



# Do politicians reward core supporters? Evidence from a discretionary grant program



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## ABSTRACT

We investigate whether politicians award intergovernmental grants to core supporters. Our new dataset contains information on discretionary project grants from a German state government to municipalities over the period 2008–2011. The results show that discretionary grants were awarded to municipalities with many core supporters of the incumbent state government. Discretionary grants per capita increased by about 1.4 percent when the vote share of the incumbent party in the state election increased by one percentage point. The fiscal capacity of a municipality does, by contrast, not predict the level of discretionary grants. We propose to trim discretionary project grants to the benefit of formula-based grants.

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## 1. Introduction

Politicians are likely to influence intergovernmental grants for many reasons. It is conceivable that politicians influence the distribution of grants to favor their home towns or to favor municipalities where a politician from their own party is in office (party alignment). To increase election prospects, federal and state politicians may award grants to municipalities with many swing voters. Politicians may, however, also direct grants to their core supporters by favoring municipalities where the vote share of the own party is large. The model of Cox and McCubbins (1986) describes that politicians award benefits to core supporters when both the expected vote share and uncertainty enter the politicians' calculus. An intriguing question therefore is whether politicians actually direct intergovernmental grants to core constituencies.

The extent to which politicians influence grants depends on the policy instruments available to the politician. It is much more difficult to influence grant schemes that follow established formulae than to use discretionary grants. Naturally, for the purpose of an empirical analysis, "one would like to have a grant program over which the incumbent government has full discretionary power" (Johansson 2003: 889). Data on the German state Rhineland-Palatinate allows us to investigate the distribution of discretionary project grants directed by the state government to the municipalities. We also use data for formula-based grants.

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Grant distribution by the government in Rhineland-Palatinate was a widely discussed issue in the media. In 2007, for example, the municipality Bad Bergzabern decided to support a private investor financially to convert an outbuilding of a historic castle into a (privately owned) hotel – justified with the negative externalities of a ruinous building next to a landmark in the historic center of the city. For that purpose of urban renewal, the municipality later received discretionary grants worth 1.875 million euros (251 euros per capita). It leaked out that the administration office to which the state government delegated the handling of grant applications had serious misgivings about the economic efficiency of the investment. Being subject to the ministries' directives, however, the administration eventually promoted the grant. In Rhineland-Palatinate the state government has the greatest leeway in awarding grants for urban renewal of all German states (Rechnungshof Rheinland-Pfalz, 2011).

Investigating how grants were distributed in the state Rhineland-Palatinate is a worthwhile endeavor for two more reasons: firstly, the state consists of more municipalities (2306) than any other German state, which allows exploiting wide-scale variation. Secondly, the incumbent party (Social Democratic Party – SPD) has been in office since 1991, which means that the government has networks and a sound knowledge of distributing grants.

By exploiting a new dataset, we examine whether municipalities with many core supporters of the state incumbent party received more discretionary grants from the state level in Rhineland-Palatinate. Our results show that grants were indeed awarded especially to municipalities with many core supporters of the state incumbent party. The fiscal capacity of a municipality does, by contrast, not predict the level of discretionary grants. The results do also not show that politicians manipulated formula-based grants.

## 2. Prior studies and our hypothesis

Experts investigate whether electoral and other political motives influence how politicians distribute intergovernmental grants.<sup>1</sup> The model of Weingast et al. (1981) describes that, when deciding on projects to be directed to individual electoral districts, political representatives favor projects in their own district. Such pork-barrel spending gives rise to inefficiencies.<sup>2</sup> When the same party controls a jurisdiction's legislature and the legislature of the next-higher level of government (partisan alignment), the jurisdiction may also receive more grants (see, e.g., Sengupta 2011).<sup>3</sup>

An issue in the extant literature is whether politicians should focus on core supporters or on swing voters to maximize election prospects.<sup>4</sup> In Lindbeck and Weibull's (1987 and 1993) and Dixit and Londregan's (1996 and 1998) "swing-voter model", two parties (or two blocs of parties) maximize their vote shares by tactically redistributing grants to election districts with many swing voters, i.e. voters that are indifferent between the two parties ("cut-point voters"), to win the election. Because the number of swing voters is difficult to measure, empirical studies often use the closeness of an election as a proxy for the number of swing voters, assuming a symmetric and single-peaked distribution of preferences. Many empirical studies corroborate the swing-voter model.<sup>5</sup>

In Cox and McCubbins (1986) "core-supporter model", by contrast, politicians can invest in support groups, in swing groups, and in opposition groups. Investing in support groups is less risky than investing in swing groups because politicians may well assess how their core supporters react (to grants), whereas swing voters are unattached to politicians by definition. Risk-averse politicians will thus – in terms of an expected-vote calculus – "tend to over-invest in their closest supporters" (distribute grants primarily to constituencies with many core supporters), "just as risk-averse investors will tend to over-invest in low-risk securities" (p. 385). Empirical studies typically use the vote share of a party as a proxy for the number of core supporters and find mixed evidence. US congressional districts where the number of voters of the incumbent federal government was high obtained more federal domestic assistance program grants (Levitt and Snyder 1995) and a larger share of discretionary project-grant funding (Stratmann and Wojnilower 2015). US presidents gratified core partisan counties in swing states (Kriner and Reeves 2015); also state governments gratified core supporter counties (Ansolabehere and Snyder 2006). In Québec, electoral districts with many core supporters of the incumbent provincial government received more spending on roads (Joanis 2011). In France, transportation infrastructure investments were shown to be higher in districts with a large vote share of the incumbent national government (Cadot et al. 2006). Studies on local investment programs in Swedish municipalities and infrastructure investments in Spanish regions did not, however, find evidence that governments reward core supporters (Dahlberg and Johansson 2002 and Castells and Solé-Ollé 2005).<sup>6</sup>

<sup>1</sup> Intergovernmental grants may also be influenced by direct democracy (Feld and Schaltegger 2005), voter turnout (Martin 2003), lobbying by local politicians (Borck and Owings 2003, Dalle Nogare and Kauder 2016), the electoral geography of districts (Chen 2010), and legislative representation (Knight 2008). See Curto-Grau et al. (2012) on the distribution of spending in semi-democratic Spain. Grants may in turn "mobilize" voters and thus give rise to higher voter turnout (Ansolabehere and Snyder 2006, Vicente 2014).

<sup>2</sup> For studies investigating a home-district or home-town bias, see Jennes and Persyn (2015) for Belgium, Stratmann and Baur (2002) and Maaser and Stratmann (2016) for Germany, Sjahrir et al. (2015) for Indonesia, Carozzi and Repetto (2016) for Italy, Horiuchi and Saito (2003) for Japan, Fiva and Halse (2016) for Norway, Anderson and Tollison (1991), Ansolabehere et al. (2002), Atlas et al. (1995), and Knight (2002 and 2004) for the United States, and Hodler and Raschky (2014) for developing countries.

<sup>3</sup> On the effects of partisan alignment, see Worthington and Dollery (1998) for Australia, Brollo and Nannicini (2012) for Brazil, Cadot et al. (2006) for France, Kemmerling and Stephan (2002) for Germany, Arulampalam et al. (2009) for India, Bracco et al. (2015) for Italy, Veiga and Pinho (2007) for Portugal, Curto-Grau et al. (2014), Solé-Ollé (2013), and Solé-Ollé and Sorribas-Navarro (2008) for Spain, and Albouy (2013), Geys and Vermeir (2014), Gist and Hill (1984), Grossman (1994), and Levitt and Snyder (1995) for the United States.

<sup>4</sup> On the personality traits of core supporters and swing voters, see Aidt and Rauh (2015).

<sup>5</sup> See, e.g., Case (2001) for Albania, Litschig (2012) for Brasil, Cadot et al. (2006) for France, Banful (2011) for Ghana, Arulampalam et al. (2009) for India, Helland and Sørensen (2009) for Norway, Veiga and Pinho (2007) for Portugal, Solé-Ollé (2013) for Spain, Johansson (2003) for Sweden, and Wright (1974) for the United States.

<sup>6</sup> Related to the concept of core supporters, Stratmann (1996) examines how re-election constituencies influence voting in the U.S. Congress and contribution strategies of political action committees.

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