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STRATEGIC PARTISAN TRANSFERS IN A FISCAL FEDERATION: EVIDENCE FROM A NEW BRAZILIAN DATABASE

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This article makes use of a unique database that allows, for the first time, calculating in a precise way the amounts of discretionary transfers from the Brazilian Federal government to municipalities in the period from 1997 to 2012. The new database is used to test the "strategic partisan transfers hypothesis", which states that mayors from the same party as the president receive higher federal transfers than those from different parties, if the corresponding municipality is situated in a state where the governor is not aligned with the president. In general, the econometric analysis strongly supports the strategic partisan transfers hypothesis. Furthermore, it supports the hypothesis that there is a biannual political transfers cycle in Brazil due to the country's staggered electoral system with elections every other year.

JEL classification codes: D72, E62, H77
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I. Introduction

Intergovernmental fiscal transfers constitute a vital instrument in a fiscal federation. Their normative goals are straightforward: reduce the fiscal imbalances across

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jurisdictions, thereby ensuring that all citizens have access to basic standards of public goods and services provision; solve externalities related to public goods spillovers, thereby increasing the efficiency of providing pubic goods and services; improve the overall tax system; and support local macroeconomic stabilization.[1] In practice, intergovernmental transfers are redistributions that benefit unequally different jurisdictions and may, hence, have different effects on local citizens' support to the federal government.

The literature on distributive politics aims to understand how political incumbents design intergovernmental transfers, when they care not only about the transfers' normative goals, but also about their political effect. Traditionally, there are basically two competing views on the political use of intergovernmental transfers. Consider a model of electoral competition where each candidate's platform is the intergovernmental fiscal transfer scheme to be implemented if that candidate wins. The "core voter" view of Cox and McCubbins (1986) suggests that a (risk-averse) candidate will propose higher transfers to the jurisdictions where he holds strong political support. Conversely, the "swing voter" view of Lindbeck and Weibull (1987) suggests that the candidate's platform will propose to benefit jurisdictions where there are relatively high numbers of undecided voters, who would be more sensitive to the benefits of those transfers.

Cox and McCubbins (1986)'s "core voter" view has a very clear implication for fiscal federation. Indeed, if we measure political support in a local jurisdiction (municipality) by the fact that the local incumbent (mayor) belongs to the same party as the higher-level incumbent (President, state governor), then, those local jurisdictions should receive more intergovernmental transfers. This implication of the "core voter" hypothesis is called here the "traditional partisan transfers hypothesis" (TPTH).

There is significant empirical support for the traditional partisan transfers hypothesis. For the United States, for example, Wright (1974) found evidence that the distribution of resources during the New Deal period favored regions in which the President's party received higher votes. The recent literature also finds evidence pointing in that direction. Ansolabehere and Snyder (2006) analyze transfers from U.S. state governments to their respective counties from 1957 to 1997 and find that "the governing parties skew the distribution of funds in favor of areas that provide them with the strongest electoral support". For Russia, Popov (2004) uses cross-section data and finds evidence that net transfers increased with pro-Yeltsin's vote in the period 1995 to 2001 while Jarocinska (2010) confirms these results for the

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[1] See, on the subject, Musgrave (1959), Oates (1999), Shah (1995) or Bugarin, Bugarin and Pires (2010).

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