Chapter 2
Financial Indicators as Determinants of Mayoral Elections:
Evidence From Italian Local Governments

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ABSTRACT

The chapter seeks to contribute to the literature on determinants of local government election by adopting a different perspective focused on the effects of financial indicators on the elections of mayors. Using the agency and the public choice theory, this study implements a model where specific financial indicators—whose selection takes into account the increased autonomy and responsibility of local politicians—have been included to document their effect on mayoral re-election. Focusing on the Italian context, the chapter examines a sample of 129 municipalities during the period 2008-2014, where several elections were held. By using different estimators, findings indicate that the re-election of mayors is affected by the level of indebtedness and the current equilibrium. In addition, current spending is better valued by citizens/voters than capital expenditure, which increases the probability of being re-elected.

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INTRODUCTION

The electoral results are a representation of the opinion of the citizens, who can gratify or penalize the incumbents in polls. Indeed, incumbency is one the most important determinants of the election success, especially at the local level, determining the re-election of local officials (Krebs, 1998; Kushner, Siegel, & Stanwick, 1997). The period during which politicians hold an office is open to the public scrutiny. Rational citizens will vote regarding the government performance. However, a government has information about its competence more quickly than voters, because of the temporary information asymmetries between the two parts (Rogoff & Sibert, 1988). Therefore, voters have to infer government's competence by observing the outcomes of public policies.

Such outcomes are generally represented in financial reports. Concretely, the economic and financial information can affect the voting behaviour (Brusca & Montesinos, 2006), because that information helps citizens know where and how much resources are being allocated and being used, favouring the understanding of decisions and policies implemented by the government.

Prior research has investigated the impact of economic variables on electoral outcomes as well as re-election chances (Key, 1966; Kramer, 1971, 1978). Empirical evidence highlights that citizens are concerned about the local government (LG) economic performance, and politicians are accountable to the voters for past and current economic outcomes (Nannestad & Paldman, 1994). Other studies have highlighted that politicians try to manipulate fiscal policy, with the primary objective being to increase the likelihood of a government being re-elected (Shi & Svensson, 2003).

These effects are particularly relevant at the LG level, due to higher comparability of institutional settings. Local politicians are more accountable to citizens, and LG outputs have higher visibility. Therefore, citizens can monitor more easily the responses of local politicians to their needs.

In this strand of research, several studies have focused on municipal election, documenting the effects played by financial information and socio-demographic variables on electoral outcomes (Ingram & Copeland, 1981; Feroz & Wilson, 1994; Brusca & Montesinos, 2006; Fernandes, Gomes, & Silva, 2012). Other studies, have investigated the potential influences played by political and economic variables on electoral outcomes (Veiga & Veiga, 2007; Cassette, Farvaque & Héricourt, 2009; Castro & Martins, 2011; Martins & Veiga, 2013), revealing that an increase in investment expenditures during the election years, and changes in the composition of spending, aiming at favouring more visible items, positively affect the vote share of politicians.