



Local governments' re-election and its determinants: New evidence based on a Bayesian approach



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ABSTRACT

We analyzed the effect of public spending on the probability of re-election of Spanish local governments during the 2000–2007 period using Bayesian techniques. Although the literature on political budget cycles is now fairly large, few contributions have explicitly analyzed the determinants of re-election. The use of Bayesian techniques in this context is particularly interesting because, unlike most previous studies, results are not presented as a summary effect such as the average. Rather, our findings show exactly how a given covariate affects the probability of being re-elected. We find that, in general, increases in local government spending positively impact on local governments' chances of re-election. Moreover, the capital expenditure over the whole term positively affects the re-election probability, although the pre-electoral capital expenditure has a stronger effect on the chances of re-election. We also find that the electorate only rewards increases in current expenditures made in the pre-election period.

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1. Introduction

The existence of political budget cycles (PBCs) has been widely analyzed in the literature. In general terms, the finding is that opportunistic pre-election manipulation of fiscal instruments does exist, with the clear objective of increasing the likelihood of a government being re-elected (Shi and Svensson, 2003). This re-election opportunism does not always have the consequences governments and policy-makers would like, and the literature reports evidence of both rewards and penalties in constituency voting patterns as a result of this behavior. According to Akhmedov and Zhuravskaya (2004), Veiga and Veiga (2007a), Sakurai and Menezes-Filho (2008) and Aidt et al. (2011), voters reward opportunistic fiscal actions. However, authors such as Peltzman (1992), Kraemer (1997), Brender (2003) and Brender and Drazen (2008) find that these behaviors are penalized.¹

The purpose of this paper is to provide new evidence on the factors that affect a government's re-election probability. We examine this issue in the context of Spanish municipalities and our study is the first one to provide a systematic analysis of the Spanish case. Spain is an interesting case to study for a number of reasons. First, decentralization stops at the regional level (*Comunidades*

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¹ This literature is relevant and is still growing. See, for instance, recent research on the conditional political budget cycle (Persson and Tabellini, 2003; Brender and Drazen, 2005; Shi and Svensson, 2006; Alt and Lassen, 2006) or on how different PBC patterns may emerge under different types of suffrage (Aidt and Mooney, 2014).

Autónomas), and the number and importance of powers in the hands of local governments are far lower than those controlled by regions. In contrast, municipalities have a remarkable degree of autonomy in terms of budget planning (García-Sánchez et al., 2011), involving a high degree of flexibility in budget implementation (De Haan et al., 1999). Local governments also have ample powers in terms of planning, development and urban structure. During the boom years, activity in these areas considerably boosted their revenues on average (and led to an even more remarkable collapse of these revenues after the burst of the housing bubble).² In this context, the analysis of PBCs in Spain has mainly focused on their existence and composition (Vila i Vila, 2010; Sánchez Mier, 2011; Vicente et al., 2013). Their effect on re-election remains virtually unexplored.

To help bridge this gap, we first explore the impact of public spending on the re-election probability of local governments for a large sample of Spanish municipalities. Specifically, we study the effect of total expenditure, and current and capital expenditure, over the whole term. Additionally, we analyze the expenditure in different periods, distinguishing between the first years of each electoral cycle and the pre-electoral period. Finally, we also study the effect of other budgetary, political and socio-economic variables.

In contrast to previous approaches in this literature, most of which were frequentist, we consider Bayesian (inference) methodologies. Bayesian inference considers all the unknown parameters as random variables and so we obtain a distribution of probability for each one of them. This probability distribution is called the posterior distribution and is obtained by combining the information provided by the data (through the likelihood function) and prior beliefs using Bayes theorem. Assumptions about the error structure are important for the reliability of the results but taking a Bayesian approach dispenses with the need for ad hoc tests such as heterogeneity or normality tests. We use Markov Chain Monte Carlo (MCMC) methods to obtain samples of the posterior distributions for the parameters in the analysis, which contain much more information than a simple estimation of their average values. However, despite their advantages, Bayesian methods have rarely been used in the specific context of PBCs. Consequently, their consideration may shed new light on the links between certain covariates considered in the literature and the probability of a given local government being re-elected. In this particular context, an interesting feature of Bayesian methods is that a given variable is neither significant nor non-significant but, instead, we focus on its posterior probability distribution. This shift of focus implies that some of the mixed results previously found in the literature could be reconciled.

Our results show the following. First, we find that high total spending throughout the election cycle increases the re-election chance of the local government. Second, current expenditure in the pre-electoral period positively affects the possibilities of re-election—probably due to the immediate visibility of these expenditures. Third, increases in capital expenditure over the whole term benefit local governments at the polls, although the impact is higher for the pre-electoral spending. On the revenue side, we find that voters penalize high levels of debt throughout the whole term. Analysis of the political variables reveals that right-wing parties are more likely to be re-elected. This might be due to the conservatism that inhibits shifts between parties, even within the same political wing. Our results also show the persistence in voting behavior in the period analyzed—i.e., the percentage of municipalities for which the governing party was re-elected is high, and the parties that won with an absolute majority in local elections continued to hold a significant number of votes in the next election. The ideological alignment between local and central government negatively affects the former. This result could be explained by the fact that voters tend to eschew concentration of power in a single party, or they use local elections to express their dissatisfaction with the national government. Our analysis of the socio-economic variables revealed a slightly positive relationship between unemployment and re-election. Although the opposite relationship was expected, the reason for this result could be that voters do not consider local governments to be primarily responsible for higher levels of municipal unemployment.

The paper is divided into six sections. After this introduction, Section 2 offers a literature review of previous studies on the effect of opportunism on the re-election of governments, changes in pre-election composition of public spending, and re-election determinants. Section 3 describes the sample and variables used as possible determinants of re-election. In Section 4, we present the model and methodology used in the empirical analysis. Section 5 describes the main results obtained in the paper, and finally, Section 6 outlines some of the conclusions drawn from the study.

2. Political budget cycles and the determinants of local governments' re-election: theory

Numerous studies (Block, 2002; Galli and Rossi, 2002; González, 2002; Khemani, 2004; Efthyvoulou, 2012; Foremny and Riedel, 2014; Klomp and De Haan, 2013) have found evidence of a cyclical pattern in public revenue or expenditure that follows the electoral cycle. In their bid for re-election, incumbent governments may reduce taxes or increase public expenditure in the run-up to elections—frequently causing an increase in the budget deficit—in an attempt to gain favor with the electorate and thus secure their votes in the ballot box.

In more comprehensive studies of PBCs, some authors have analyzed the effect of opportunistic behavior on the re-election possibilities of incumbent governments, finding evidence of both penalization and reward effects in the polls. Studies by Peltzman (1992), Kraemer (1997), Meloni (2001), Brender (2003) and Brender and Drazen (2008) reveal that opportunistic behaviors are penalized by the electorate. Specifically, Peltzman (1992) found that the US electorate penalizes governments that increased public expenditure in the run-up to elections. Kraemer (1997), for a set of Latin American and Caribbean countries, found that pre-election deficits do not benefit the incumbent parties. Brender (2003) obtained similar results for the case of local elections in Israel, where a larger deficit in

² The economic boom in the Spanish housing market from the mid 1990s to 2007–08 led to a steep increase in housing prices: there was a 175% increase between 1998 and 2008 (González and Ortega, 2013). See also García-Herrero and Fernández de Lis (2008), García (2010), Montalvo (2010) and González and Ortega (2013) for further explanations about the Spanish housing bubble. Local governments were caught up in the urban development process, city sprawl and housing construction since they had discovered how their funds could be increased through housing taxes and land management (García, 2010).

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