

NATIONAL ELECTORAL CYCLES IN TRANSFERS TO SUBNATIONAL JURISDICTIONS. EVIDENCE FROM ARGENTINA

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The political budget cycle literature studies the periodic fluctuations in governments' fiscal policies induced by the cyclicity of electoral processes, but the effects of elections on the distribution of federal resources among subnational governments has not been thoroughly investigated. This paper inquires into the presence of electoral cycles in federal government transfers, presenting evidence on how the Argentine national government has allocated, since the reestablishment of democracy in 1983, two different types of discretionary transfers — cash and in-kind — among the subnational governments. There is an electoral manipulation of total transfers that favors subnational governments that are politically affiliated to the national government; cash transfers show that same pattern. However, in-kind transfers, which are more traceable to the national government than cash transfers, increase in non-affiliated subnational jurisdictions during election years.

JEL classification codes: D70, H50, H70

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I. Introduction

Opportunistic political budget cycle models predict that prior to elections incumbent governments engage in pre-electoral expansionary fiscal policy –

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comprising higher expenditures, higher transfers and/or lower taxes – to increase their chances of reelection. Both in models of signaling (Rogoff and Sibert 1988, Rogoff 1990) and of career concern (Shi and Svensson 2002, Saporiti and Streb 2008), voters deduce their expected utility in the post election period from the fiscal performance observed before elections.

Much empirical work has been undertaken in order to contrast the existing theoretical models on political budget cycles with real-world evidence. The evidence is diverse and varies with the samples under consideration. But, in spite of the extensive literature on this issue, the analysis of the effects of the electoral processes in a framework in which fiscal variables are distributed among subnational governments has not been thoroughly investigated. A diversity of single-jurisdiction, cross-country and cross-district studies analyze these relationships focusing exclusively on only one layer of government. In a federal framework, however, the interaction between different layers of government can affect the way fiscal policies are manipulated prior to election.

This paper focuses on the subnational components of the variables under fiscal manipulation prior to electoral processes. It studies the electoral cycles in federal transfers from a national government to subnational jurisdictions, members of a federation. It analyzes how the Argentine national government allocates transfers among the subnational governments, inquiring into the presence of political budget cycles in two different kind of discretionary transfers, which differ in the possibility they offer voters to trace the national government's actions.

The evidence presented suggests that, under a strategy subject to political competition in a lower layer of government, prior to electoral processes the national government (i) will allocate more cash transfers to the politically affiliated subnational jurisdictions; (ii) will allocate more in-kind transfers to non-politically affiliated provinces; and (iii) will allocate more transfers in general to politically affiliated subnational jurisdictions than to their non-politically affiliated counterparts.

The remainder of the paper is organized as follows. Section II formulates testable hypothesis for the analysis of the relationship between electoral cycles and transfers in a federal framework. Section III reports evidence from the Argentine case. Section IV concludes.

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