



Munich Personal RePEc Archive

Are Elections Debt Brakes? Evidence from French Municipalities

Caseette, Aurélie and Farvaque, Etienne

Université Lille 1, Université du Havre

2013

Online at <https://mpra.ub.uni-muenchen.de/48808/>
MPRA Paper No. 48808, posted 02 Aug 2013 15:21 UTC

Are Elections Debt Brakes? Evidence from French Municipalities

Aurélie Cassette*

Etienne Farvaque†

Abstract

We show that voters are fiscal conservatives, although in the long run only: while the average (over the mandate) level of debt has a negative impact on the probability of reelection, pre-election debt accumulation by incumbents increases their probability of reelection. As the negative impact is larger the higher the debt level, it compensates the short run effect. Elections thus appear as a disciplining device, even if a weak one.

Keywords: Debt, Elections, Municipalities, Political Business Cycle.

JEL Classification: D72, H72, H74

* EQUIPPE-Universités de Lille (France)

† EDEHN, Université du Havre and Skema Business School (France).

1. Introduction

Spending on infrastructures is generally considered as good, even though it generally comes with strings, in the form of interest charges. The expression "visible expenditures" has been coined by Kneebone and McKenzie (2001), to catch the positive impact of some types of spending on politicians' electoral prospects. However, even visible expenditures have costs, which may be hidden to retrospective voters, but which will appear in the long run, in the form of higher taxes. This is even truer if politicians, to boost their probability of reelection, spend lavishly on expenditures that are visible, but not necessarily useful, or which do not trigger further growth and, as a consequence, do not expand the future tax base. The internalization of this effect by politicians should induce a bias towards debt accumulation, even under a golden fiscal rule.

In this paper, we test the impact of the accumulation of debt over an electoral cycle on an incumbent's probability of reelection, separating the impact of the debt accumulated in the first years of the mandate from the last years. Our results show that voters are fiscally conservative, punishing incumbents for the accumulation of debt, although the effect is offset when incumbents increase debt right before the election. However, and interestingly, the higher the debt level, the more voters punish the incumbent, acting as debt brakes, and counteracting the politicians' incentives to accumulate debt. Our results are thus as much an indirect confirmation of the "visible expenditures" effect as of the disciplining effect of elections.

2. Context and related literature

The electoral law designing local elections in France is fixed since 1983. Local elections are usually held every six years, and a threshold of 3,500 inhabitants defines the voting system that applies. Our sample contains all cities with populations above this threshold, in which polling is organized according to published lists. Two rounds are run if no candidate passes the 50% level. The winning list receives half the seats on the town

council; the remaining seats are distributed proportionally across all the lists (including the winning one) that received more than 5% of the votes. If a second round is necessary, all lists with more than 10% of the votes can compete and the winner is the one that attracts the larger number of votes. Under such an electoral law, it is not surprising that the French political landscape is characterized by the existence of several important political parties, and not by a bipartisan scene, and this even truer at the local level. Voters can often choose among candidates from more than ten political parties. The number of candidates will thus be considered in what follows, as it will impact the incumbent's ex ante chance of being reelected (Cassette et al., 2012).

The literature has revealed that targeted spending can influence voters' decisions, in particular at the local level. Brender (2003) shows that capital expenditures favor outgoing mayors in Israel, while Drazen and Eslava (2010) show that investment spending increases before an election, and has a positive impact on the incumbent's reelection prospects in Colombia. Kneebone and McKenzie (2001) show that capital expenditures and investment are more apparent to the voter than operating expenses and that they influence the prospects of reelection. Veiga and Veiga (2007) confirm this result for municipalities in Portugal and Aidt et al. (2011) show that opportunistic behavior prevails in Portugal, and even more so when the win-margin is small. Similarly, Sakurai and Menezes-Filho (2008) analyze the influence of public expenditure on the probability of mayors being reelected in Brazil, showing that mayors who spend more during their terms of office increase the probability of their own reelection or that of a successor from the same political party. Akhmedov and Zhuravskaya (2004) find that, in Russia, pre-electoral manipulation of fiscal policy instruments increases the incumbent's reelection chances.

The literature on French local elections notably includes Jérôme-Speziari and Jérôme (2002), Fauvelle-Aymar and François (2006) or Dubois and Paty (2010) but none of these have looked at the impact of debt and pre-electoral debt manipulation on the incumbent's electoral success, and they generally have a more restricted geographical sample than the one we use here. Cassette et al. (2012) use a similar sample but analyze the political

dynamics between the two-rounds of the electoral process, but they do not focus on the debt dynamics and their influence on electoral outcomes.

3. Results

Our dependent variable is the probability of reelection of the incumbent mayor's party[‡] at the 2008 municipal election. This focuses on partisan effects because we want to explain the party result, controlling for the mayor's idiosyncratic political capital (as mayors in France can also be minister, or deputy, or senator in parallel, we control for this cumulating of official positions). Due to data availability of our main variable of interest, i.e. municipal debt, we have to restrict our sample to the 2008 election. Table 1 contains the statistics that describe our sample.

--- Insert Table 1 about here ---

We provide several variables to account for debt level and evolution over the mandate. All of them are expressed in terms of the fiscal potential of the municipality (a measure of taxable wealth). First, consistently with the literature on economic voting, we introduce one year lagged debt, which also allows remaining coherent with the timing of the elections, which took place in March. At that time, voters know the expected budget of the preceding year, but also the effective value of spending, revenues, and debt. Second, to check for different effects according to the level of debt, we put dummy variables to identify municipalities where debt is higher than 2 and those where debt falls between 1 and 2. Third, we split the debt variable according to its level, separating it along the value of the ratio debt / fiscal potential (inferior to 1, between 1 and 2, superior to 2). Finally, we consider debt over the whole mandate and adopt the average debt over the period 2001-2006 and the deviation before election (2006-2007).

[‡] If the incumbent mayor does not stand for reelection, we treat the candidate representing the same party as the incumbent.

Our results show that the level of debt negatively impacts the probability of reelection, tending to imply that voters are fiscally conservative. However, as revealed by regression (2), this is true for the debt accumulated over the beginning of the mandate, but not for the accumulation in the last two years before the election. Hence, if voters are conservative, they can be wooed in the short term by new spending.

This short term effect is however weaker when debt is high, as shown by estimates in (3) and (4): The higher the debt, the lower the probability of reelection, with a marginal impact that can be quite large, reaching almost 10% on average in our estimates. It thus appears that elections can act as a debt brake, disciplining politicians who could have all the incentives to accumulate debt to finance "visible expenditures".

The results relative to our control variables are conform to expectations. If the mayor is also a minister (or a deputy, or a senator), this boosts its reelection prospects, as well as if she has been elected at the first round of the election at the preceding election. If she belongs to the leading coalition in Parliament, the probability is reduced (but this is due to a strong mid-term effect of these elections in the French context). The number of consecutive mandates has a non-linear impact, first increasing the probability of reelection, until an electoral fatigue effect takes place, (slightly) reducing the incumbency premium.

Columns (5) to (12) show the results for regressions run on sub-samples separated according to whether the candidate is the same person (estimates (9) to (12)) or a newcomer presented by the same party (estimates (5) to (8)). The results are qualitatively identical, as well as other robustness checks (not shown for space reasons) on the probability of being reelected in the first round of the election.

--- Insert Table 2 about here ---

4. Conclusion

Based on a large sample of French cities, our results show that voters punish incumbents for the accumulation of debt, and that the effect is larger the higher the level of debt. However, short-term effects (i.e. increases in debt right before the election) act in the other direction. We interpret the whole set of results as revealing that elections are debt brakes, even if a blunt ones.

References

- Aidt, T. S., Veiga, L. G., Veiga, F. J., 2011, "Election results and opportunistic policies: a new test of the rational political business cycle model", *Public Choice*, vol. 148, 21–44.
- Akhmedov, A., Zhuravskaya, E., 2004, "Opportunistic political cycles: test in a young democracy setting", *The Quarterly Journal of Economics*, vol. 119, 1301–1338.
- Cassette A., Farvaque E., Héricourt J., 2012, "Two-round elections, one-round determinants? Evidence from the French municipal elections", *Public Choice* forthcoming, DOI 10.1007/s11127-012-9913-4
- Brender A., 2003, "The effect of fiscal performance on local government election results in Israel: 1989-1998", *Journal of Public Economics*, vol. 87, 2187-2205.
- Drazen A., Eslava M., 2010, "Electoral manipulation via voter-friendly spending: Theory and evidence", *Journal of Development Economics*, vol. 92, 39-52.
- Dubois E., Paty S., 2010, "Yardstick Competition: Which Neighbours Matter?", *Annals of Regional Science*, 44, 3, 433-452
- Fauvelle-Aymar C., François A., 2006, "The impact of closeness on turnout: An empirical relation based on a study of a two-round ballot", *Public Choice*, vol. 127, 469-491.
- Jérôme-Speziari V., Jérôme B., 2002, "Les municipales de Mars 2001 : vote récompense ou vote sanction ?", *Revue Française de Science Politique*, vol. 52, 251-272.
- Kneebone R., McKenzie K., 2001, "Electoral and Partisan Cycles in Fiscal Policy: An Examination of Canadian Provinces," *International Tax and Public Finance*, vol. 8, 753-774.
- Sakurai S. N., Menezes-Filho N. A., 2008, "Fiscal policy and reelection in Brazilian municipalities", *Public Choice*, vol. 137, 301-314.
- Veiga, L. G., Veiga, F. J., 2007, "Does opportunism pay off?", *Economics Letters*, vol. 96, 177-182.

Table 1. Descriptive statistics

	Mean	Std Dev.	Min	Max
<i>DEBT (t-1)</i>	1,43	1,02	0	12,01
<i>DEBT mandate average</i>	1,54	1	0	12,48
<i>DEBT change before election</i>	-0,0015	0,27	-2,64	5,01
<i>Dummy: DEBT > 1 and < 2</i>	0,41	0,49	0	1
<i>Dummy: DEBT > 2</i>	0,22	0,41	0	1
<i>DEBT when DEBT<1</i>	0.21	0.31	0	0.99
<i>DEBT when DEBT >1 and <2</i>	0.59	0.73	0	1.99
<i>DEBT when DEBT >2</i>	0.63	1.28	0	12.01
<i>Number of consecutive mandates</i>	1,51	1,23	0	7
<i>Elected in the first round of the preceding election</i>	0,68	0,47	0	1
<i>Number of candidates</i>	2,9	1,29	1	11
<i>Dummy: Same party as leading coalition in Parliament</i>	0,53	0,49	0	1
<i>Mayor is Minister</i>	0,003	0,05	0	1
<i>Mayor is Deputy</i>	0,08	0,27	0	1
<i>Mayor is Senator</i>	0,02	0,14	0	1
<i>Share of votes at the Presidential election</i>	54,17	8,32	30,23	86,8

Source: French Ministry of Interior – DGCL.

Table 2. Estimates – Probit analysis - Incumbent party's probability of reelection

VARIABLES	1	2	3	4	DURATION=0				DURATION>=1				
<i>DEBT (t-1)</i>	-0.021** (0.008)				-0.100*** (0.034)				-0.011 (0.008)				
<i>DEBT_Term mean (2001-2006)</i>		-0.021** (0.009)				-0.086*** (0.032)				-0.011 (0.008)			
<i>Change in debt before election</i>		0.077** (0.033)				-0.071 (0.110)				0.089** (0.035)			
<i>Dummy DEBT>1 and <2</i>			-0.044** (0.019)				-0.108* (0.063)				-0.031 (0.019)		
<i>Dummy DEBT >2</i>			-0.061** (0.025)				-0.240*** (0.077)				-0.029 (0.024)		
<i>DEBT when DEBT<1</i>				-0.068 (0.045)				-0.035 (0.147)					-0.081* (0.044)
<i>DEBT when DEBT >1</i>				-0.050** (0.020)				-0.080 (0.068)					-0.048** (0.019)
<i>DEBT when DEBT >2</i>				-0.027*** (0.010)				-0.090** (0.040)					-0.020** (0.010)
<i>MINISTER</i>	0.148** (0.071)	0.150** (0.069)	0.149** (0.070)	0.153** (0.064)					0.104 (0.092)	0.107 (0.089)	0.105 (0.091)	0.114 (0.082)	
<i>DEPUTY</i>	0.160*** (0.019)	0.159*** (0.019)	0.162*** (0.018)	0.161*** (0.018)	0.243** (0.107)	0.250** (0.105)	0.241** (0.104)	0.242** (0.106)	0.145*** (0.017)	0.143*** (0.017)	0.146*** (0.017)	0.145*** (0.017)	
<i>SENATOR</i>	0.106** (0.042)	0.103** (0.044)	0.110*** (0.041)	0.105** (0.043)					0.088** (0.040)	0.084** (0.041)	0.091** (0.039)	0.086** (0.040)	
<i>From the leading coalition in Parliament</i>	-0.139*** (0.018)	-0.142*** (0.018)	-0.139*** (0.018)	-0.140*** (0.018)	-0.289*** (0.054)	-0.297*** (0.054)	-0.290*** (0.054)	-0.289*** (0.054)	-0.111*** (0.019)	-0.113*** (0.019)	-0.110*** (0.019)	-0.111*** (0.019)	
<i>Number of candidates</i>	-0.052*** (0.007)	-0.051*** (0.007)	-0.053*** (0.007)	-0.052*** (0.007)	-0.061** (0.025)	-0.063** (0.025)	-0.061** (0.024)	-0.061** (0.025)	-0.048*** (0.007)	-0.046*** (0.007)	-0.048*** (0.007)	-0.048*** (0.007)	
<i>Share of votes at the presidential election</i>	0.172*** (0.026)	0.173*** (0.026)	0.170*** (0.026)	0.171*** (0.027)	0.462*** (0.088)	0.461*** (0.088)	0.465*** (0.089)	0.463*** (0.089)	0.124*** (0.027)	0.124*** (0.027)	0.122*** (0.027)	0.122*** (0.027)	
<i>Number of consecutive mandates</i>	0.119*** (0.019)	0.116*** (0.019)	0.119*** (0.019)	0.119*** (0.019)					0.006 (0.031)	-0.003 (0.031)	0.008 (0.031)	0.005 (0.031)	
<i>(Number of consecutive mandates)²</i>	-0.018*** (0.004)	-0.017*** (0.004)	-0.018*** (0.004)	-0.018*** (0.004)					0.000 (0.006)	0.002 (0.006)	-0.000 (0.006)	0.000 (0.006)	
<i>Elected in the first round of the preceding election</i>	0.070*** (0.020)	0.072*** (0.021)	0.071*** (0.021)	0.069*** (0.020)	0.106* (0.063)	0.115* (0.063)	0.110* (0.062)	0.107* (0.063)	0.080*** (0.022)	0.081*** (0.022)	0.080*** (0.022)	0.079*** (0.022)	
Observations	2,333	2,329	2,334	2,333	364	363	364	364	1,964	1,961	1,965	1,964	

* denotes significance at 10%; ** at 5%; *** at 1%. Marginal effects computed at means. Robust errors into parentheses. Froot (1989) correction for intermunicipal-level cluster correlation.