Journal of Urban Economics 106 (2018) 46–58

Contents lists available at ScienceDirect

Journal of Urban Economics

journal homepage: www.elsevier.com/locate/jue

Strategic public policy around population thresholds☆

Kristof De Witte[a,b], Benny Geys[c,*], Nanna Lauritz Schönhage[d]

[a] Top Institute for Evidence Based Education Research, Maastricht University, Kapoenstraat 2, 6200 MD Maastricht, The Netherlands
[b] Leuven Economics of Education Research, University of Leuven (KU Leuven), Naamsestraat 69, Leuven B-3000, Belgium
[c] Norwegian Business School (BI), Nydalsveien 37, Oslo N-0442, Norway
[d] Department of Applied Economics (APEC), Vrije Universiteit Brussel, Pleinlaan 2, 1050 Brussel, Belgium

ARTICLE INFO

JEL-classification:
H70
J18
R23
R38

Keywords:
Rent-seeking
Political agency
Building permits
Fiscal policy

ABSTRACT

Political economists have long maintained that politicians respond to both (re-)election and financial incentives. This article contributes to the latter literature by analysing whether, when and how local office-holders respond to the economic incentives embedded in exogenously imposed population thresholds leading to an increased number and remuneration of local politicians. Building on insights from the urban economics and public finance literatures, we argue that local politicians may strategically adjust fiscal and housing policies to stimulate in-migration when approaching a population threshold where their remuneration increases. Using data from all 589 Belgian municipalities over the period 1977–2016, our results confirm that approaching important population thresholds causes lower local tax rates and the granting of additional building permits (particularly for apartments). These policy changes occur early in the election cycle and, at least for housing policy, are restricted to incumbent mayors themselves expecting to benefit from crossing the population threshold.

1. Introduction

The remuneration of local government officials (i.e. mayors, aldermen and councillors) often increases at specific population thresholds. This is the case in, for instance, Belgium (more details below), Brazil (Ferraz and Finan, 2011a), Germany (Arnold and Freier, 2015), Italy (Gagliarducci and Nannicini, 2013), Romania (Klašnja, 2015), and the US (Hopkins, 2011). Since these thresholds are typically institutionalised in a legal framework set by a higher-level government, they are exogenous to local decision-making. Consequently, they can offer an interesting environment to compare social, political and economic outcomes in jurisdictions just above and below population thresholds determining a change in local political institutions.[1] From a political economics perspective, however, the highly institutionalised and predictable nature of increases in politicians' remuneration at specific population thresholds might also have less favourable implications. The reason is that money matters, also to politicians. Several studies indeed highlight that politicians' remuneration plays a key role in candidate self-selection as well as decision-making once elected (Besley, 2004; Messner and Polborn, 2004; Ferraz and Finan, 2011a; Kotakorpi and Poutvaara, 2011; Gagliarducci and Nannicini, 2013; Cerina and Deidda, 2017). Since local politicians – just like most of us – may be assumed to have a positive marginal utility of money, they might have a personal, economic incentive to locate their municipality on the desired side of a population threshold implying higher remuneration.[2]

Consistent with this argument, Eggers et al. (2018) uncover evidence of local jurisdictions bunching on the better-remunerated side of

☆ We would like to thank the editor (Stuart Rosenthal), two anonymous referees, André Decoster, Jon Fiva, Ronny Freier, Erik Hernæs, Joshua Holm, Sebastian Kessing, Sverre Kittelsen, Andreas Kotsadam, Espen Moen, Wim Moesen, Øyvind Aas Nilsen, Rune Sørensen, Vitezslav Titl, participants at the 2016 European Economic Association Meeting and seminars at the universities of Budapest, Maastricht, Leuven, Lille, and Siegen as well as Frisch Centre and BI Norwegian Business School for insightful comments and discussions. The usual caveat applies. Benny Geys and Nanna Lauritz Schönhage are grateful to FWO Vlaanderen (grant no. G000218N) for financial support.

* Corresponding author.
E-mail addresses: k.dewitte@maastrichtuniversity.nl, kristof.dewitte@kuleuven.be (K. De Witte), Benny.Geys@bi.no (B. Geys).

[1] Examples of such regression discontinuity (RD) designs use data from, for instance, Brazil (Fujiwara, 2011; Brollo et al., 2013), France (Eggers, 2015), Germany (Garmann, 2015), Italy (Bordignon et al., 2016; Mocetti, 2016), Morocco (Pellicer and Wegner, 2013), Sweden (Pettersson-Lidbom, 2012; Hinnerich-Tyrefors and Pettersson-Lidbom, 2014) and the United States (Duggan et al., 2016).

[2] As noted by Imbens and Lemieux (2008) and Urquiola and Verhoogen (2009), the inferences drawn from regression discontinuity (RD) designs using population thresholds may become invalid when population numbers—and thus jurisdictions' self-placement—can be *exactly* manipulated at the threshold. This most likely would require outright manipulation of population figures (Litschig, 2012; Foremny et al., 2017).

https://doi.org/10.1016/j.jue.2018.06.001
Received 17 October 2016; Received in revised form 2 March 2018; Accepted 5 June 2018
0094-1190/© 2018 Elsevier Inc. All rights reserved.

relevant population threshold(s) in France, Italy and Germany. Yet, while Eggers et al. (2018) focus on what empirical researchers can do to avoid biased inferences due to such bunching, they do not study nor discuss the underlying mechanisms and temporal effects. These are at the heart of the present article. Our main contribution lies in assessing *how* and *when* – in the absence of outright manipulation (Litschig, 2012; Foremny et al., 2017)—local governments might influence population figures such as to locate themselves on the desired side of population thresholds. Building on insights from the urban economics and public finance literatures, our empirical focus thereby concerns local housing and fiscal policies. Although such policies are unlikely to *precisely* determine municipalities' position immediately around the threshold, they can have a non-negligible impact on local population developments and help municipalities reach the desired side of the threshold.[3] For instance, the tax and yardstick competition literatures argue that fiscal policy can be used to attract firms and families (Wilson, 1986; Zodrow and Mieszkowski, 1986; Bordignon et al., 2003; Buettner, 2003; Geys and Osterloh, 2013). Likewise, housing policy and spatial planning decisions – such as land use regulation – have been shown to affect house prices and local population developments (Rose, 1989; Quigley et al., 2004; Glaeser and Ward, 2009; Kok et al., 2014). Furthermore, since the relevant population count is often recorded at specific points in time (e.g., an election year), manipulations of such policies are most likely timed with these 'deadlines' in mind.

Using data from all 589 Belgian municipalities over the period 1977–2016, our main findings can be summarized as follows. First, we find limited evidence of bunching around important population thresholds using traditionally employed density tests (McCrary, 2008). Yet, despite the absence of a clear structural break in the density *at* the thresholds, we do observe a strong upward trend in the density *around* the thresholds. This suggests that local administrations may not be able to fine-tune their placement *just right* of relevant thresholds, but can—and ostensibly do—influence their general position on the *right side* of these thresholds. Second, housing and fiscal policy – through their potential to stimulate in-migration (see above)[4] – act as important mechanisms to achieve this aim. More specifically, municipalities close to a population threshold lower their property and income tax rates, and approve more building permits for residential housing. The effect on building permits for apartments is particularly strong, which reflects that apartment buildings allow more rapid short-term population growth relative to one-family houses. Third, we provide some evidence that municipalities close to a population threshold strategically time their housing and fiscal policy decisions. Since January 1 of an election year acts as a 'deadline' for recording the relevant population count since 2001, policy shifts during this post-2001 period (though *not* before 2001 when every year was a 'deadline') appear located early in the six-year election cycle to account for the time-lag in public responses to policy changes. Finally, we observe that strategic shifts in public policies are, at least for housing policy, only implemented when the incumbent mayor expects to benefit from crossing the population threshold by returning to power after the next election—which is when her personal economic incentive to pass a population threshold is strongest.

2. Institutional framework and data

2.1. Population thresholds in Belgium

Belgian municipalities are governed through a parliamentary system with a legislative branch (the local council) and executive branch (the College of Mayor and Aldermen). Municipal elections take place on the second Sunday of October under a fixed electoral cycle of six years, whereby eligible citizens cast their ballot to elect local councillors using a system of Proportional Representation. The composition of the College of Mayor and Aldermen is subsequently determined by the party or parties holding a majority position in the council. These parties decide upon, and formally appoint by majority vote, the mayor and aldermen, which are exclusively selected from their councillors. There are no term limits for councillors, aldermen nor the mayor.

Both the size of the council (ranging between 7 and 55 councillors) and the College (ranging between 2 and 10 aldermen, plus the mayor) are determined by the municipality's number of inhabitants on January 1 of the most recent election year. As illustrated in the first two columns of Table 1, there are 24 (8) population thresholds at which the size of the council (College) increases. Similarly, the remuneration of the mayor is a function of the number of inhabitants.[5] Prior to 2001, changes in population size would translate into mayoral remuneration on an annual basis, but since 2001 wages are determined using the population count on January 1 of the most recent election year (such that mayor wages remain fixed throughout the legislative term).[6] Table 1 indicates the main population thresholds where the remuneration of the mayor and aldermen increases, and how the employed thresholds have developed over time. For the thresholds where the large majority of our observations is located (i.e. 5000 to 20,000 inhabitants), the mayor's change in remuneration generally reflects an increase of approximately 2% in the earlier part of our time period and more extensive increases of 6% to 19% in the later part of our time period. This can be substantively meaningful also in absolute terms (for a more detailed example at the 20,000-inhabitant threshold, see Section 4.3 below).

In Table 1, 17 population thresholds are in boldface. These are thresholds at which *both* the number of local councillors *and* the remuneration of mayor and aldermen increases at least during some years of our sample period. We focus on these thresholds for two reasons. First, the pecuniary incentives of mayor and aldermen at these thresholds are aligned with the incentives of all local political parties, since an increase in the number of councillors improves parties' probability to gain at least some seats under a proportional electoral system (Taagepera and Shugart, 1989; Lijphart, 1999). Hence, the motivation of all local politicians to influence population figures is maximised at this subset of population thresholds. Second, and consistent with the previous point, the results in Eggers et al. (2018: 225) indicate that the largest bunching effects are generally found "at thresholds where both council size and salary change". As such, these thresholds represent a best-case scenario to analyse the mechanisms underlying such bunching.

Municipal population sizes cross one of these 17 population thresholds relatively frequently. In total, we observe 366 threshold crossings in our period of observation, which in the vast majority of cases

[3] Note that this is conceptually similar to re-election motivated politicians providing increased effort and changing public policies prior to elections in order to boost their electoral odds (see, for instance, Kubik and Moran, 2003; Shi and Svensson, 2006; Foremny and Riedel, 2014; Rohlfs et al., 2015).

[4] Clearly, cross-municipal migration is most likely among small municipalities in close proximity to each other. From this perspective, it is important to observe that Belgium is a small country (30528 km^2; compared to roughly 10 million km^2 for the US) where the average municipality has circa 19000 inhabitants and covers about 52.5km^2. On average, you can reach 27 (136) other municipalities within a straight-line 20km (50km) radius of any given municipality. Moreover, official statistics indicate that internal migration within Belgium (from one municipality to another) equals approximately 4-5% of the population on an annual basis over the period 1991–2014.

[5] We could find no evidence in national and regional legislation for the use of population-based thresholds for other local policies. The only exception relates to a signature requirement for organizing local referenda (Arnold and Freier, 2015), which increases at 15000 and 30000 inhabitants. As such referenda are uncommon (only 11 cases in more than 20 years) and always non-binding, this is unlikely to influence our findings.

[6] The wage of the aldermen is linked to that of the mayor, and thus by construction increases at the same population thresholds. Local councillors do not receive a wage in Belgium, but are generally paid a fixed amount for every council meeting they attend. This attendance fee is determined by the local council subject to a simple majority vote (up to a legal maximum), and is therefore not linked to specific population thresholds.

Download English Version:

https://daneshyari.com/en/article/9953058

Download Persian Version:

https://daneshyari.com/article/9953058

Daneshyari.com