



When does local political competition lead to more public goods?: Evidence from Russian regions [☆]



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ABSTRACT

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In imperfect democracies, does political competition always improve the provision of public goods? To address this, we study the pattern of public expenditures on health and education in 74 Russian regions between 2004 and 2009. Because governors are now appointed by the federal government, reappointment depends on their maintaining support in the legislative elections for the ruling party. Results show that outsider governors appointed by the federal government spend more on public goods (in this case, education) than governors who had originally been elected, and then were reappointed by the federal government, when there is competition in the legislature (as measured by party share). But in cases where the ruling party is strong (virtual monopoly) or when party share is low enough that governors can do little to raise party support, governors with local ties spend more on public goods. This non-monotonic (inverted U-relationship) between expenditures on public goods and party share suggests that formal mechanisms of accountability (administrative subordination to the central government) work worse under political monopoly, while informal mechanisms (such as local ties and strong networks) work worse under political competition to encourage public goods spending. *Journal of Comparative Economics* 43 (3) (2015) 650–676. NRU-Higher School of Economics, George Mason University, Fairfax, VA 22030, United States; Economic Research Institute, Far East Branch Russian Academy of Science, Amur State University, Blagoveshchensk, Amur Oblast, Russia.

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1. Introduction

Does political competition always improve the provision of public goods? What institutional mechanisms best motivate politicians to work in favor of society? And do mechanisms of political accountability that work in developed democracies also promote social welfare in less open societies? Although we have an increasing body of evidence that greater openness and

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political competition generally result in better incentives for those in office, it does not necessarily follow that increases in political competition are always and everywhere unambiguously beneficial to society, particularly in autocracies.

Given that most of the world lives under systems that are far from being the “inclusive” (Acemoglu and Robinson, 2012) or “open-access” societies (North et al., 2009) that leading scholars claim best promote human welfare, the relationship between political competition and public welfare emerges as a critical issue for political economy.

On the one hand, Besley and Burgess (2002) show that greater political competition leads to greater calamity expenditures. Careaga and Weingast (2003) claim that higher levels of political competition result in policies with lower levels of corruption and greater provision of public goods. And Besley et al. (2010) developed a model applied to the United States that shows political competition has quantitatively important positive effects at the state level. On the other hand, Acemoglu and Robinson (2006) make clear that the link between political competition and growth promoting policy is non-monotonic. Under certain conditions, moving from a low level to an intermediate level of political competition might lead to growth-inhibiting behavior even if the overall link between openness and good policy is positive.² This is especially true for countries where the political culture is not fully democratic.

While most of the literature has focused on the impact of political competition on growth promoting policies, less attention is paid to the impact of political competition on public goods provision, especially in weak democracies. They also do not integrate this issue with the question of what motivates different types of bureaucrats in such regimes. This paper attempts to fill those gaps in the literature.

Our paper is also relevant to another strand of the literature. There is no unambiguous view about the relative benefits of policies implemented by officials with ties to local elites. Some scholars argue that officials captured by local elites pursue only the goals of the business elites, resulting in waste and corruption (Sonin, 2010). Work by Bardhan and Mookherjee (2000) models the problems of centralized control and regional elites captured by local interests. While the role of political and fiscal centralization is also at the forefront in the work of Enikolopov and Zhuravskaya (2007) in a cross country study of public goods provision.

Slinko et al. (2004) consider the effects of local capture in Russian regions. They find that local capture hurts those firms—primarily small businesses—which don’t have connections with elites, whereas Shurchkov (2012) claims that Russian regions with governors who do not have ties with the local business/political elites, but attained office due to the central government, do worse in terms of small business development.

In contrast to the studies focusing on rent-seeking by those with local business ties, Persson and Zhuravskaya (2014) find that Chinese governors who built their careers within the province they govern and have strong ties with local elites, provide more public goods than those governors who came from another province. Moreover, they hypothesize that this results from the ties local officials develop with elites in both education and health care. We develop this idea and try to show that the impact of officials’ career paths on the policies they choose depends on the intensity of political competition, but in a non-linear fashion.

We address this issue using data from Russia from a period that has seen a large transformation of political institutions in a single decade. As we will see, New Governors with no local ties that were appointed by the federal government behave differently than those governors that were reappointed by the state but who had been previously elected and already had preexisting ties to the local elite. Although both types of governors need to maintain a certain level of support for the ruling national party in order to remain in office, there is a non-monotonic effect of party share on public goods spending depending on governor type. Outsiders are only beholden to the national leaders for their position. Local politicians not only respond to national pressure but are also influenced by their local attachments to the community and to the elites who assisted them in their careers. This also provides them with mechanisms of influence unavailable to outsiders and should lead to clearly differing patterns of spending.

There are numerous studies of governors and their policies in Russia—mostly concerning the period before 2005. Notably, Frye et al. (2013) examined in detail the importance of election vs. appointment by the central government in influencing the quality of governors. Their work focuses on the backgrounds of governors who were elected or appointed between 1992 and 2010 to understand variance in selection, but even they conclude that selection choice only explains a small part of this. Our paper’s contribution is to show that governors’ policy differences are driven by the interaction between the different instruments available to them to raise party share given the initial share held by the ruling party.

This paper might also be more broadly applicable to any countries—and not just imperfect democracies—which feature an appropriate degree of fiscal decentralization combined with federal appointment of subnational executives. Depending on the specific structure of those systems, differences between selected outsider officials and those whose support is primarily local might exhibit some of the tradeoffs we attempt to highlight in this essay. Local executives may face pressure from local elites as a consequence of their preexisting networks even when the national government directly pressurizes them to deliver votes for the party. This means that the pressures from the ruling party on subnational officials would be similar to what we observe in Russia even in democratic systems, though the size of the effect might be smaller.

Our paper is organized as follows. In Section 2, we describe the historical background that led to the new 2005 system. Section 3 introduces the conceptual framework that motivates our claims, and Section 4 contains our model and estimation results. Our conclusions are presented in Section 5.

² A similar dynamic is argued by North et al. (2009).

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