paper also shows that lower levels of democratic development are associated with increased pressure for public spending (as observed in Table 1)—a pattern that reverses beyond a certain threshold—this dynamic in Latin America appears to unfold within a more controlled public debt environment.

Institutional constraints (XCONST), in contrast, were not statistically significant in explaining debt indicators. Thus, the result does not support the hypothesis proposed by

Roubini and Sachs (1988), according to which politically weaker governments tend to run higher deficits. Instead, it aligns with Bittencourt (2015).

However, it can be stated that the regulation of political participation (PARREG) is inversely and significantly associated with total external debt (DET), suggesting that increases in the level of regulation may reduce indebtedness by as much as 4.06%, while also improving the primary balance by 0.27%. These results suggest that when a political environment is marked by relatively stable and long-standing political groups that compete nonviolently, in compliance with legal rules, and where power transitions occur without disruptions, there are positive effects on public debt management—namely, greater control and reduction of indebtedness.

Finally, it can be stated that left-wing governments in Latin America are not more prone to pursuing fiscal expansion through indebtedness—contrary to what has often been conventionally assumed—than those led by centrist or right-leaning political affiliations. This is evident from the fact that the coefficient of the dummy variable representing left-wing parties (ESQ) was not statistically significant for gross or external debt levels. On the contrary, the data show that left-wing parties are associated with a higher overall balance (RGP)—by approximately 0.63% of GDP—compared to governments with other ideological orientations.

Conclusion

This study aimed to assess, through panel data econometric modeling, the effects of political-institutional factors on the fiscal policy of Latin American countries from 1990 to 2017.

Both the level and duration of democracy proved to have a strongly significant and nonlinear effect on public expenditures. The effect is positive only at early stages of democratic development but shifts to negative once democracy or its duration reaches a higher threshold. This relationship can be explained by the search for legitimacy by governments, which often occurs through expanded public service provision—thus requiring increased public spending. However, in most countries in the region, the current level of democracy appears to have reached a point at which further democratic deepening contributes to reducing the size of the state in the economy—allowing greater room for private sector participation in GDP. Conversely, governments with an unchecked parliamentary majority tend to be more profligate, particularly in capital expenditures and spending on goods and services.

The pattern of democracy affects not only public spending behavior but also the level of public indebtedness. In this regard, the findings show that improvements in democratic indicators may lead to better debt control and reduction, while also yielding improved fiscal outcomes. The debt level is also influenced by other features of the countries' political-institutional framework. Enhancing the regulation of political participation—in order to

foster environments where power is contested by stable political groups and where peaceful government transitions are ensured—can contribute to lowering public debt levels.

The commonly held belief that left-wing parties are inherently more fiscally irresponsible than governments led by centrist or right-wing parties is not supported. On the contrary, the results highlight that in Latin America, left-leaning administrations are capable of delivering higher overall (operational) fiscal balances than governments led by other ideological groups.

Based on the evidence presented in this study, it can be inferred that democratic progress in Latin America holds the potential to curb the extent of State intervention in the region's economies—fostering the stability needed for public debt reduction and improved fiscal performance.

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