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New parties and policy outcomes: Evidence from Colombian local governments

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ABSTRACT

In many democracies, increasing political competition has changed the traditional party system and brought new parties into the political arena. This study examines whether the presence of politicians from new parties affects the size of government (measured by public spending and tax revenue). The study focuses on Colombian municipalities, where new parties have been numerous and successful in recent years. Regression discontinuity estimates show that public spending and tax revenues are significantly higher in municipalities governed by a mayor from a new party. Using information about local politics and the features of the new parties, I argue that this result is not associated with new party ideology, but instead relates to new parties having lower probability of reelection which raises the incentives to increase short-term rent seeking.

1. Introduction

In this paper, I study the impact of politicians from new parties on the size of government and other policy outcomes, when they are in power. Despite its relevance, there is very little empirical literature addressing this question.[1] Since in many countries increasing political competition has brought new parties into the political arena, understanding the policy consequences of new parties might improve our understanding of the effect of increasing political competition (see Lizzeri and Persico, 2005; Acemoglu and Robinson, 2006; Besley et al., 2005, 2010).

This study focuses on Colombian local governments, where new parties have frequently gained power in recent years. The Colombian case is attractive because of the quantity, heterogeneity and success of these parties and, most importantly, because new parties are particularly easy to identify. These parties are essentially political movements created several months before an election, and without any previous experience in power in the municipalities and period studied. The opponents of these new movements are two very old political parties: the Colombian Liberal Party (left-wing) and Colombian Conservative Party (right-wing). These two parties, which were founded in 1848 and 1849 respectively, have split the bulk of electoral victories in every municipality for more than a century. Only recently, in part because of new laws favoring political competition, have these two traditional parties started to lose out to other contenders (around 41% of all local elections).

This study begins by comparing fiscal outcomes in municipalities with governments controlled by new parties and municipalities with governments controlled by old parties. New parties are defined as parties that have never previously won an election in a municipality, while the Liberals and Conservatives are defined as the old parties. To isolate the causal impact of governments on new parties, I employ a regression discontinuity (RD) design that compares municipalities where candidates from new parties barely won an election to municipalities where candidates from new parties barely lost. The RD estimates show that government spending on local public goods is significantly higher in municipalities where a mayor from a new party is in power. I also examine the sources of funding that account for this difference. I find that the difference in public spending is paralleled by an increase in taxes, for which local authorities are directly responsible. The fact that all funds are raised locally is important because it allows us to interpret the difference in expenditure as the result of a new mayor's decisions.

There are several mechanisms that could explain these results. One possibility is ideological differences: new parties could be primarily from one side of the political spectrum, and their ideologies about the appropriate level of government spending may be different from old parties. This thesis is particularly important because the increase in political competition associated with the success of new parties in Colombia can be interpreted as a increase in democracy, and the pattern of an increasing size of government in municipalities governed by new parties is consistent with some important findings in the literature on democratization (see Acemoglu and Robinson, 2000, 2001, 2006; Boix, 2003; Lizzeri and Persico, 2004; Martinez-Bravo et al., 2012; Aidt and Jensen, 2013).

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[1] After the first version of this paper was written, I learned of contemporaneous and independent parallel work by Hanusch and Keefer (2013), who also focus on new or young parties. Their interesting work complements mine and buttresses the claim that the presence of younger political parties plays a crucial role in giving politicians strong incentives to increase spending. Their paper, however, focuses on political budget cycles and is based on cross-country evidence.

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A second potential explanation for the different policy outcomes under new parties is that new parties may spend more because they have a small representation on municipal councils and need to "buy" support from councillors.[2] According to Kontopoulos and Perotti (1999), Persson and Tabellini (2003), and Torsten Persson and Tabellini (2007), when governments are fragmented, and coalitions are needed to pass bills, some groups have an incentive to push for more spending from which they benefit, given that they internalize only part of the cost. In this scenario, more government spending would be expected.

I do not find evidence to support ideology or vote-buying as the explanation for the increase in government spending under new parties. Rather, the spending appears to be the result of rent-seeking, a third possible explanation that I examine. If ideology cannot explain the larger size of governments run by new parties, and if the additional resources available to these parties do not correspond to specific demands for particular public goods, nor they are used to buy consensus, it could be that these resources are captured by these parties. As part of the examination of this third possibility, and based on a simple career concerns model built on Holmstrom (1999) and Persson and Tabellini (2000, Ch. 4.5), I argue that new parties may have more incentives for rent extraction. I argue that, insofar as the traditional parties don't have a very bad reputation, it is reasonable to expect that the political life of new parties is shorter. New parties' lack of experience in government, insofar as it implies a higher ex-ante uncertainty about their degree of honesty, makes new parties less able to convince voters that they are "good." Specifically, it implies that bigger (or smaller) governments chosen by new parties are less informative about the level of rents captured by their administrations. Traditional parties, with not very high ex-ante corruption levels, are more effective in convincing the voters that they are honest by choosing a smaller size of government. Thus, given that the level of corruption is what matters most to voters, relative to the traditional parties, new parties are less likely to be reappointed. The consequence is that new parties spend more and capture more rents during the time they are in office.

Assessing empirically to what extent new parties capture more rents is a daunting task. I examine the plausibility of this third hypothesis by looking at two of its most immediate implications. First, I investigate whether new parties experience higher turnover, and specifically, whether new parties are less likely to be re-elected. I find that, relative to traditional parties, new parties are much less likely to be re-elected. Importantly, this result is consistent with the thesis of rent seeking, as it suggests that the expected political life of new parties is shorter. Second, I examine the link between the political life of new parties and public spending. I compute, for each municipality and election, the number of times that there has been mayoral party turnover in the past. Then I identify the municipalities that experience the highest turnover rates. I find that high past turnover explains an important part of the effect of new parties on public spending. Specifically, I find that in those municipalities that experience high turnover, the effect of having a mayor from a new party is significantly higher, and that in these municipalities, the effect of the new mayor on government spending is smaller and barely statistically significant. Importantly, these results are consistent with the hypothesis that when politicians from new parties are elected in municipalities that have experienced a high turnover of mayors in the past, their effective time horizon may be shorter, also implying a larger size of government.

I conclude with an analysis of the effect of new parties on public spending over the electoral term and on future fiscal policy (over the medium-term) in the corresponding municipalities. Interestingly, I find that the effect of new parties on public spending tends to be strongest during the first year of the mayor's mandate and, to a lesser extent, during the last year. I also find that the effect is limited to the electoral term. These findings are consistent with the thesis of rent seeking.

This study contributes to a growing literature that empirically examines the role of partisan affiliation in determining policy outcomes. Several studies have examined this question at either state or national levels. For example, Besley and Case (2003) use a fixed effects framework to show that, for U.S. state legislatures, a higher fraction of Democrat party seats is associated with significantly higher state spending. Lee et al. (2004) use a regression discontinuity design and find that partisan affiliation explains a very large proportion of the variation in the U.S. congressional voting behavior. At the municipal level, the evidence is inconclusive: while Pettersson-Lidbom (2008) finds that marginally elected left-wing local governments impose significantly higher taxes and spend more than their right-wing counterparts in Sweden, Ferreira and Gyourko (2009) fail to find any differences in the size of U.S. local governments under marginally elected Democrat and Republican mayors. However, none of these papers analyze the impact of new or inexperienced political parties on policy outcomes.

Since new parties can be characterized as weak party organizations, this study is also related to Primo and Snyder (2010), who examine the link between party strength and public finance outcomes. Although Primo and Snyder focus on a different level of governance (U.S. states) and use a different methodology (difference-in-differences estimation), I also find that weak parties increase the size of government. My argument is, however, different: in their model, a party is weak if its internal structure and role in candidate nominations are not well defined. In my model and explanation, the weakness of a new party is based on the uncertainty about its future reelection, which reduces its effective time horizon and increases its incentives for rent seeking.

This study is also related to the literature of multiparty competition with free entry. Palfrey (1984), Osborne (2000) and Callander (2005) propose spatial models of electoral competition where two dominant parties, competing simultaneously with each other, face the possibility that a third party will enter the competition after they have chosen their policy positions. They are all interested in the equilibrium policy outcomes. In particular, they find that when third parties enter and win, the policies that they choose are either moderate (Osborne) or extreme (Callander). In all these models, the third parties can be interpreted as new parties relative to the established two-party system; however, since the effective time horizon is the same for all the parties, their notion of a third party is fundamentally different than mine.

Finally, as previously noted, this study contributes to the literature on the impact of political competition on policy outcomes (Lizzeri and Persico, 2005; Acemoglu and Robinson, 2006; Besley et al., 2005, 2010). Lizzeri and Persico (2005) find that a high degree of political competition (defined as the number of parties participating in an electoral competition) may reduce welfare by channeling resources into targeted transfers rather than general-interest public goods. Acemoglu and Robinson (2006) model political competition as the inverse of the expected cost of replacement of the incumbent, and find that political competition affects no monotonically institutional development by intensifying political instability and affecting the incentive for incumbents to implement growth-enhancing reforms. Besley et al. (2005, 2010) measure political competition by the dominance of U.S. Republicans or Democrats, and find that greater political competition is associated with more pro-growth policies; they also test this prediction using panel data for U.S. states. Since a high degree of political competition makes it more likely that new parties will compete and win, this study contributes to the literature by proposing a new drawback to political competition: new parties are not as well known to voters, which may cause the parties to over-provide public goods when they are in power by extracting large political rents.

The outline of the paper is as follows. Section 2 describes the political and economical context of Colombian local governments. Section 3 discusses the data and empirical strategy. Section 4 presents the main results. Section 5 discusses some possible mechanisms. Section 6 concludes.

[2] I use the term "buy" loosely to include spending on municipal projects that other councillors support in an effort to have those councillors support the mayor's agenda.