



Blaming Your Predecessor: Government Turnover and External Financial Assistance

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Introduction – Fiscal Problems and External Support

- **Governments in trouble often request support to 3rd parties.**
 - ▶ National Governments – IMF/IFIs.
 - ▶ Local governments – national/regional authorities.
- With support (ideally): **gradual adjustment to fiscal stability.**
- Financial assistance requires **public** agreement.

Government Decisions

- Which are the political/electoral incentives of the government?
- **Are they different for reelected or new governments in power?**

Motivation – European Financial Crisis

National Government

THE NATIONAL HERALD

Tsipras Blames Previous Governments for Bailouts, Austerity

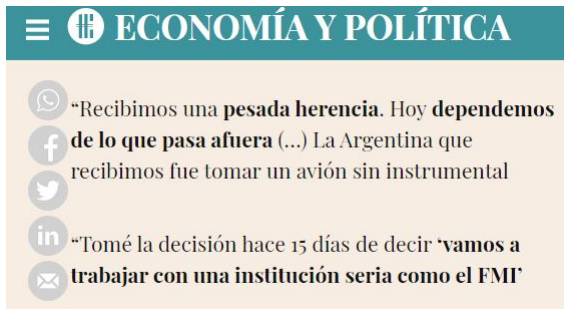
August 22, 2018

TNH Staff



Motivation – Argentina's IMF Loan

National Government



We received a heavy burden (...) The Argentina we received was like an airplane without instruments. (...) we are going to work with a serious institution like the IMF.

Mauricio Macri (2018)

This Paper

- **Q: Are newly elected governments more likely to request financial support to institutional third parties?**
- **Hypothesis:** Getting assistance allows a smoother adjustment, but conveys a bad signal on the performance of the last administration.

Empirical Analyses (today)

- 1 **Country-level** descriptive analysis .
 - ▶ IMF Financing Programs.
 - ▶ World Country Panel Estimates (country FE, controls).
- 2 **Causal estimates** using the Spain's *Plan de Pago a Proveedores*.
 - ▶ Municipal government bailouts by national government.
 - ▶ Close election RD → **reliable causal estimates**.

Political Economy of Debt and Stabilization programs

- Alesina & Drazen 1991, Alesina, Ardagna & Trebbi 2006, Battaglini 2011, Pasarelli & Tabellini 2017, Alesina & Passalacqua 2016.

The determinants of IMF financial arrangements

- Knight & Santaella 1997, Barro & Lee 2005, Conway 2007, Presbitero & Zazzaro 2012.

Economics of Government Turnover

- Brender & Drazen 2008, Nian, Qian & Wen 2018, Akhtari, Moreira & Trucco 2021, Marx, Pons & Rollet 2022.

Our Contribution

- First paper to study how tenure in office impacts the decision to request external financial support.

Part I: Cross Country Analysis

International Analysis: Data

- Political system, electoral terms, and party in office for 180 countries during the period 1975-2020 (DPI2020).
- Universe of arrangements with the IMF from 1993 to 2021 (MONA). It includes interventions in 122 countries.
- GDP growth in US\$ for 195 countries during the period 1980-2021 .

Samples

- **Country Panel 1993-2020** (democracies only).
- Banking Crises and IMF associated arrangements 1980-2015 (62 crises in total) (Laeven and Valencia, 2020).

Party Changes and IMF Arrangements

Panel Estimates: Results

$$IMF_{it} = \alpha_i + \delta_t + \beta \mathbb{1}\{PartyChange\}_{it} + \gamma'_1 X_{it} + u_{it}$$

	(1) IMF Program	(2) IMF Program	(3) IMF Program
Party Change	0.056*** (0.010)	0.037*** (0.009)	0.037*** (0.009)
GDP			-0.001** (0.000)
Party: Right Orientation			-0.012 (0.022)
Party: Left Orientation			0.011 (0.018)
Observations	3,817	3,817	3,785
Country & Year FE	NO	YES	YES

- Newcomer in office positively correlated with IMF funding plan.
- Controlling for GDP growth aims to mitigate endogeneity.
- Results remain significant for the sub-sample of countries going through a banking crisis (see results [here](#)).

Part II: Estimates from *Suppliers Payment Program*

Institutional Setting I

Economic Background:

- Between 2009 and 2011 local governments in Spain accumulate **high levels of arrears**.
- **2012**: National government imposes (mandatory) bailout of local governments amounting for 3% of National GDP.
- Pays arrears of **3.845 municipalities** (our sample).

Electoral Background:

- Municipalities work as a small representative democracy.
- 4-year terms, no term limits.
- Election in 2011, **before the bailout**.

For individual municipalities, **timing is exogenous**.

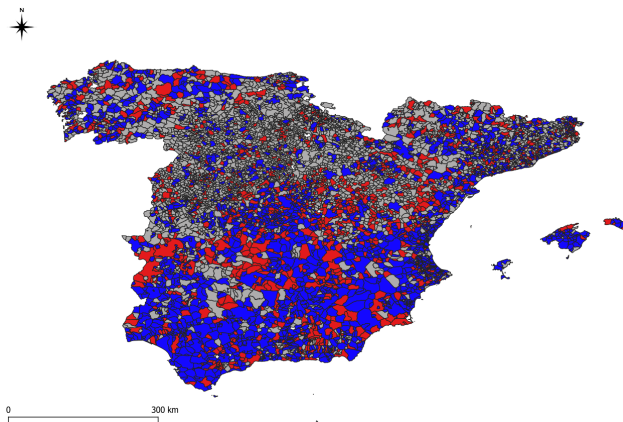
Institutional Setting II – *Suppliers Payment Program*

- Suppliers could ask the national government (through the ICO) to pay the bills that municipalities own them.
- This converts arrears in financial debt with the national government.

Repayment Options

- 2 Options:
 - ① **Present an adjustment plan:** 10 year debt (2 years grace)
 - ② **Don't present plan:** 5 year debt (direct enforcement).
- Subsidized interest rate: **Presenting a plan has higher NPV.**
- Lax conditions (93% plans approved), **no conditionality** on policies.
- **Interesting:** 37% of eligible municipalities pick option 2.

Municipalities & Adjustment Plans



- Grey: No Arrears // Blue: Plan // Red: No Plan
- **Our question:** did new/re-elected governments choose red or blue?

Empirical Strategy: Implementation

- **Close Election RD** (Lee 2001) using Calonico et al. (2017).
- **Challenger** – most voted party in 2011 (right before the plan) different from the party of the incumbent mayor
- **Running Variable** $ChVoteMargin_i$
- First-Stage:

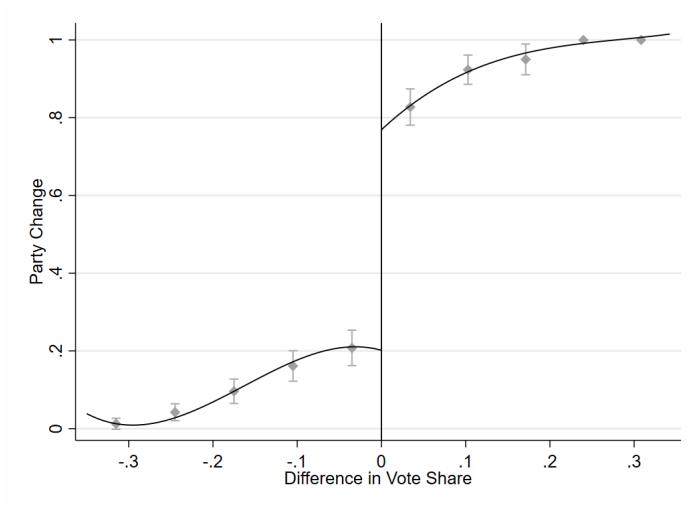
$$PartyChange_i = \pi_0 + \pi_1 \mathbf{1}(ChVoteMargin_i > 0) + f(ChVoteMargin_i) + \gamma_1' X_i + u_i$$

- Second-Stage:

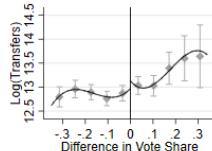
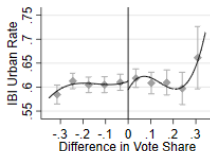
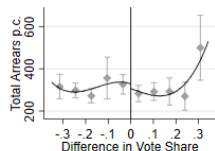
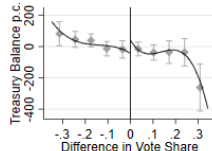
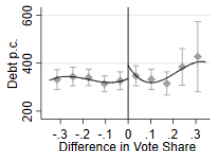
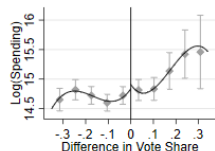
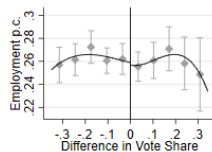
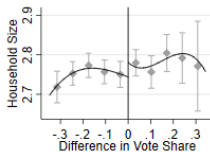
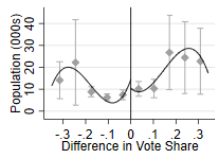
$$Plan_i = \alpha + \beta \widehat{PartyChange_i} + f(ChVoteMargin_i) + \gamma_2' X_{it} + \epsilon_i$$

- Under RDD assumptions: variation akin to random assignment.

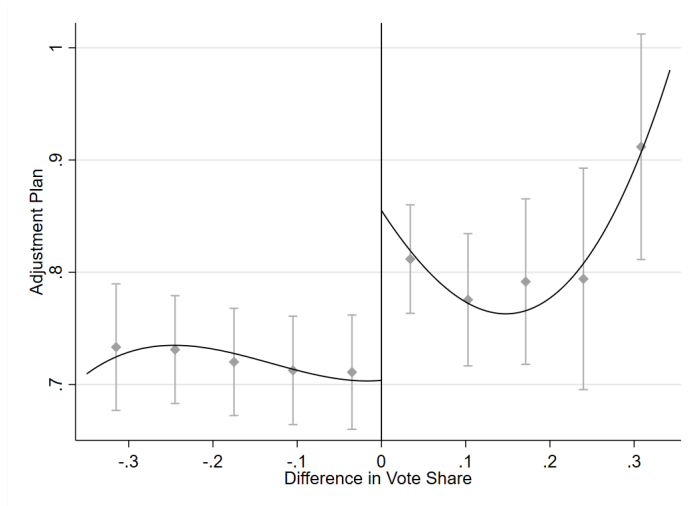
First-Stage



RDD Validation – Balancing in Municipal Characteristics



Reduced-Form



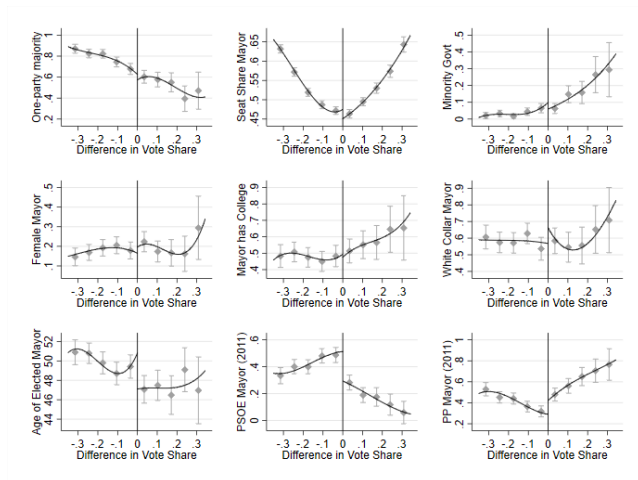
Leadership Change & Adjustment Plans

	(1)	(2)	(3)
	Adjustment Plan	Adjustment Plan	Adjustment Plan
Party Change	0.311*** (0.101)	0.284*** (0.103)	0.272*** (0.106)
Observations	1097	1019	1076
Bandwidth	.138	.13	.148
First-stage Fstat	112	97	108
Controls	No	Municipality	Prev Govmnt
2007 Incumbent	All	All	All

- **Challengers are around 30pp more likely to present an adjustment plan than continuing incumbents.**
- Our **interpretation**: Newly elected governments are better able to openly request financial assistance.

Alternative Mechanism

New Government Characteristics



- Attributes of gov. in power in 2012.

Alternative Mechanisms

Heterogeneity by Party

	(1)	(2)	(3)	(4)
Panel A	Adjustment Plan	Adjustment Plan	Adjustment Plan	Adjustment Plan
Party Change	0.311*** (0.101)	0.264*** (0.0837)	0.266** (0.107)	0.414** (0.204)
Observations	1097	1067	535	248
Bandwidth	.138	.175	.14	.152
Specification	Baseline	Inc. Control	PSOE Inc.	PP Inc.
	(1)	(2)	(3)	(4)
Panel B	Adjustment Plan	Adjustment Plan	Adjustment Plan	Adjustment Plan
Party Change	0.279** (0.109)	0.299** (0.124)	0.260* (0.157)	0.350 (0.233)
Observations	568	420	449	230
Bandwidth	.212	.132	.189	.128
Sample 2012	PSOE Challengers	PP Challengers	PSOE Mayors	PP Mayors

Mechanisms

We gather evidence about our proposed mechanism:

- ① We instrument PP and PSOE victory in an RD and split the sample in various ways, finding no effect of party on presenting a plan.
- ② Heterogeneity analysis: The higher is the level of arrears (worse signal), the higher is the effect.
- ③ We survey a sub-sample of 123 Spanish Mayors:
 - ▶ They acknowledge the restrictions imposed by electoral incentives.
 - ▶ They frequently blame their predecessors.
 - ▶ They coincide that a newcomer can do the adjustment more easily.
- ④ There is a negative association between presenting an adjustment plan and getting re-elected in 2015 for incumbents, but not for newcomers.
- ⑤ There is evidence in the media about our proposed mechanism.

Conclusions

- Reelected & newly elected governments have **different propensities to request external assistance** to navigate financial problems.
- **Evidence:**
 - ▶ Causal evidence at local level.
 - ▶ Effects are consistent with patterns at the international level.
- **Implications:**
 - ▶ Different types of adjustment (front-loaded vs back-loaded).
 - ▶ Time and pace of adjustment matters (Blanchard & Leigh, 2013).
- **Interpretation:**
 - ▶ Incumbents are reluctant to sacrifice information rents in exchange for a laxer budget constraint.
 - ▶ Model + Suggestive Empirical Evidence.

Thank you for your attention!!

Alternative Mechanisms

Party RD

$$PPG_{it} = \pi_0 + \pi_1 \mathbf{1}(PPVoteMargin_{it} > 0) + f(PPVoteMargin_{it}) + \gamma'_1 X_{it} + u_{it}$$

$$Plan_{it} = \alpha + \beta \hat{PPG}_{it} + f(PPVoteMargin_{it}) + \gamma'_2 X_{it} + \epsilon_{it}$$

	(1) Adjustment Plan	(2) Adjustment Plan	(3) Adjustment Plan	(4) Adjustment Plan
Party Change	-0.00807 (0.0989)	-0.0453 (0.0989)	0.0346 (0.0896)	0.0333 (0.0823)
Observations	1215	977	1575	1333
Controls	No	Yes	No	Yes
Instrumented Var.	PP Mayor	PP Mayor	PSOE Mayor	PSOE Mayor
p-value	0.935	0.647	0.700	0.686
Bandwidth	0.190	0.189	0.227	0.237

- Neither PP nor PSOE winning the election has an impact on the probability of presenting an adjustment plan.

Leadership Change & Adjustment Plans

Heterogeneity - Amount of Arrears

	(1) Adjustment Plan	(2) Adjustment Plan	(3) Adjustment Plan
Party Change	0.0420 (0.274)	0.367*** (0.139)	0.502*** (0.154)
Observations	333	396	320
Bandwidth	.128	.152	.117
Plan Proportion	.494	.86	.853
Amount of Arrears	Bottom Tercile	Middle Tercile	Upper Tercile

- The effect is stronger for municipalities with large number of arrears.

Leadership Change & Adjustment Plans

Survey - Preliminary Results

Survey on a sub-sample of 123 Spanish Mayors:

- Although only 3% of mayors declare that, if they received rigorous evidence that a policy is not working, they would *not* change it ...
... a few questions later, over 20% of them strongly agree with the statement that *sometimes you know that you should correct a previous policy choice, but you cannot do it because the opposition would use it against you.*
- Blaming your predecessor is widespread. Over 38% of mayors point *the problems that one inherits from the previous administration* as the main obstacle they faced when they arrived to the government.
- 3x more mayors think that doing a fiscal adjustment is easier for a newcomer than for a continuing incumbent.

Leadership Change & Adjustment Plans

Impact on Re-Election

	(1) Re-Elected	(2) Re-Elected
Incumbent 2010	0.150*** (0.0285)	0.148*** (0.0288)
Adjustment Plan	0.00259 (0.0303)	0.0136 (0.0306)
Incumbent 2010#Plan	-0.0603* (0.0355)	-0.0673* (0.0358)
Constant	0.606*** (0.0248)	0.650*** (0.0262)
Observations	3,546	3,514
Controls	NO	YES

- Presenting a plan is negatively correlated with the probability of re-election in 2015 for continuing incumbents, but not for newcomers.

	Mean	Std. dev
Panel A: All municipalities		
Population	5814.50	47427.97
Outstanding Debt pc	251.33	416.43
Total Spending pc	1369.38	1078.49
Total Revenues pc	1374.78	1343.14
Arrears pc	167.03	407.81
Party PP	0.46	0.50
Party PSOE	0.28	0.45
Number Obs	8114	
Panel B: Municipalities No Adj. Plan		
Population	4472.17	24311.26
Outstanding Debt pc	264.59	411.01
Total Spending pc	1448.27	1132.00
Total Revenues pc	1415.76	1134.21
Arrears pc	332.95	692.06
Party PP	0.44	0.50
Party PSOE	0.36	0.48
Number Obs	1337	
Panel C: Municipalities Adjustment Plan		
Population	11838.51	78259.99
Outstanding Debt pc	363.07	343.73
Total Spending pc	1143.09	646.78
Total Revenues pc	1120.27	610.58
Arrears pc	364.14	414.59
Party PP	0.46	0.50
Party PSOE	0.32	0.47
Number Obs	2283	

Anecdotal Evidence: Castellón

Local Government

≡ MENÚ



LAS PROVINCIAS

Noticias de Castellón

Playas de Castellón

Empresas de Castellón

El Ayuntamiento culpa al PP de la necesidad de un plan de ajuste

Responsabiliza al anterior equipo de gobierno del PP de las dificultades para pagar a los proveedores

REDACCIÓN
CASTELLÓN.

Miércoles, 4 abril 2012, 02:23



The local government blames PP for the need of an adjustment plan

Advantages of the SPP

Q: How does the propensity to request financial support vary between re-elected and newly elected governments?

Close Election Regression-Discontinuity

- Close-election design “randomizes” continuing vs. new party in power.

Advantages of Spanish Suppliers Payment Program

- Large sample of municipalities with common electoral system.
- The timing of the program and of local elections is exogenous.
- Presenting an adjustment program is arguably better for the municipality than presenting no plan (Blanchard & Leigh 2013).
- Adjustment plans have no conditionality with regards to policies.

T-tests

	Mean differences and T-test		
	Challenger	Incumbent	Difference
Population	12569.563	10974.101	1595.462
Outstanding Debt pc	346.910	336.455	10.455
Total Spending pc	1010.466	1125.667	-115.201***
Total Revenues pc	991.009	1108.272	-117.263***
Arrears pc	330.379	304.230	26.149
Party PP	0.549	0.429	0.121***
Party PSOE	0.184	0.421	-0.237***
Adjustment Plan	0.746	0.668	0.078***

Frontloaded vs Backloaded Adjustment I

Understanding the Institutional Setting

- **Important:** how did choosing Plan/No Plan affect municipalities?
- What we do: Descriptive analysis using panel data

Repayment Options

- 2 Options:
 - 1 Present (& agree on) an adjustment plan: Smooth adjustment
 - 2 **No Plan:** Abrupt Adjustment.

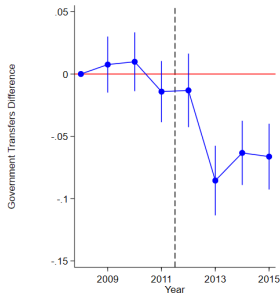
$$Y_{it} = \alpha_i + \delta_t + \sum_{k=2008}^{2015} \omega_k \mathbb{1}\{t = k\} \times \mathbb{1}\{NoPlan\} + \epsilon_{it}$$

- Outcomes (Y_{it}) – Transfer revenues, spending, taxation.

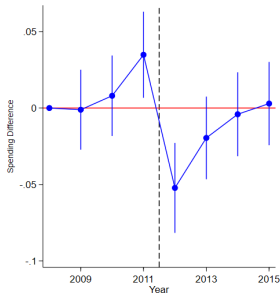
Frontloaded vs Backloaded Adjustment II

Understanding the Institutional Setting

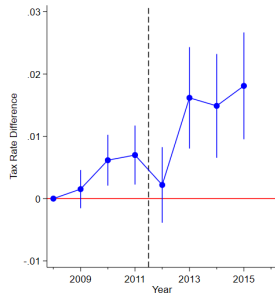
$$Y_{it} = \alpha_i + \delta_t + \sum_{k=2008}^{2015} \omega_k \mathbb{1}\{t = k\} \times \mathbb{1}\{NoPlan\} + \epsilon_{it}$$



(a) Gov. Transfers

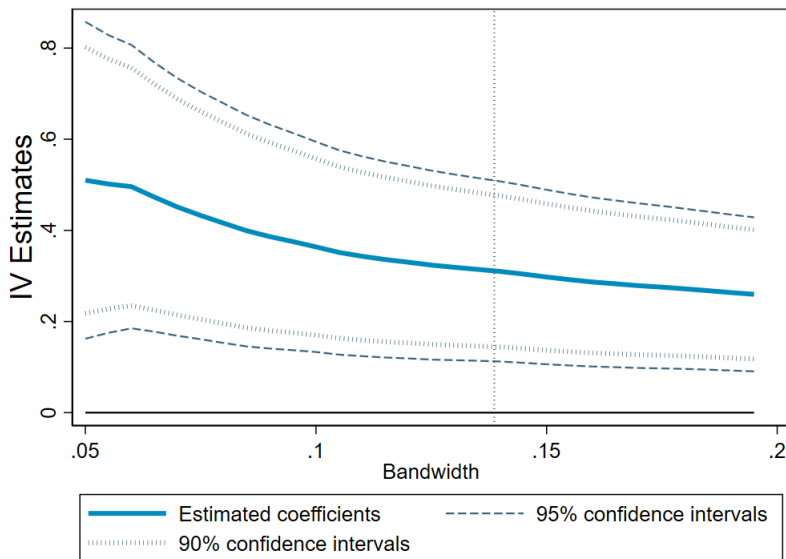


(b) Spending



(c) Property Tax Rate

Bandwidth Robustness



Data: Municipal Analysis

- We combine data at the municipal level from different sources:
 - ▶ Municipal data on adjustment plans (TC) & arrears (ICO).
 - ▶ Data on yearly outstanding debt and municipal budgets 2008-2015 (Min. Hacienda y Administraciones Públicas)
 - ▶ Local Election Results 2007-2015 (Min. Interior).
 - ▶ Population by year and age (Padrón Continuo).
 - ▶ Politician demographics (Min. Administraciones Territoriales).

Samples

- **Cross-section:** 3,845 towns with unpaid commercial debt (2012).
- **Panel:** Budget and other economic info (2008-2015).

Party Changes and IMF Arrangements

Restricted Sample: Results

$$IMF_{it} = \alpha + \beta \mathbb{1}\{PartyChange\}_{it} + \gamma'_1 X_{it} + u_{it}$$

VARIABLES	(1) IMF Program	(2) IMF Program	(3) IMF Program
Party Change	0.285** (0.133)	0.271** (0.133)	0.249* (0.133)
GDP		-0.582 (0.415)	-0.521 (0.417)
Political Party: Right Orientation			-0.075 (0.173)
Political Party: Left Orientation			-0.134 (0.134)
Observations	62	60	60

- Sample of banking crises (Laeven and Valencia, 2020).