



Comparative political economy of regional transport infrastructure investment in Europe



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ABSTRACT

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We study the role of political institutions in the regional allocation of public infrastructure investments in France, Germany, Italy, and Spain. We estimate the regional variation in the allocation for each country, controlling for the potential endogeneity of its impact on growth and distribution. We compare the importance of political institutions, federalism and the electoral system, with the normative criteria, efficiency, redistribution and equality. We find that on the macro-level there is some evidence that different national institutions do indeed shape political competition, but that partisan politics and, in particular, normative principles are overall more influential across all types of political systems. *Journal of Comparative Economics* 43 (1) (2015) 227–239. Central European University, Budapest, Hungary; Jönköping University, DIW Berlin, Ratio Institute, Stockholm, Sweden.

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1. Introduction

In recent years, there has been a surge in scholarly contributions explaining the distribution of public capital across jurisdictions. Theoretical models have been developed (Inman, 1988; Baron and Ferejohn, 1989; Persson and Tabellini, 2002, among others) to show how political institutions and the distribution of voter preferences affect the regional distribution of public capital. Empirical contributions show the influence of political factors on investment in various forms of public capital in very different political systems (e.g., Grossman, 1994; Crain and Oakley, 1995; Worthington and Dollery, 1998; Costa-i-Font et al., 2003; Johansson, 2003; Arulampalam et al., 2009). However, this literature is dominated by studies that focus on single countries and, consequently, it remains unclear how political institutions influence the distribution of public capital. In contrast, the literature on macroeconomic policies uses cross-country comparisons more and more (e.g., Franzese, 2002; Persson and Tabellini, 2003). We argue in this paper that such comparisons between countries can provide insights into the comparative politics of public capital transfer and the political economy of regional redistribution.

We investigate the determinants of the regional distribution of public capital, comparing four European countries: France, Germany, Italy, and Spain. Whereas all four countries are roughly similar in population and GDP per capita, they have very different electoral systems and degrees of federalism. We have compiled a cross-section dataset for all four countries, nesting their sub-national regions over time. We employ a nonlinear GMM system of two equations to investigate the determinants

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of public capital distribution: one models the decision on public spending, and the other equation endogenizes productivity effects of public capital.

We compare the four countries by investigating the influence of political determinants that depend on political institutions and the influence of normative criteria on regional distribution. There are two major findings from this comparative exercise. First, national political institutions seem to play a role in the way that different politico-economic determinants play out. Partisan ideology is a determinant across all types of political systems, whereas other determinants, such as swing-voters or incumbency effects, depend on the type of political system. Second, although these political-economy variables indeed play a role, their influence should not be overrated. Normative criteria seem to exercise a stronger influence on the regional allocation of transfers.

This paper is laid out as follows. In Section 2, we apply the literature on the political economy of political institutions to the regional redistribution of public capital. In Section 3, we compare political determinants of the regional distribution of public capital with normative criteria such as efficiency or equality and derive a set of hypotheses. In Section 4, we present our data. In Section 5, we explain our estimation methodology and show the results of our simultaneous equations. Section 6 concludes with some qualifications to and broader implications of our findings.

2. The comparative political economy of regional redistribution

For many years, political economy research has focused on how regional allocation of intergovernmental grants and public capital influences growth and efficiency (for recent surveys, see [Porto and Sanguinetti, 2001](#); [Romp and de Haan, 2007](#); [Bom and Lighthart, 2008](#)). The consensus (of this research) is that public capital makes a moderate contribution to growth, even if with important exceptions. These *effects* are fairly well understood, but we know considerably less about the *determinants* of public capital investments, even though there has been an impressive surge of studies on individual countries regarding the political economy of public capital (cf. [Table A1](#)). What is missing are comparative studies that measure the extent of the influence that national political institutions have on the redistributive outcomes. As these national political institutions, by definition, do not vary (much) across time or regions, their impact is very difficult to trace in single-country studies.

The country studies indicate that there are four types of politico-economic variables: (1) informal lobbying of either local governments or private firms (e.g., [Cadot et al., 2006](#); [Helland and Sørensen, 2009](#)); (2) the effects of ideological differences between parties, usually in the form of “left” vs. “right” ([Wright, 1974](#); [Grossman, 1994](#); [Levitt and Snyder, 1995](#)); (3) differing degrees of voting power and the role of political regulations in determining the regional allocation of public capital (e.g., [Crain and Oakley, 1995](#); [Ansolabehere et al., 2002](#)); and (4) perhaps the largest number of studies compare the influence of swing voters with other explanations such as incumbency bias or the existence of party strongholds ([Worthington and Dollery, 1998](#); [Johansson, 2003](#); [Golden and Picci, 2008](#); [Joanis, 2011](#)). These studies are based on regional variations within countries and, hence, they rarely discuss the role of national political institutions.

In the literature based on theoretical models, national institutions play a prominent role in the regional redistribution of public capital. Two forms of national political institutions are frequently mentioned in this context: (fiscal) federalism and the electoral system.

In reference to electoral systems, the literature focuses on the distinction between majoritarian or plurality-voting (MAV), and proportional-voting (PRV) systems ([Taagepera and Shugart, 1989](#); [Persson and Tabellini, 2003](#)). While this distinction is commonly blurred (e.g., [Nohlen, 2004](#)), nonetheless, it reflects important differences. MAV systems are characterized by a first-past-the-post electoral competition either in single-member districts or, where there are few political parties or, single-party governments. PRV systems lead to a more complex form of political competition, such as proportional representation of parties in parliament and even coalition governments.

This distinction between MRV and PRV systems has been credited with varying degrees of importance in literature focusing on the political economy of regional redistribution. [Persson and Tabellini \(2002, 2003\)](#) for example, argue that MAV systems are particularly susceptible to pork-barrel politics and lobbying from the regions (also, e.g., see [Inman, 1988](#)). PRV systems, in contrast, redistribute public revenue through general programs such as social insurance and, therefore, are less vulnerable to regional pork-barrel strategies (e.g., [Milesi-Ferretti et al., 2002](#)). In debates about partisan ideology, the electoral systems tend to feature less prominently (cf. [Klingemann et al., 1994](#)), and this is also true in debates about political rules and the voting power of individual regions. The electoral system, however, is fundamental in the debate about swing voters, that is, those who are as yet undecided. The traditional swing-voter model was clearly tailored towards first-past-the-post systems within single-member districts (e.g., [Dixit and Londregan, 1998](#)). In contrast, [Cox and McCubbins \(1986\)](#) argue that risk-averse politicians would prefer partisan strongholds (i.e., safe districts). [McGillivray \(2004\)](#), among others, reconciles these alternatives by arguing that only MAV systems with strong parties cater to swing voters, whereas other electoral systems result in politicians preferring electoral strongholds or incumbents. [Golden and Picci \(2008\)](#) point out that the role of electoral systems is further complicated by factors such as open vs. closed lists in the election process. There is little comparative evidence for these claims, but one study ([Stratmann and Baur, 2002](#)) uses the intra-country variation of the mixed German PRV to show that the candidates directly elected by MAV seem to behave differently than those elected list-wise with PRV.

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