



# Elected in a close race: Mayor's characteristics and local public finances<sup>☆</sup>

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Received 7 April 2017; received in revised form 16 October 2017; accepted 26 October 2017

## Abstract

The purpose of this paper is to evaluate the role of mayor's characteristics (education, experience and gender) on fiscal indicators of Brazilian municipalities. We use regression discontinuity and the outcomes of close elections to identify causal effects for 2000, 2004 and 2008. We find evidence that experienced and educated mayors choose to devote a smaller fraction of the budget to current and personnel expenditures, and so they seem to be concerned with the quality of public finances. Moreover, educated mayors are better in negotiating discretionary transfers. Unfortunately, the results indicate that women and men elected in close races are different regarding education, and therefore we were not able to evaluate the effect of gender on fiscal indicators.

*JEL classifications:* C31; H41; H83

*Keywords:* Mayors; Fiscal indicators; Education; Experience; Regression discontinuity design

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## 1. Introduction

Brazil, like other countries around the world, adopted administrative and fiscal decentralization in the hopes that increased information on citizen needs improved government efficiency, effectiveness, responsiveness and accountability.

The shift of responsibility from central to local governments came, however, with a heterogeneous response in that some municipalities exceed others in terms of fiscal and policy performance.

Literature points to a series of factors that affect governmental behavior and are possible explanations for the different fiscal responses by Brazilian municipalities.

<sup>☆</sup> We are grateful to prof. Sérgio Ricardo de Brito Gadelha for kindly helping us with the data used to calculate the fiscal indicators.

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<https://doi.org/10.1016/j.econ.2017.10.005>

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Among the usual economic variables (growth rates, productivity), budgetary institutions appear to be particularly important. Alesina et al. (1999) are the first ones that formally evaluate the impact of the quality of budget institutions, measured by an index that captures different stages of the budgetary process, on fiscal performance. The evidence for 20 Latin American and Caribbean countries indicates that hierarchical (top-down) procedures, that impose a hard budget constraint and budgetary transparency, are positively related to fiscal discipline. Dabla-Norris et al. (2010) build multi-dimensional indices of the quality of budget institutions for low-income countries, and conclude that better fiscal institutions help improve fiscal balances and the adoption of countercyclical policies.

The electoral competitiveness hypothesis, according to which, more competition is associated with higher performance (Holbrook and Van Dunk, 1993), and leader's political support (for instance O'Toole and Meier (2004)), also explain governmental performance. On the other hand, party alternation can create instability and overspending as pointed by Calcagno and Escaleras (2007).

As pointed by Avellaneda (2008) political and economic factors are external to public organizations, and it is important to take into account the influence of internal organization factors as well, such as manager characteristics. Although the product of collective action, public policies are ultimately the product of the actions of a single-actor, the mayor, when the setting involves local decision-making. The mayor in fact is the most important decision maker for municipal performance, since he is responsible for political and administrative functions. She then suggests as measure of managerial quality the mayor's human capital, that is, his educational background and job-related experience.<sup>1</sup> Both variables still have the advantage of being quantifiable and observable homogeneously across different contexts.

There are not many studies assessing the influence of manager's education and experience on performance. Gibson and Lehoucq's (2003) find that mayors with higher levels of education (the ones with more completed years of education) hire more staff to monitor forest conditions in Guatemala. Fernández (2005) do not find evidence of the impact of superintendent total years of experience on the performance of school districts in Texas. Gohlmann and Vaubel (2007) show that, besides mayoral qualifications (education and professional background), the gender of monetary policymakers is important for inflation. Avellaneda (2008) tests the mayoral qualifications thesis against the political and economic explanations. In order to do so she evaluates 40 municipalities in the Colombian Department of Norte of Santander, and finds evidence that mayoral qualifications positively influence municipal performance with respect to education coverage (school enrollment). However, these positive effect decreases under external constraints, such as the presence of illegal armed groups. Dreher et al. (2009) find evidence that the professional background of the head of government influences the adoption of market-liberalizing reforms. Congleton and Zhang (2009) and Besley et al. (2011) conclude that highly educated political leaders promote higher economic growth.

Regarding specifically fiscal outcomes, Persson and Zhuravskaya (2011) show that leaders that began their career in a given province and stayed their (inside provincial leaders) have a higher probability of making more infrastructure investments than leaders that come from a different province (outside provincial leaders). Jochimen and Thomasius (2012) find evidence that prior professional experience in the financial sector makes finance ministers less prone to deficits.

The purpose of this paper is to evaluate the determinants of municipal fiscal performance given mayors' characteristics. More precisely, we seek to explain the impact of mayors' previous public sector experience and educational achievement on selected fiscal indicators. As far as we know this is the first research that provides evidence for Brazilian municipalities on the causal effect of mayors' education and experience on fiscal indicators.

In order to verify the impact of mayors' characteristics on policy outcomes we use a regression discontinuity design (RDD) based on close elections. If the election between two candidates is sufficiently close, whether the municipality elects an educated (experienced) mayor or not is the outcome of a random event. The probability of winning is the same for both educated (experienced) and non-educated (non-experienced) mayors, given that in close elections random factors matter a lot. Freier and Thomasius (2016) apply the same procedure to evaluate the effects of politician's qualification (education and experience) on local public debt, local expenditures and local taxes, using a sample of German municipalities. They, however, use a fuzzy regression discontinuity design to evaluate the effect of mayor's education since their education variable reflects the average university graduates for the occupation category of the candidate. Since we have information on the level of education of each candidate in each election we can create an indicator variable of whether the new mayor is educated or not and use a sharp design.

<sup>1</sup> Managers' education and experience should then contribute to performance not only in the public, but in the private sector as well.

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