

The effects of enfranchising voters on local public expenditure: Evidence from the 1986 electoral reform in Colombia*

Francisco Eslava Sáenz[†]

Abstract

This paper examines the effect of selecting candidates over public expenditure after the 1986 electoral reform that took place in Colombia. Exploiting the victory of the candidate of a non-traditional political party as a source of variation, I use a differences-in-differences approach and find that municipalities that elected a mayor from one of this movements experienced an increase in public expenditure 8% higher than those places that elected either a Conservative or a Liberal candidate. Subsequently, I breakdown the treatment group between municipalities where a Left-Wing party won and those where another kind of third party did to identify the actual effect of bringing public policy closer to voters preferences. I find that these particular places experienced an additional increase in public expenditure of 10%. Finally, I test and discard alternative hypothesis, in order to conclude that my results are effectively capturing a selection effect.

Key words: Elections, Democratization, Public Expenditure, Selection, Incentives, Political Parties, Left-Wing Parties.

*Universidad de Los Andes (f.eslava309@uniandes.edu.co). Thesis for the Masters in Economics. I wish to thank my advisor, Leopoldo Fergusson, for his understanding, his constant support and the invaluable ideas shared. I would also like to thank Marcela Eslava for providing the necessary data. Finally, I would like to thank my parents and siblings for their unconditional support during this process.

[†]The ideas and views presented in this article, as well as all mistakes, are my own and do not reflect anyone else's views.

1 Introduction

“This changes in political institutions were, in many ways, the direct cause of the changes in economic institutions...”

- Acemoglu, Johnson and Robinson, 2005. -

Popular elections are the mechanism through which societies express their preferences and exert an assessment over the performance of incumbent functionaries. In 1986, Colombian president Belisario Betancur promoted one of the most important reforms to the electoral system conducted in the 20th century, which introduced democratic elections for the mayor’s office in every municipality. This shift in the political institutions meant that, for the first time in Colombian history, voters could now choose their preferred type of policy maker, while political parties had to compete for their support in order to attain power in each municipality. Even further, this reform broadened the local political spectrum as minor movements now faced real chances of rising to power.

In this paper I examine the role that non-traditional¹ political parties played in modifying public expenditure after the electoral reform. I do so by contrasting public spending after the elections took place in places where the candidate of either the *Partido Liberal Colombiano* or the *Partido Conservador de Colombia* (Colombia’s Liberal and Conservative parties respectively) won the 1988 mayor elections with those cities that elected the representative of a *Third Party*. Using this differences-in-differences approach, I find that public expenditure augmented an additional 8% more in the latter (Treated) group of municipalities (compared to the former - Control one), which represents an additional two-thirds standard deviation increase in this item. The result holds, without significantly varying in magnitude or statistical relevance, even after controlling for geographical, geo-political or socio-economic municipal characteristics such as population, income per-capita and municipal state fixed effects (among others).² Therefore, I am able to conclude that the effect of enfranchising voters over total

¹A more detailed explanation of the categorization of municipalities is presented in section 4.2.

²All control variables included are interacted with the post-reform dummy, in order to discard any differential effect of these characteristics over public expenditure once mayor elections were introduced.

public expenditure was 8 % larger in those places where a non-traditional candidate won the electoral race compared with those where traditional parties did win.

I argue that the reason behind this differential effect of democratization over public expenditure between groups is that, in those municipalities where a third party won the elections, voters were able to elect a candidate that closely represented their preferences for the first time. Given the political arrangement that prevailed in Colombia up until 1988, minor parties had been excluded from local executive power and, therefore, voters had not have had the chance to experience the policy levels these kind of parties preferred. In order to identify more precisely this candidate *Selection Effect*, I break-down my treatment group between the left and non-left wing third parties, and contrast the results in public expenditure between all three groups (the latter two and the control one) after the reform. This new group definition allows me to estimate precisely the effect of implementing a level of public policy that otherwise could not have been obtained (given that left-wing parties were the most excluded segment of Colombia's political spectrum) but that was the preferred one by a segment of the population. I find that the victory of a left-wing candidate represented an increase 15% larger in total public expenditure when compared to those places that elected the candidate of either a traditional party or that of another kind of third party (non-left). This is what I interpret as the selection effect, and what constitutes the biggest contribution of this investigation to economic literature.

Finally, in order to discard alternative hypothesis regarding the interpretation given to the effects cited before, I conduct a series of robustness checks. In first place, I control for the percentage of votes received by the elected candidate in 1988 elections in order to reject the idea that the previous results are being driven by the strategic use of public expenditure. I find that public expenditure rose more in the municipalities where the elected third-party mayor won by a greater margin; a 1% increase in the share of votes received with respect to the mean translated into a rise three-times larger in public expenditure level compared to a candidate that received a mean voting percentage. I also use the support received by third parties in previous legislative national elections to provide evidence against an interpretation based on clientelistic notions. From this point of view, the rise in public expenditure can be understood as a mayor paying political favors (votes) with bureauracy and targeted expenditure. By controlling for historical voting patterns in favor of minor parties, I attempt to show that

municipalities that historically supported these movements had preferences for a higher level of expenditure, thereby rejecting these clientelistic notions. The lack of conclusive evidence does not allow me to rule against clientelism. Thereby, all further discussion and conclusions take this into account. Subsequently, I breakdown the control group between municipalities where a Liberal candidate won and those where a Conservative representative was elected. I find that there is no difference in public expenditure between these two groups of cities after the elections and thereby conclude that my results are being driven by the fact that previously excluded movements attained power and not by the mere fact of left-wing parties deciding on public policy. Finally, I include central government transfers as an a dependent variable to show that the effect is not exclusively reflecting an increased financial support of national government to municipalities that elected non traditional parties. The results of this specification allow me to discard this hypothesis, thereby concluding that the amount transferred by the national government to each municipality is not the factor driving my results.

The reminder of this paper proceeds as follows. In the following section (2) I present the theoretical framework under which I conduce this investigation, as well as a brief review of the relevant literature. In section 3, I show the main empirical strategy used in order to identify and quantify the effects discussed. Next, in section 4, I describe the data sources, the sample partition between groups, and the definition of the main variables employed in the estimations. In this section I also include a brief characterization of left wing parties, the geographical distribution of their victories and an illustrative example of a municipality that elected one of their candidates in 1988. Section 5 presents the main results of the impact that introducing elections had over Colombian municipalities public expenditure. In this section I also include a series of robustness checks in order to validate my design and show that my results are not driven by municipal characteristics. In section 6, I present a set of estimations aimed to identify the selection effect that I argue is the main mechanism behind this budgetary transformation. I also present other results that seek to invalidate the main alternative hypothesis that rise from my outcomes. Finally, section 7 presents a conclusion to this paper.

1.1 The 1986 electoral reform: Historical background

The political context in Colombia during the 1980's represents a suitable opportunity to empirically establish the presence of the selection effect discussed above. Before 1988, every mayor had been appointed by the party that had won the presidential elections and, due to the characteristics of national political contests, had always come from a restricted pool of candidates (only the Liberal and Conservative parties had the economic strength to face an electoral race of this dimensions). During this period, mayors could be discretionary removed from their office by the governor, could hold other public positions and were not required to live (or have lived) in the town they were appointed to.

Legislative Act 1 of 1986 modified this institutional arrangement by introducing popular elections for the mayor's office of every Colombian municipality from 1988 on. Mayors now were elected for fixed-length terms of two years, had to either reside in or be natives from the municipality they wanted to govern and could not have held any other public office in the six months prior to the elections. Additionally, the elected officers could not have any other kind of public contract with the government to benefit themselves or their relatives during their period in office.

This reform aimed to increase and improve the participation and representation of citizens in public powers, as well as bringing implemented policy closer to the public's preferences. This was one of the first steps in a decentralization process that Colombia experienced, and that was concluded with the 1991 constituent assembly. Other pro-decentralization measures taken in this period were: Law 14 of 1983 which reformed the property and industry taxes, Law 12 of 1986 which reformed the Value-Aggregated Tax (VAT) and Law 75 1986 which regulated royalties and VAT resource's use. In this point it is important to highlight that, following Garay (1998), these reforms did not represent a major break in the budgetary process of Colombian municipalities since they were mainly aimed to modify the distribution of tax burden (between direct and indirect impositions) and thereby reach higher levels of efficiency and equity.

Finally, information about the fiscal performance of Colombian municipalities in the 1980's decade is scarce. The first attempt to diagnose Colombia's public finances was conducted by a team³ recruited in 1981 by the national government. This mission

³Misión de Finanzas Intergubernamentales (1981). For further information, see the bibliography

concluded, among others, that local governments worked only as mere executors of the central government budget designations, and that the only influence a mayor could have over public expenditure within its municipality was in the efficiency it was to be executed with. More recently, Eslava (2006) and Drazen and Eslava (2010) constructed a database with the amount spent by each municipality in Colombia, for the period between 1984 and 2003. Given that the objective of this paper is to identify the effect of the electoral reform over public expenditure, I only take into account the period before the constitutional assembly in my analysis in order to isolate the results from the variation derived from such event. Because of this, the sample used in this investigation comprehends the years from 1984 up to 1990.

2 Theoretical Framework

The empirical analysis conducted in this investigation is based on the idea that democratic elections influence the policy outcomes a society can reach and that, thereby, the introduction of the former shifts the public expenditure decisions adopted by a functionary. When popularly elected, the relationship between a public officer and his voters can be understood as a principal-agent one in which the incumbent (agent) is expected to act according to the voters (principals) preferences.

Several theoretical models have tackled this relationship between voters and politicians with a moral hazard approach, being the work of Barro (1973) one of the most influential in this strand of literature. This author shows how a public servant transforms his policy decisions once he becomes and elected official due to the modification of the incentives scheme he now faces. The author argues that elections play a role as a social control mechanism over the performance of the incumbent, given that voters can now use reelection as a reward for public servants who fulfill their expectations. In this same direction, Alesina and Tabellini (2007, 2008) present a model through which they link the nature of a public official with different type of tasks. In particular, the authors show that elected officials (politicians) are better suited to handle effort-incentive responsibilities, while bureaucrats outperform them in more technical chores.

Nevertheless, the scope of this paper goes beyond this incentives approach as it not

appendix.

only studies the democratization of the mayor office, but also focuses on the role minor (and previously excluded) political movements played in Colombia once they attained power. The relationship between the candidates that represented these parties and their voters is not only marked by the control gained by the latter over the performance of the former, but also by the fact that these elected mayors were people that represented ideological segments of the population that had not taken part in policy decisions previously. This introduces an additional dimension in the analysis of the reform, given that the information that voters had about the performance of candidates was imperfect prior to the elections, which frames this investigation in an adverse selection environment.

The strand of literature that studies this type of models stress that it is not the behavior of the public servants the one transformed due to democratization, but rather that the individual characteristics (and preferences) of the officials are the ones modified. This idea was first introduced by Osborne and Slivinski (1996) and developed in detail by Fearon (1999). The latter author describes elections as a selection process in which not every candidate is willing to enter given the high cost it implies, and again describes reelection as a reward from the voters towards the officials. Besley (2006) develops perhaps the most important selection model in literature, concluding that elections eradicate the incentives of non-suitable people to run for office, given the cost that an electoral race entails⁴. Among the empirical evaluations of the prevalence of this effect it is worth to notice the work of Hirano and Snyder (2014), who use congressional elections in the United States to test the prevalence of the selection effect. These authors conclude that it is only in competitive races that this effect affects the quality of the competing candidates, as predictable ones harm the incentives suitable candidates to present themselves to such race.

The electoral reform that took place in Colombia presents itself as an opportunity to empirically test the prevalence of the effects described previously. By contrasting the public expenditure levels before and after the electoral amendment, I am able to establish the effect of modifying the incentives of a public officer over economic policy as elections obliged the latter to please a larger number of people. Even more, by exploiting the differences in the partisan affiliation of the elected mayors, I isolate the

⁴To see a full survey of the most important literature on how elections affect politicians, see Ashworth (2012)

effect of broadening the political spectrum and allowing the rise to power of excluded forces over public policy. By implementing a differences-in-differences strategy, I am identifying the effect over public expenditure of introducing elections in a previously undemocratic context (thereby modifying the *incentives* of public functionaries), in places where the voters were able to *select* their preferred policy level for the first time in history. Therefore, third parties play a role not only as a tool for the identification strategy used in this paper but also as determinants of economic policy in Colombian municipalities.

Due to the foregoing, this paper is closely related to the work of Eslava (2006), Drazen and Eslava (2010) and Namen (2011). The first two authors study the relation between fiscal decisions and reelection probability of Colombian mayors, and find that the latter rise their expenditure level in those items the public prefer the most (public goods)⁵. In the same direction, Namen (2011) shows how the 1986 electoral reform increased the level of public expenditure in Colombian municipalities, specially in those items the voters could more easily perceive (e.g. investment). Nevertheless, this investigation sets itself apart from previous research as it not only studies the mere effects of democratization, but also analyzes the consequences that enfranchising previously excluded political movements had over public policy. In addition, this paper combines two datasets and employs an empirical strategy that has never been used before to study the effects of the electoral reform in Colombia, exploiting differences in the partisan affiliation of elected mayors as a source of variation.

3 Empirical Strategy

I examine the impact that democracy has over public expenditure by exploiting the institutional change that occurred in Colombia in the late 1980's, using the victory of a minor party as a source of variation. With this information, I implement a differences-in-differences strategy, exploiting both time and election outcome differences in order to unveil the desired effect. Equation 1 shows the simplest regression model that allows the comparison between municipalities where a third party won (treatment group) and

⁵This result is in line with the implications of the model developed by Rogoff (1990), according to which elected officials increase the expenditure level in items that are easily perceived by voters, in order to increase their victory probability.

those that form the control one.

$$Y_{m,t}^i = \alpha_0 + \alpha_1(Post_{1988})_t + \alpha_2(Treatment)_m + \beta(Post_{1988}_t \times Treatment_m) + \mu_{m,t} + \varepsilon_{i,m,t} \quad (1)$$

In (1), m indexes municipalities, i components of public expenditure and t time (the sample period corresponds to the years from 1984 to 1990)⁶. The dependent variable is the logarithm of public expenditure in activity i , in municipality m in year t - $Y_{m,t}^i$ - (in all baseline regressions, dependent variable is total public spending). Variable $Post_{1988}$ is a dummy variable that takes the value of 1 from 1988 on, while $Treatment$ is also a discrete indicator that equals 1 if a third party won the 1988 mayor elections in municipality m . $\mu_{m,t}$ is a set of fixed effects that can be at the municipality and/or year level, that will allow me to discard any temporal shock over public expenditure, as well as any effect of non time-variant characteristics over public expenditure. Throughout the paper, I cluster robust standard errors at the municipality level to account for the presence of autocorrelation in the error term within each of them, while resolving any potential heteroskedasticity behavior of the error terms.

The main coefficient of interest is β which accompanies the interaction between $Post_{1988}$ and $Treatment$. If $\beta > 0$, then the municipalities in which a third party won the 1988 mayor elections experienced a sharper rise in total public spending compared to those places in which the executive power remained in the hands of traditional political groups. In contrast, a negative β would suggest that public expenditure increased less among this particular group of places. This interpretation takes as given the fact that public expenditure augmented globally once the first elections were held, assumption that agrees with Namen (2011) (and is confirmed in this paper).

To verify the robustness of my results, I also estimate the following -more demanding- specification:

$$Y_{m,t}^i = \alpha_0 + \alpha_1(Post_{1988})_t + \alpha_2(Treatment)_m + \beta(Post_{1988}_t \times Treatment_m) + \sum_{x \in X} \delta_x \times Post_{1988}_t \times x_m + \mu_{m,t,p,d,r} + \varepsilon_{i,m,t} \quad (2)$$

In addition to those terms presented previously, (2) includes a set of fixed effects (μ) at a province, department or regional level. I include the interaction of these

⁶The discussion regarding the choice of period is conducted in section 1.1.

variables with $Post_{1988t}$ in order to control (flexibly) for any particular trend that public expenditure could have followed within any of these groups. The latter equation also includes a vector X_m of control variables (likewise interacted with $Post_{1988t}$) included to account for possible omitted effects that could in turn be driving the main result. This specification, therefore, allows differential expenditure trails for municipalities that exhibit different x_m . It is quite noticeable that if any of these (m) characteristics is behind the effect I attribute to the treatment in this paper, β 's statistical significance should not survive their introduction. Nevertheless, including any of these control variables (or all of them) does not affect the relevance of my coefficient of interest nor its magnitude, which represents an important piece of evidence in favor of my identification assumptions.

To check that the change in public expenditure was not driven by any other particular characteristic that could be correlated with the victory of a third party in a municipality, I conduct a series of additional robustness checks. In first place, I interact my *Treatment* group with a dummy variable for every year of my sample in order to check that there is no difference in the behavior of public expenditure between groups in years preceding 1988. By ruling out this preexistent difference, I am able to confirm the presence of "parallel trends" in public spending evolution between groups, which is a crucial assumption for my specification. On the other hand, I aggregate both pre-1988 and post-1988 years into two big periodos and confirm that the baseline results still hold and therefore are not being driven by a particular year in the sample.

Finally, and in order to decompose the aggregate effect and identify the mechanisms that underlie it, I estimate (1) using other components of public expenditure and alternative definitions of the treatment and control groups. I also add a series of variables to control more precisely for political competition and other aspects that are not accounted for in the main results. These variables include the percentage of votes for the winning candidate and historical voting patterns for third parties among others.

4 Data

4.1 Source

The main variable used in this study is the result of the elections for mayor’s office held in Colombia in 1988. These results (among other electoral outcomes employed) are taken from the database constructed by Pachón and Sánchez (2014), which contains the vote count for every single election held in Colombia since 1958 at a municipal level. Given the scope of this paper, I will only use information that concern the races held between 1974 and 1990, focusing on the 1988 ones. The details about the construction of my main variables are presented below, while other variables definitions are shown in the appendix A (table A1).

Municipal public expenditure information was taken and processed from the *Contraloría General de la República de Colombia* (Colombia’s Government Accountability Office) by Eslava (2006) and Drazen and Eslava (2010). This database has information of the public expenditure drawn from the fiscal account of each municipality in Colombia between 1984 and 2003. Nevertheless, I will only employ observations up until 1990, given that in 1991 a National Constituent Assembly gathered and heavily modified institutional order in Colombia, making the years following such event incomparable to the ones that preceded it.

Finally, municipal characteristics used as control variables were extracted both from the 1985 national census, and from the CEDE panel. Both of these databases are representative at a municipal level, and are available at request at the Center for Economic Development Studies (CEDE) of Los Andes University datacenter.

4.2 Variable Definition

The first crucial aspect for this investigation’s identification strategy is the partition of the municipalities sample between Treatment and Control groups according to the 1988 elections for mayor results. The *Treatment* group is defined as all those municipalities where, in the cited elections, a political party other than “*Partido Liberal Colombiano*” or the “*Partido Conservador de Colombia*” won. Consistently, the *Control* group is conformed by those towns in which the candidate of one of these two parties won. The electoral database also allows me to establish both the percentage

of total votes for the winning candidate and, in some cases, the third party to which he/she belonged. More information about the definition of these variables is presented in the appendix A (table A1).

The main dependent variable employed is the yearly total municipal expenditure, drawn from the Drazen and Eslava (2010) database. This variable is the sum of all expenses made in a calendar year, including (but not limited to) investment, functioning and debt-service ones. Some regressions use these components, and their disaggregation, as dependent variables. Functioning expenses are further decomposed into payroll, ordinary expenses (such as rent and paperwork), and transferences to other local entities. I use the natural logarithm of these variables in every specification to smooth the distribution, given the lack of zeros in my sample.

4.3 Left-Wing parties

Another important aspect about the identification used in this paper is breakdown of the *Treatment* group between those candidates that represented a Left-Wing party and those that represented other types of non-traditional movements. In order to do this, I identified the party each candidate represented in 1988 elections and grouped those that openly identified themselves with leftist ideologies. These parties are: Alianza Nacional Popular (ANAPO), Alianza Social Indígena (ASI), Izquierda Democrática, Movimiento Alternativa Democrática, Movimiento Convergencia Ciudadana, Movimiento de Participación Popular, Polo Democrático Alternativo and Unión Patriótica. There were some candidates that run under a coalition of parties and, thereby, did not give specific information about their ideological preferences. In order to assign them to one of the correspondent groups (Left-Wing or Other-Third parties), I searched for the candidate's name in other electoral races and, when possible, established the party for which each of them run in such contest. The candidates that later belonged to the Movimiento Progresistas or to the Partido Verde were classified under Left-Wing parties given the ideological basis of these parties⁷. The remaining candidates represented other movements which, although not part of the traditional parties, set themselves ideologically closer to the latter (such as the Nuevo Liberalismo

⁷Nevertheless, this process only allowed me to establish the party affiliation of 5 candidates (0.5% of the sample) and thereby does not influence my results significantly.

movement, that was led by the late presidential candidate Luis Carlos Galán), reason for which I distinguish apart them from Left-Wing parties.

I use this breakdown of the treatment group in section 6 in order to identify the prevalence of the selection effect discussed previously. In such regressions (tables 10, 13 and 15), I compare the effects of democratization over public expenditure between three groups: municipalities where a left-wing party won, those where the elected mayor represented other kinds of third parties and places where the traditional parties attained power. In some specifications (table 14), I also breakdown the control group between cities where the Liberal party won and those where the Conservative party did and analyze the differential results between these four groups.

4.4 But, who where these *Left-Wing* parties?

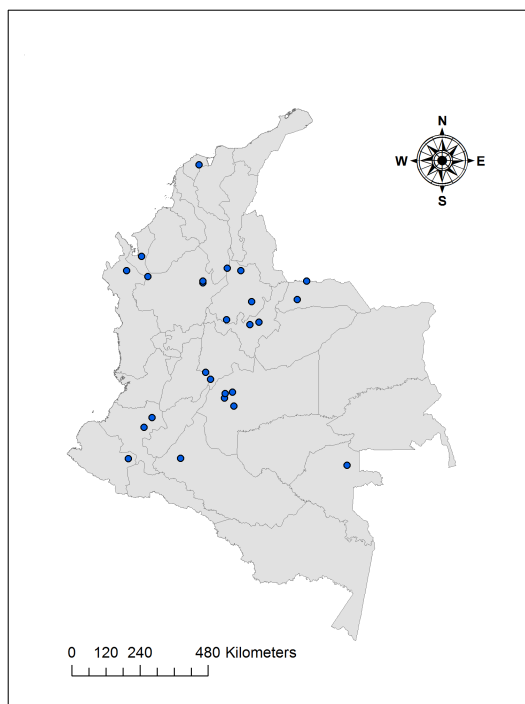
4.4.1 The *Unión Patriótica*

The Unión Patriótica (UP from now on) was the main left wing party in Colombia during the 1980's decade. This political movement was born as a result of the dialogs held between the national government and the rebel group FARC⁸ in La Uribe -a Colombian municipality- in 1984. The UP established itself as the third political force in Colombia after 1986 elections, with 5 senators, 9 representatives, 14 deputies and 351 city councilors elected. In 1988 mayor elections, this party won 15 races with own candidate and 50 more in coalition with other political movements. Since its creation it suffered from a systematical extermination from a joint force between paramilitaries and state forces, which led to the assassination of 1600 militants between 1984 and 1997 Gómez-Suárez (2013).

I extract two main conclusions from the previous discussion. In first place, left wing parties did set themselves apart from traditional political movements (to the point that they were persecuted) which is important inasmuch as their victory in 1988 elections is thereby in fact showing that voters had political preferences that had not been met by traditional movements in the past. On the other hand, the fact that not all left wing mayors run as candidates for the same party shows that the effect found is being driven by the voter's policy preferences and not for a particular characteristic of a political

⁸The *Fuerzas Armadas Revolucionarias de Colombia* (FARC) were the main guerrilla group in Colombia during the time and ever since.

Figure 1: Municipalities that elected a Left-Wing candidate in 1988 mayor elections



party (in this case, of the UP candidates). Statistical evidence of this affirmation is given in table A3 in the appendix⁹.

4.4.2 And, where did they won? The case of Segovia, Antioquia.

In figure 1, I show the geographical distribution of the municipalities that elect the candidate of one of a third party. In such figure, it is noticeable how these movements received support all over Colombia, which suggests that my results are not being driven by a subsample of cities¹⁰. Nevertheless, this municipalities did shared a common denominator that was the desire of new public policies, which was rooted in the political experiences and context of each of them

Between these municipalities was Segovia, a mining town located in the north east

⁹In such table, it is noticeable that there is not a differential effect over total public expenditure of electing a UP candidate, when comparing with municipalities that elected representatives of other left wing parties.

¹⁰A more robust piece of evidence in this direction is given in table 6, section 8.

Table 1: Sample partition between groups

Group	Winner Party	Number of municipalities	% of total sample	% inside group
<i>Non Treated</i>		838	85.1	-
	<i>Liberal</i>	435	44	51
	<i>Conservative</i>	407	41.1	49
<i>Treated</i>		147	14.9	-
	<i>Left-Wing</i>	25	2.5	17
	<i>Non-Left</i>	122	12.4	83

of the state of Antioquia. This region had historically been in the hands of the liberal party, with the house representative Cesar Augusto García being the principal political figure of the area. Although several peasants movements had emerged to express inconformity with public policy, asking for higher public investment in education and health (e.g. *Movimiento 27 de Febrero.*) (Colombia Nunca Más, 2001), this hegemony only ended in 1988 after the victory of the UP candidate Elkin Ramirez. Nevertheless, Ramirez was assassinated in Medellín in 1988 before taking possession over his office, and replaced by another member of the UP (Corporación Acción Humanitaria por la Convivencia y la Paz del Nordeste Antioqueño, 2010). During this period, the municipality experienced a rise in public expenditure in items such as health and education, claims that the peasant movements of the previous years had made. This anecdotal evidence is useful to illustrate the political environment of inconformity towards traditional movements that had arise in some Colombian municipalities, which in some cases led to the emergence of new political forces in the country, and the reluctancy of traditional parties to give up their power.

4.5 Descriptive Statistics

Table 1 presents the partition of the sample of municipalities used in the analysis between groups. Third parties won in 14.81% of Colombian municipalities, and out of those 147 places, 17% (2.5% of the whole sample) elected a Left-Wing representative. The remaining third-party candidates were either part of a non-left party or run as candidates under a coalition of several political movements¹¹. This table also shows

¹¹Although these coalitions did not represent the traditional political parties, I don't consider these candidates as left-wing representatives given that their political ideology isn't unequivocally

how the political context in Colombia was largely dominated by the traditional forces (85% success rate), which allows me to interpret the victory of a third party as a mayor break in a municipalities political history.

Table 2 shows and compares public expenditure (and its diverse items) between groups and periods. The first characteristic that stands out is that, for every expenditure item, the amount spent rose after the reform took place, but less than a standard deviation in each case. This trend is consistent with previous evidence inasmuch as it shows a positive effect of the reform over public expenditure in all municipalities (Namen, 2011). The second point to highlight from table 2 is that, in all cases, the public expenditure level seems to have been larger in the *Treatment* group than in the *Control* one. The last column of the table shows a mean difference test which gives statistical evidence of this phenomena and confirms that there are preexistent differences in the level of public expenditure between my groups. This, however, does not invalidate my experimental design as it only relies on the lack of differences in the trends of these variables between groups before the treatment took place. In section 5, I conduct a series of tests address this last concern and validate my empirical approach.

5 Results

5.1 Baseline

I begin by estimating (1) for the full sample of Colombian municipalities between the years of 1984 and 1990. Results are presented in table 3. As noted before, all standard errors are clustered at a municipal level, and thereby are fully robust against heteroskedasticity and serial correlation at such level. Column 1 shows the results of the Ordinary Least Squares estimation of equation (1) without including any kind of fixed effects. I begin by including yearly fixed effects in column 2, then add municipal ones in column 3, and finally use both types of effects in column 4 (which by definition is the implementation of the diff-in-diff strategy). The last set of coefficients (column 5) show the result of estimating this equation while adding the pre-1988 and post-1988 years into two big periods. In each column, the coefficient β of interest is the one that accompanies the interaction (*Victory of a Third party* X *Post₁₉₈₈*). The first

identifiable.

Table 2: Mean and Standard Deviation of dependent variables between groups.

<i>Variable</i>	<i>Treatment Group</i>	<i>Control Group</i>	<i>Difference</i>
<i>Total Public Expenditure</i>			
Pre (1988)	8.305 (1.174)	8.082 (1.161)	-0.224 [0.053]
Post (1988)	9.002 (1.146)	8.695 (1.15)	-0.306 [0.06]
<i>Investment expenditure</i>			
Pre (1988)	6.789 (1.642)	6.395 (1.694)	-0.392 [0.08]
Post (1988)	8.004 (1.239)	7.672 (1.263)	-0.331 [0.067]
<i>Debt Service Expenses</i>			
Pre (1988)	5.116 (1.915)	4.946 (2.004)	-0.169 [0.152]
Post (1988)	6.209 (1.8054)	5.811 (1.905)	-0.397 [0.137]
<i>Functioning Expenditure</i>			
Pre (1988)	7.921 (1.146)	7.749 (1.134)	-0.171 [0.052]
Post (1988)	8.369 (1.129)	8.098 (1.142)	-0.27 [0.06]
<i>Payroll</i>			
Pre (1988)	7.192 (1.178)	6.996 (1.182)	-0.197 [0.054]
Post (1988)	7.597 (1.138)	7.363 (1.152)	-0.234 [0.06]
<i>Ordinary Expenses</i>			
Pre (1988)	7.363 (1.151)	6.501 (1.159)	-0.156 [0.054]
Post (1988)	7.211 (1.18)	6.9 (1.194)	-0.312 [0.063]
<i>Local Transferences</i>			
Pre (1988)	6.047 (1.466)	5.869 (1.542)	-0.177 [0.072]
Post (1988)	6.511 (1.406)	6.144 (1.487)	-0.367 [0.078]

Standard Deviations are presented in parentheses underneath the mean of each variable within group. All variables are measured in logarithm. Standard error of difference coefficient presented in brackets. The difference coefficient is defined as the mean of *Control* minus mean of *Treatment* groups. The variables are measured as the logarithm of 1984 Colombian Pesos (COP). The years under the Pre (1988) category are those between 1984 and 1987, while the years under the Post (1988) category are those between 1988 and 1990. The Treated municipalities are those in which, in 1988 mayor elections, a non- traditional party won. The Control group, correspondingly, is conformed by those municipalities where either the *Partido Liberal de Colombia* or the *Partido Conservador Colombiano* won the cited elections.

noticeable fact is that, comparing between columns, this parameter does not vary much in magnitude or significance, which allows me to conclude that these results are not being driven by a determined municipality or a certain year. Column 4 includes a full set of time and municipality fixed effects and thereby is the most demanding specification. In such column, the coefficient β is (0.0624), which means that electing a candidate from a non-traditional party represented a rise in total public expenditure of 6% (half a standard deviation) compared to a municipality that elected a candidate from one of the traditional parties. Finally, column 5 shows how the results obtained in 4 are not being driven by a particular year's juncture given that the interest coefficient is almost identical to that presented in the latter column.

Table 3: Effect of the victory of a third-party candidate over total public expenditure.

Dependent Variable: Logarithm of Total Public Expenditure					
	(1)	(2)	(3)	(4)	(5)
Victory of a Third Party (Treatment)	0.224** (0.104)	0.224** (0.104)			
Post (1988)	0.614*** (0.0118)		0.618*** (0.0102)		
Treatment X Post(1988)	0.0825** (0.0352)	0.0818** (0.0354)	0.0635* (0.0326)	0.0624* (0.0327)	0.0641* (0.0328)
Constant	8.082*** (0.0396)	7.964*** (0.0399)	8.114*** (0.00425)	7.993*** (0.00996)	8.115*** (0.00512)
Observations	6,669	6,669	6,669	6,669	1,957
R-squared	0.072	0.086	0.520	0.630	0.794
Fixed Effects:					
Year	X	✓	X	✓	X
Municipality	X	X	✓	✓	✓

All standard errors are robust and clustered by municipality, *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 984 municipalities and 7 years (1984 to 1990). Post (1988) is a dummy that equals 1 for the years 1988-1990. Column (4) shows the baseline results of this investigation. Column (5) aggregates the periods before and after 1988 into two big periods, using the mean public expenditure in each municipality by period as dependent variable. Fixed effects not shown to save space.

Following the line of the theoretical discussion developed earlier, the results pre-

sented in table 3 can be interpreted as the effect of enfranchising excluded segments of the population over public expenditure. The differential effect of electing the candidate of a non-traditional political party shows that there were places where the demand for public expenditure had not been met by appointed mayors, and where, thanks to the elections, voters started enjoying levels of public policy that met more closely their preferences.

Table 4 presents the results of the estimation of (2) including a set of control variables that seek to capture the political environment and preferences of each municipality. I include measures of elections predictability, political competition (both, based on the results of the city council elections held between 1974 and 1988), and indicators of colonial occupation, previous land related conflicts or indigenous settlements¹². I also include the percentage of votes received by each group in the sample (control and treatment) as well as the percentage of whites votes in every presidential, senate and council election held between 1974 and 1986. When comparing these results with those presented in column 4 of table 3, it is noticeable how the interest coefficient (*Victory of a Third party X Post₁₉₈₈*) does not vary much in significance or magnitude which discards any differential effect derived from the historical political preferences of municipalities. The β coefficient shows how the victory of a third party candidate in 1988 mayor elections represented a level of public expenditure 8% (two-thirds of a standard deviation) higher with respect to those places that elected a mayor that belonged to a traditional party. Due to their robustness, I will use the results presented in column 5 of table 4 as my baseline model and compare them against all other estimations¹³. The remainder of this section is devoted to present a series of robustness checks to validate my experimental approach.

5.2 Robustness

The principal concern about my identification strategy is the possibility that the behavior of public spending was different between groups before the introduction of

¹²All these control variables, as well as all other ones included subsequently, are interacted with the *Post₁₉₈₈*

¹³Table A2 in the appendix present the results of including one-by-one every control variable. Column 7 of such table is identical to column 1 in 4.

Table 4: Effect of the victory of a third-party candidate over total public expenditure.
Political preferences controls - Baseline model.

Dependent Variable: Logarithm of Total Public Expenditure					
	(1)	(2)	(3)	(4)	(5)
Victory of a Third Party X Post (1988)	0.0873** (0.0365)	0.0942*** (0.0358)	0.0689* (0.0382)	0.0742** (0.0362)	0.0789** (0.0358)
Interaction between Post(1988) and:					
<i>Elections predictability</i>	0.0652 (0.0432)	0.0389 (0.0445)	0.114** (0.0488)	0.0205 (0.0441)	0.0547 (0.0547)
<i>Historic political competence</i>	-0.0435 (0.0379)	-0.0753* (0.0384)	-0.0389 (0.0409)	-0.0535 (0.0375)	-0.0638* (0.0375)
<i>Occupation by Spaniards</i>	0.0100 (0.0204)	0.0135 (0.0202)	0.0241 (0.0201)	0.0303 (0.0197)	0.0333* (0.0197)
<i>Indigenous settlements</i>	-0.000830 (0.0193)	-0.00100 (0.0193)	0.0177 (0.0195)	0.00895 (0.0192)	0.0108 (0.0194)
<i>Violence</i>	-0.0171 (0.0300)	-0.00907 (0.0302)	0.0128 (0.0305)	0.0102 (0.0302)	0.0235 (0.0316)
<i>Land conflicts</i>	-0.0394 (0.0449)	-0.00173 (0.0467)	-0.0175 (0.0460)	-0.0112 (0.0453)	-0.00828 (0.0473)
Partisan electoral support received between 1974 and 1986 in:					
Senate Elections	X	✓	X	X	✓
Presidential Elections	X	X	✓	X	✓
City Council Elections	X	X	X	✓	✓
Constant	7.994*** (0.0100)	7.994*** (0.00998)	7.994*** (0.00982)	8.022*** (0.00920)	8.022*** (0.00914)
Observations	6,662	6,662	6,662	6,068	6,068
R-squared	0.630	0.633	0.637	0.646	0.650
Number of municipalities	983	983	983	893	893
Fixed Effects:					
Year	✓	✓	✓	✓	✓
Municipality	✓	✓	✓	✓	✓

All standard errors are robust and clustered by municipality, *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 7 years (1984 to 1990). Post (1988) is a dummy that equals 1 for the years 1988-1990. Occupation by spaniards, indigenous settlements, violence and land conflicts are dummy variables drawn from the CEDE panel database that take the value of 1 if a municipality experienced one of these phenomena. Elections predictability corresponds to the average voting received by the party that won the 1988 mayor elections in the city council elections held between 1974 and 1986. Historic political competence is measured as the average absolute value of the voting difference between the winning and losing party in all previous city council elections (1974-1986). Partisan electoral support is measured as the percentage of voting that each group (Third parties, Traditional parties, Blank votes) received inside a municipality in each election held between 1974 and 1986. All control variables are included linearly in each regression (not shown to save space). Fixed effects not shown to save space.

elections, and therefore that I am not estimating the effect of electing a third party candidate but only showing the result of prevalent differences in trends between groups. In order to address this issue, I estimate equation (24), and present the results in figure 2. This equation relates item i of public expenditure to a series or year an municipality fixed effects (δ), and to the interaction of the yearly dummies with my *Treatment* variable.

$$Y_{m,t}^i = \alpha_0 + \delta_t + \delta_m + \sum_{t=1984}^{1990} \beta_t(\delta_t \times Treatment_m) + \varepsilon_{i,m,t} \quad (3)$$

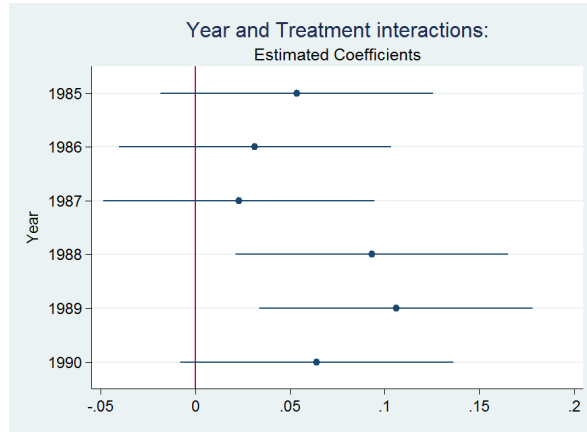
Estimating this equation allows me to rule out the existence of any effect that belonging to the *Treatment* group could have had over public expenditure in the years preceding the reform. In other words, the β_t coefficient that accompanies the interaction for each of the years between 1984 and 1987 is statistically equal to 0. The result of the estimation conclusively show that there is no direct effect of being part of the *Treatment* group over total public expenditure in the years before 1988.¹⁴ The figure also shows how in 1988 the amount spent by the municipalities that belong to this group rose (confirming the results presented in tables 3 and 4).

Another possible concern may be that the results are being driven by other characteristics of a municipality, that could correlate with the defeat of traditional movements. For instance, it could be the case that third parties won only in a certain state, in municipalities that were further away from Bogotá, or in poor and historically troubled places. To address this concern, tables 5-7 show the estimation of the baseline model defined by equation (2) (and presented in table 4) with different additional sets of controls.

Tables 5 and 6 control for a series of geo-political and geographical characteristics respectively. These include region, state and province fixed effects, area and height above sea level. Table 6 also includes the traveling distance to the nearest marketplace, to the state's capital and to Bogotá. Neither of these controls affect the main interest parameter (it remains around 8% and statistically relevant), and actually the coefficient rises to 0.10 and becomes even more significant when fully controlling for geopolitical characteristics (column 6 in table 5). Additionally, each of these control variables seems

¹⁴Recall that this pre-existing difference was a concern in table 2.

Figure 2: Effect of belonging to the treatment group by years - Estimated coefficients and confidence intervals.



The coefficients plotted are the β_t that correspond to the interaction of the Treatment dummy with a discrete indicator for each year of the sample (1985-1990) in equation (24). A coefficient located over the vertical line is statistically equal to zero, while one for which the confidence interval does not contain such value is statistically significant.

Table 5: Effect of the victory of a third-party candidate over total public expenditure. Geo-political fixed effects as control.

Dependent Variable: Logarithm of Total Public Expenditure				
	(1)	(2)	(3)	(4)
Victory of a Third Party X Post (1988)	0.0873** (0.0365)	0.0846** (0.0369)	0.0953*** (0.0352)	0.0930*** (0.0337)
Interaction between Post(1988) and:				
Fixed effects at the level of:		Region	State	Province
Constant	7.993*** (0.00996)	7.993*** (0.0102)	7.993*** (0.00963)	7.992*** (0.00952)
Observations	6,669	6,669	6,669	6,669
R-squared	0.630	0.631	0.650	0.666
Number of municipalities	984	984	984	984
Fixed Effects:				
Year	✓	✓	✓	✓
Municipality	✓	✓	✓	✓

All standard errors are robust and clustered by municipality, *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 984 municipalities and 7 years (1984 to 1990). Post (1988) is a dummy that equals 1 for the years 1988-1990. Columns 2-4 include the linear fixed effect at the respective level, not shown to save space. All regressions include a full set of political preferences controls.

Table 6: Effect of the victory of a third-party candidate over total public expenditure. Geographical municipal characteristics as control variables.

Dependent Variable: Logarithm of Total Public Expenditure						
	(1)	(2)	(3)	(4)	(5)	(6)
Victory of a Third Party X Post (1988)	0.0871** (0.0362)	0.0899** (0.0361)	0.0921** (0.0368)	0.0788** (0.0367)	0.0850** (0.0368)	0.108*** (0.0343)
Interaction between Post(1988) and:						
<i>Total area (squared km)</i>	2.05e-05* (1.06e-05)					1.38e-05 (1.47e-05)
<i>Travelling distance to state capital (km)</i>		0.000544** (0.000231)				-0.000462 (0.000546)
<i>Travelling distance to Bogotá (km)</i>			0.000253*** (6.04e-05)			0.00128*** (0.000446)
<i>Travelling distance to closest major marketplace (km)</i>				0.000682*** (0.000129)		-0.000297 (0.000583)
<i>Height above sea level (m)</i>					(7.83e-06) (6.82e-06)	9.59e-06
Constant	7.994*** (0.01000)	7.994*** (0.00999)	7.994*** (0.0100)	7.993*** (0.0101)	7.991*** (0.00954)	7.990***
Observations	6,669	6,669	6,669	6,669	6,593	6,593
R-squared	0.631	0.631	0.632	0.633	0.630	0.668
Number of municipalities	983	983	983	983	972	972
Fixed Effects:						
Year	✓	✓	✓	✓	✓	✓
Municipality	✓	✓	✓	✓	✓	✓

All standard errors are robust and clustered by municipality. *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 984 municipalities and 7 years (1984 to 1990). Post (1988) is a dummy that equals 1 for the years 1988-1990. All control variables are measured before 1984 and included linearly in each regression (not shown to save space). KM and M stand for Kilometers and Meters respectively. Fixed effects not shown to save space. All regressions include a full set of political preferences controls.

to be statistically irrelevant or, in the case of the distance-related ones, their direct effect is negligible (only represent a 2% of the treatment effect). Comparing my baseline model with these last results shows how the former is underestimating the actual effect of the reform and how, when controlling properly for municipal characteristics (thereby reducing the attenuation bias derived from the omission of these variables), this effect rises in two additional percentage points. Nevertheless, given that this last fact only reassures my previous conclusion, I stick with my baseline results in order to preserve the power of my hypothesis tests.

Other kind of features that could be both behind my results and correlated with the victory of a third party are those that describe a municipality's population. For example, it could be argued that younger people might have gotten sick of the traditional political movements and therefore new parties could have had a better chance of winning where this age group represented a majority. If, additionally, these places needed a larger amount of public investment (for whatever reason they might), then the results presented up until now have only been capturing this correlation. To address this concern I present table 7 in which I incorporate a series of controls that seek to capture these characteristics. In include the population level, per capita GDP, unmet basic

Table 7: Effect of the victory of a third-party candidate over total public expenditure. Socio-economic municipal characteristics as control variables.

Dependent Variable: Logarithm of Total Public Expenditure											
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Victory of a Third Party X Post (1988)	0.0873** (0.0365)	0.0850** (0.0368)	0.0875** (0.0362)	0.0914** (0.0366)	0.0960*** (0.0367)	0.0855** (0.0365)	0.0833** (0.0366)	0.0792** (0.0354)	0.0978*** (0.0369)	0.0858** (0.0365)	0.0821** (0.0356)
Interaction between Post(1988) and:											
<i>Population</i>		-6.51e-08* (3.76e-08)									-5.46e-08 (3.35e-08)
<i>Internal Revenue</i>			5.57e-07* (3.24e-07)								8.90e-07*** (3.42e-07)
<i>Basic Unmet Needs Index (NBI)</i>				0.00220*** (0.000548)							0.00215** (0.00101)
<i>Literacy Rate</i>					-0.354*** (0.117)						-0.101 (0.304)
<i>Civil State</i>						-0.271** (0.111)					-0.0301 (0.116)
<i>Age</i>							-0.0233*** (0.00430)				-0.0161*** (0.00462)
<i>Migration</i>								0.251* (0.147)			0.264 (0.162)
<i>Education</i>									-0.171** (0.0666)		0.0468 (0.176)
<i>Unemployment</i>										-0.199 (0.130)	-0.0830 (0.144)
Constant	7.994*** (0.0100)	7.991*** (0.0101)	7.994*** (0.0100)	7.990*** (0.0100)	7.993*** (0.00998)	7.993*** (0.00998)	7.993*** (0.00993)	7.993*** (0.00998)	7.993*** (0.0100)	7.993*** (0.0100)	7.989*** (0.00993)
Observations	6.662	6.586	6.662	6.586	6.652	6.652	6.652	6.652	6.652	6.652	6.576
R-squared	0.630	0.630	0.631	0.632	0.632	0.632	0.634	0.631	0.632	0.631	0.636
Number of municipalities	983	972	983	972	981	981	981	981	981	981	970
Fixed Effects:											
Year	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Municipality	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

All standard errors are robust and clustered by municipality. *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 7 years (1984 to 1990). Post (1988) is a dummy that equals 1 for the years 1988-1990. Age, literacy rate, civil state and unemployment correspond to the mean municipal level in 1984. Population, internal revenue (assumed in Colombian pesos), basic unmet needs index and unemployment correspond to the 1984 level as reported in the 1985 national census. Migration corresponds to the percentage of non-native inhabitants of a municipality. All control variables are included linearly in each regression (not shown to save space). Fixed effects not shown to save space. All regressions include a full set of political preferences controls.

needs index, and unemployment level (among others) to show that my treatment effect still holds after controlling for these attributes. Observing the β coefficient throughout the columns, it is noticeable that it does not vary much neither in magnitude nor in significance, holding the effect around 0.08.

Finally, I present table 8 which shows the result of estimating equation (1) using only the pre-electoral period and assuming the reform happened in 1986¹⁵. This placebo exercise shows that there is no differential effect over the public expenditure level between groups and years before 1988, which means that it was in fact the reform the triggering fact of this change in the budgetary process.

In sum, up until now I have shown that the enfranchisement of voters that took place in Colombia after de 1986's electoral reform had a positive effect over the amount of public expenditure in which the municipalities incurred, and that this effect was 8% larger in those municipalities where a candidate that represented a non-traditional political movement won. This is interpreted as the effect of bringing public policy closer to the voters preferences through democracy.

¹⁵1986 is taken in order to leave the same amount of years in the pre and post periods. Nevertheless, the results of this table hold when taking 1985 or 1987 as the "reform" year.

Table 8: Effect of the victory of a third-party candidate over total public expenditure. Robustness Regressions Placebo "reform" in 1986.

Dependent Variable: Logarithm of Total Public Expenditure					
	(1)	(2)	(3)	(4)	(5)
Victory of a Third Party - (Treatment)	0.211** (0.105)	0.211** (0.105)			
Post(1986)	0.253*** (0.0115)		0.255*** (0.0158)	0.134*** (0.0142)	
Treatment X Post(1988)	0.0226 (0.0271)	0.0237 (0.0270)	-3.19e-05 (0.0257)	0.000739 (0.0257)	-0.00384 (0.0257)
Constant	7.955*** (0.0398)	7.967*** (0.0400)	7.987*** (0.00506)	7.995*** (0.00809)	7.982*** (0.00515)
Observations	3,776	3,776	3,776	3,776	1,917
R-squared	0.017	0.021	0.215	0.300	0.406
Fixed Effects:					
Year		✓		✓	✓
Municipality			✓	✓	✓

All standard errors are robust and clustered by municipality.
*** p<0.01, ** p<0.05, * p<0.1

All standard errors are robust and clustered by municipality, *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 984 municipalities and 5 years (1984 to 1988). Post (1986) is a dummy that equals 1 for the years 1986-1988. Column (4) shows the results analogue to the baseline ones (table 3). Column (5) aggregates the periods before and after 1986 into two big periods, using the mean public expenditure in each municipality by period as dependent variable. Fixed effects not shown to save space. All regressions include a full set of political preferences controls.

6 Mechanisms

Up until now, I have shown that the democratization of the mayor's office in Colombian municipalities that took place in 1988 had an immediate and positive effect over total public expenditure (8%) in those places that elected the candidate of a non-traditional political party, compared to municipalities where the elected mayor represented one of the traditional political parties of Colombia. Nevertheless, it is still not clear why this happened or which were the forces behind this change in the budgetary process of these particular places. This section is devoted to argue that the reason the effect was concentrated in this group of municipalities was that, unlike others, these were the towns where the de-facto access to political power was increased and hence the ones where a candidate selection effectively occurred before elections. The remainder of this section is divided as follows: in subsection 6.1 I present the results of my baseline estimation, breaking down the expenditure components in order to establish which were the ones more affected by the reform. Next, in 6.2, I decompose the treatment group in order to identify those candidates that had faced a greater restriction previous

Table 9: Effect of the victory of a third-party candidate over each public expenditure item. Breakdown of the dependent variable.

Dependent Variable: Logarithm of Public Expenditure by item							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>Item:</u>	<u>Total</u>	<u>Functioning</u>	<u>Payroll</u>	<u>Ordinary</u>	<u>Local Transferences</u>	<u>Investment</u>	<u>Debt Service</u>
Victory of a Third Party X Post (1988)	0.0624* (0.0327)	0.0803** (0.0319)	0.0187 (0.0294)	0.141*** (0.0516)	0.232*** (0.0778)	-0.0485 (0.101)	0.297 (0.186)
Constant	7.993*** (0.00996)	7.677*** (0.00959)	6.962*** (0.00806)	6.447*** (0.0179)	5.604*** (0.0280)	6.129*** (0.0342)	4.839*** (0.0576)
Observations	6,669	6,660	6,633	6,592	6,446	6,323	3,143
R-squared	0.630	0.409	0.439	0.203	0.105	0.452	0.220
Fixed Effects:							
Year	✓	✓	✓	✓	✓	✓	✓
Municipality	✓	✓	✓	✓	✓	✓	✓

All standard errors are robust and clustered by municipality, *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 984 municipalities and 7 years (1984 to 1990). Post (1988) is a dummy that equals 1 for the years 1988-1990. Column (1) shows the investigation's baseline results. Fixed effects not shown to save space. All regressions include a full set of political preferences controls.

to the reform, and argue that it was in these places where the selection effect had a greater role in modifying the public expenditure trail. Finally, 6.3 to 6.7 are subsections devoted to provide evidence against the main alternative explanations to these results.

6.1 Expenditure Break-Down

To begin with the exploration of the mechanisms behind the rise in public expenditure, I present table 9 which shows the results of estimating my baseline model using different expenditure categories as dependent variable. The table shows how every one of these components increased after the reform and how this effect was different in municipalities that elected a third party candidate, when analyzing ordinary expenses, local transferences and functioning expenditure.

An important result of table 9 is the lack of significance of the interest coefficient (β) when estimating the effect of the reform over the investment item. Given that this is the most noticeable form of public expenditure, the argument of Rogoff (1990) suggest that this should be the item where the effect should be most prevalent (this was confirmed by Drazen and Eslava (2010) and Namen (2011)). Nevertheless, the interpretation that follows the line of discussion conducted in this paper is that this lack of significance (and the concentration of the effect in other items) is ascribable to the voters preferences. Particularly, total public expenditure rose more in municipalities that elected a third

party candidate (compared with those that elected a mayor of a traditional political party) because the voters of these municipalities wanted a higher expenditure level. Furthermore, the analysis between expenditure components shows that these voters had preferences for a larger state (hence, the effect in local transferences, functioning and ordinary expenses) and were not looking for a higher level of public investment. Thus, the “non-result” of table 9 actually gives an insight in the reason behind the differential effect between sample groups.

6.2 Selection

Having established the precise items through which the increase in expenditure occurred, the next step in the analysis is to identify the selection effect behind the results. In order to do this, I present table 10, in which I show the results of estimating (1), breaking down the *Treatment* group into two sub-groups: Municipalities that elected an openly left-wing candidate, and those in which another kind of third party won the elections (recall the explanation developed in 4.3 regarding the identification of left-wing parties). The reason behind this division is that, arguably, left-winged parties were the ones that historically had faced a greater restriction for power before the reform, given that their ideological origins trace back to the partisan violence that Colombia suffered during the mid century and the following establishment of the National Front.

Table 10 shows how the effect of belonging to the *Treatment* group over total public expenditure is concentrated in those municipalities where a left-wing party won, in as much as belonging to this group represented an additional rise in public expenditure of 1.2 standard deviations when compared to municipalities that elected either a traditional party’s candidate or the representative of non-left third parties. When analyzing the different components of public expenditure, it is noticeable that this effect is due to the rise in functioning and payroll expenses. The main conclusion that can be drawn from this table is that it was precisely in the places where a previously more excluded candidate won where the budgetary process of such municipality suffered the greatest transformation.

I interpret this last set of results as the direct effect of an increased selection of candidates for a number of reasons. In first place, they show how the transformation of the budget assignation inside a municipality was modified thanks to the enfranchisement

Table 10: Effect of the victory of a Left-Wing party candidate over each public expenditure item. Breakdown of the treatment group.

Dependent Variable: Logarithm of Public Expenditure by item							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>Item:</u>	<u>Total</u>	<u>Functioning</u>	<u>Payroll</u>	<u>Ordinary</u>	<u>Local Transferences</u>	<u>Investment</u>	<u>Debt Services</u>
Victory of a Left-Wing party X Post(1988)	0.173* (0.0942)	0.164** (0.0710)	0.165*** (0.0638)	0.110 (0.137)	0.258 (0.158)	0.119 (0.295)	0.461 (0.446)
Victory of Other Third-Party X Post(1988)	0.0568 (0.0370)	0.0456 (0.0330)	-0.0206 (0.0303)	0.121** (0.0521)	0.205** (0.0853)	-0.0932 (0.105)	0.312 (0.212)
Constant	7.994*** (0.0100)	7.677*** (0.00959)	6.962*** (0.00804)	6.447*** (0.0179)	5.604*** (0.0280)	6.129*** (0.0342)	4.838*** (0.0576)
Observations	6,662	6,660	6,633	6,592	6,446	6,323	3,143
R-squared	0.630	0.409	0.441	0.202	0.105	0.452	0.220
Fixed Effects:							
Year	✓	✓	✓	✓	✓	✓	✓
Municipality	✓	✓	✓	✓	✓	✓	✓

All standard errors are robust and clustered by municipality, *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 984 municipalities and 7 years (1984 to 1990). Post (1988) is a dummy that equals 1 for the years 1988-1990. Categorization of parties was done according to their ideological basis, and candidate identification is based on the affiliation each candidate reported in the 1988 electoral race. For more information, consult the data section of this paper. The sum of Left-Wing and Other Third parties is equivalent to the original treatment group. Fixed effects not shown to save space. All regressions include a full set of political preferences controls.

of voters, which means that the rise in expenditure can be attributed to public policy better suiting with public preferences. The fact that this direct effect is concentrated in expenditure items related to the government operation suggests that voters had preferences towards a larger state. Second, the fact that the two dominant parties did not attain power in all municipalities once public offices became contested shows that their ideologies and policies were not faithfully representing those of the majority in certain municipalities.¹⁶ Third, the results show how all kinds of parties managed to select candidates that could win an election (and in fact did), and more importantly, that minor parties succeeded in selecting a representative that was so good in the eyes of the voters that it defeated the political machinery of traditional movements. Last, the behavior (in terms of policy making) of these previously excluded candidates differed from that of the other ones, meaning that (and in light of the discussion developed earlier on this paper) the selection of candidates previous to the democratic elections played a role in determining public expenditure behavior.

The remainder of this section is devoted to argue in favor of the selection-effect

¹⁶The previous statement suggests that traditional parties had to act strategically in order to secure the victory in as many places as possible. Nevertheless, such conclusion exceeds the scope of this paper and thereby is presented as a merely speculative statement.

approach adopted in this paper, discarding several alternative explanations that may rise from table 10. I will provide evidence against the possibility that third-party mayors could have used public expenditure strategically, scenarios of clientelism, lack of experience of the elected third party mayors, influence of the national government and partisan driven expenditure.

6.3 Public Expenditure and Strategic Behavior

The first competing explanation is the one that views the policy decisions of a newly elected candidate strategically and relate them to the probability of reelection. More precisely, this strand of literature (in which Alesina and Tabellini (1990) is perhaps the most noteworthy reference) states that any decision that a candidate adopts is a function of his probability of being reelected, and thereby officers with low future perspectives could have incentives to act in such a way that their personal private benefits are maximized independently of the voters preferences¹⁷. In the particular case of Colombia's 1986 electoral reform, this means that mayors elected as minor parties representatives could have had incentives to act strategically, spend as much as they could during their term in office (thereby maximizing their benefits), given that the probability of them (their party) winning a future election was negligible. If this was true, then the results shown up until now are only reflecting the strategic use of public expenditure.

In order to address this issue I present table 11, which again estimates (1) controlling by the electoral support received.¹⁸ More precisely, this table includes the percentage of votes for the winning candidate as an independent variable, as well as the triple interaction between such measure, *Treatment* and *Post*¹⁹. The aim of this table is to show that, all other factors constant, a municipality that elected a candidate from a third party by a greater margin saw a larger increase in public expenditure level when compared to a municipality that elected a candidate of the same party by a lower margin. This, in turn, would mean that third parties modified more the public

¹⁷For a complete exposition of these arguments, consult Fergusson and Suarez (2011).

¹⁸I do not breakdown the treatment group in these regressions in order to preserve the power of my hypothesis tests.

¹⁹All lower-grade interactions are included as well. All continuous variables are demeaned to facilitate coefficient interpretation.

Table 11: Strategic Behavior.

Effect of the victory of a third-party candidate over each public expenditure item and percentage of votes for winning candidate.

Dependent Variable: Logarithm of Public Expenditure by item							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>Item:</u>	<u>Total</u>	<u>Functioning</u>	<u>Payroll</u>	<u>Ordinary</u>	<u>Local Transferences</u>	<u>Investment</u>	<u>Debt Service</u>
Victory of a Third Party X Post(1988) (Treatment)	0.0815** (0.0365)	0.0720** (0.0323)	0.0141 (0.0296)	0.135*** (0.0517)	0.210*** (0.0789)	-0.0528 (0.100)	0.352* (0.194)
Voting difference for winner X Post(1988) (Votes)	-0.134 (0.0862)	-0.201** (0.0802)	-0.114 (0.0707)	-0.125 (0.140)	-0.614*** (0.202)	0.0430 (0.250)	0.505 (0.468)
Triple Interaction (Votes X Post(1988) X Treatment)	0.376* (0.230)	0.464** (0.219)	0.254 (0.176)	0.584* (0.335)	0.783 (0.477)	1.031 (0.682)	-2.137 (1.337)
Constant	7.993*** (0.00996)	7.677*** (0.00964)	6.961*** (0.00803)	6.446*** (0.0180)	5.605*** (0.0282)	6.128*** (0.0347)	4.831*** (0.0583)
Observations	6,662	6,660	6,633	6,592	6,446	6,323	3,143
R-squared	0.631	0.411	0.439	0.203	0.107	0.452	0.221
Fixed Effects:							
Year	✓	✓	✓	✓	✓	✓	✓
Municipality	✓	✓	✓	✓	✓	✓	✓

All standard errors are robust and clustered by municipality, *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 984 municipalities and 7 years (1984 to 1990). Post (1988) is a dummy that equals 1 for the years 1988-1990. Voting difference for winner is defined as the percentage difference in votes received between the winning candidate and all of the contestants. Voting difference is demeaned and thereby the interpretation of the last coefficient is done around the mean value. All lower grade (double and linear) interactions included, but not reported to save space (as well as fixed effects). All regressions include a full set of political preferences controls.

expenditure level in those places where the preferences of the population were more aligned with their ideology and, thereby, they had a greater probability of winning subsequent elections.²⁰

This table (11) shows how the level of expenditure fell after the reform in those places where the difference in favor of the winning candidate was larger, but rose if the latter represented a minor party. The effect of electing a third-party representative by a margin 1% greater than the average over total public expenditure is 4 times larger than the aggregate effect of electing this type of candidates, 3.5 times when using functioning expenditure as dependent variable, and roughly equal when analyzing local transfers²¹. The main conclusion drawn from this table is that third-party candidates that won by a greater margin were the ones that modified the expenditure trail the most. This is

²⁰Although, by the definition of the treatment group, minor parties did not have an organizational structure that could guarantee their participation in every election held, it is arguable that in any case they did not have incentives to harm the possibility of attaining power in the future.

²¹Although not statistically relevant, coefficients for all other dependent variables studied present the same sign and magnitude properties, suggesting that this behavior was generalized between expenditure components.

evidence against the strategic use of public expenditure given that candidates that were more heavily supported - and therefore their party faced a larger probability of being reelected- were the ones that spent more. This means that the rise in this variable was not reflecting a strategic behavior of the mayors, but rather a closer representation of the voter's preferences. Even more, the results in table 11 suggest that, if any, the mayors that represented traditional parties were the ones that were spending strategically.

6.4 Clientelism

Another alternative explanation to my results is that the modification of the expenditure trail was the result of a clientelistic bargain between the elected mayor and a certain group of voters²². According to this view, the rise in public spending is the reflection of the mayor paying a certain group of population for their votes (possibly with targeted expenditure or bureaucracy), and can not be interpreted as a closer reflection of public preferences. In order to provide evidence against this view, I present table 12 in which I once again estimate equation (1), but this time controlling for the support given to third parties in the elections held for Congress between 1978 and 1986. An important issue to point out is that I employ support in legislative elections at a national level for two reasons: In first place, using national legislative elections information discards the possibility that the results of these previous elections were also driven by clientelism²³. On the other hand, I use these type of contests to show that the support was not for a particular candidate, but for the alternative movement (and thereby for their preferences) as a whole.

The reasoning behind this exercise is the following: If the particular change in the public expenditure trail that occurred in the municipalities that elected a third-party candidate is reflecting a clientelistic transaction between the mayor and the voters (payment for votes received), there should be no relation between the votes for third-parties in previous legislative elections and the expenditure level after 1988 (there was no pay-

²²The payment for clientelism can adopt many forms according to economic literature. It can be the case that the voters receive bureaucracy (jobs) in exchange for their support (as in Robinson and Verdier (2013)), or a scenario in which the payment is made in the form of target expenditure (pork-barrel). A complete explanation of the latter case can be found in Stokes et al. (2013).

²³Legislative offices could not directly influence local bureaucracy and expenditure, unlike executive ones, given that these kind of jobs were linked with the latter branch of public power in Colombia.

Table 12: Clientelism.

Effect of the victory of a third-party candidate over each public expenditure item and historical support for third parties.

Dependent Variable: Logarithm of Public Expenditure by item							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>Item:</u>	<u>Total</u>	<u>Functioning</u>	<u>Payroll</u>	<u>Ordinary</u>	<u>Local Transferences</u>	<u>Investment</u>	<u>Debt Service</u>
Victory of a Third Party X Post(1988) (Treatment)	0.0906** (0.0371)	0.0687** (0.0333)	0.00341 (0.0301)	0.133** (0.0544)	0.236*** (0.0838)	0.0500 (0.108)	0.272 (0.198)
Historical Support X Post(1988)	0.000111 (0.000857)	0.000846 (0.000647)	-0.000792 (0.000716)	0.00173** (0.000834)	0.00571*** (0.00166)	-0.00808*** (0.00269)	-0.0154*** (0.00245)
Triple interaction: (Historical Support X Post(1988) X Treatment)	-0.00133 (0.00122)	-0.00131 (0.000966)	0.000676 (0.000930)	-0.00271** (0.00122)	-0.00699*** (0.00241)	0.00192 (0.00340)	0.0147 (0.00894)
Constant	8.011*** (0.00992)	7.694*** (0.00948)	6.979*** (0.00796)	6.459*** (0.0179)	5.633*** (0.0282)	6.138*** (0.0343)	4.839*** (0.0571)
Observations	6,533	6,531	6,505	6,464	6,323	6,202	3,114
R-squared	0.633	0.408	0.436	0.201	0.105	0.457	0.231
Fixed Effects:							
Year	✓	✓	✓	✓	✓	✓	✓
Municipality	✓	✓	✓	✓	✓	✓	✓

All standard errors are robust and clustered by municipality, *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 984 municipalities and 7 years (1984 to 1990). Post (1988) is a dummy that equals 1 for the years 1988-1990. Historical support is defined as the voting average for third parties in the nationwide legislative elections held between 1978 and 1986. Historical support is demeaned and thereby the interpretation of the last coefficient is done around the mean value. All lower grade (double and linear) interactions included, but not reported to save space (as well as fixed effects). All regressions include a full set of political preferences controls.

ment being made at the time). In contrast, if these results are actually showing a convergence between the voters preferences and the economic policy of a municipality, then public expenditure should be positively correlated with the support given to these kind of parties in previous elections (regardless of the type) given that this support is a measure of the preferences of the voters. If preferences over public policy are persistent in time (i.e. they do not change from election to election), then places that had historically supported third parties because their ideologies better represented them should have been the ones where, once voters could select their mayor (and effectively elected a third party candidate), public expenditure experienced the greatest transformation. Thereby, the triple interaction between $Post_{1988t}$, $Treatment_m$ and $HistoricalSupport_m$ should be positive; more extreme preferences (larger historical support) should be translated into an equally bigger shift in public expenditure.

The previous table (12) shows how public expenditure behaved in municipalities, differentiating the effect according to the historical support given to third parties. The results are somehow disappointing given both the lack of statistical relevance of the presented coefficients and the extreme variation of the baseline result. Historical sup-

port seems to be uncorrelated with the level of total public expenditure, functioning expenses and payroll, while positively correlated with the level of ordinary expenses and transferences made to other local entities. In contrast, the level of investment and debt service payments is negatively correlated with this variable. When analyzing the triple interaction (coefficient of interest), it is noticeably the lack of significance of the coefficients in all specifications but those that use ordinary expenses and local transfers as dependent variable. In these two particular cases, the triple interaction has a negative and highly significant coefficient that, when added with lower interactions, shows that electing a third party candidate in places that historically support these type of parties reduces the level of public expenditure after the electoral reform took place (when compared to a place that elected a traditional party candidate). This result is concerning as it points towards the existence of a clientelistic transaction in such places, which in turn could mean that the driving force behind my results is actually this one and not the selection effect I have argued in favor of. Nevertheless, this effect is concentrated in the expenditure items that were affected by the election of non-left wing candidates and this, in turn, could mean that the officials that incurred in a clientelistic transactions were the ones that belonged to one of this parties. Once again, this last statement is only speculative as the sample size does not allow me to test it. Nevertheless, the results presented in this document do not allow me to rule out the presence of a clientelistic bargain between an elected mayor and the voters after the electoral reform of 1986.

6.5 National Government Transfers

One more alternative explanation to my results is that municipalities that elected a third party had a larger income after the elections due to an increased level of transfers from the national government. If this was the case, then the rise in public expenditure is only reflecting the equally increased amount of resources these places had and therefore did not depend on the political identity of the winner of such elections. To discard this hypothesis I present table 13 in which I estimate my baseline model using central government transfers, the inverse hyperbolic sine transformation of this variable²⁴ and

²⁴The Inverse Hyperbolic Sine Transformation of variable x is defined as:

$$IHS(x) = \log(x + \sqrt{x^2 + 1})$$

Table 13: Effect of the victory of a left-wing party candidate over national government transfers.

Dependent Variable:	National government transfers		Inverse Hyperbolic Sine Transformation		Logarithm of non-tax income	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Interaction between Post (1988) and the victory of a:</i>						
Third Party candidate	212.9 (1.079)		-0.447 (0.414)		0.101*** (0.0388)	
Left-Wing Party candidate		4.218 (4.263)		1.068 (1.094)		0.156 (0.0974)
Other Third-Party candidate		-715.3 (845.1)		-0.771* (0.432)		0.0804** (0.0399)
Constant	246.8 (896.5)	246.8 (896.6)	0.778*** (0.0917)	0.778*** (0.0917)	9.503*** (0.0115)	9.503*** (0.0115)
Observations	3,213	3,213	3,213	3,213	6,680	6,680
R-squared	0.015	0.016	0.100	0.102	0.878	0.878
Number of municipalities	459	459	459	459	984	984
Fixed Effects:						
Year	✓	✓	✓	✓	✓	✓
Municipality	✓	✓	✓	✓	✓	✓
Political Controls	✓	✓	✓	✓	✓	✓
<small>All standard errors are robust and clustered by municipality. *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 984 municipalities and 7 years (1984 to 1990). Post (1988) is a dummy that equals 1 for the years 1988-1990. National government transfers are a sub-category of non-tax income. Categorization of parties was done according to their ideological basis, and candidate identification is based on the affiliation each candidate reported in the 1988 electoral race. For more information, consult the data section of this paper. The sum of Left-Wing and Other Third parties is equivalent to the original treatment group. Fixed effects not shown to save space. All regressions include a full set of political preferences controls.</small>						

the logarithm of non-tax revenue as dependent variables. The purpose of this table (13) is to show that all none of these variables was correlated with the victory of a left-wing party, and thereby that the concern discussed above is not valid in this particular case.

Odd columns of table 13 shows the effect of electing a third party mayor over each of the dependent variables discussed above, whilst even ones break down each of these effects according to the ideological nature of each of these elected third party mayors (left or non-left parties). Although the first two columns suggest that the political identity of the party that won the 1988 elections did not affect the amount granted by the central government to a municipality, these specifications are not very trustworthy given the reduction in the sample size used²⁵. I use the inverse hyperbolic sine transformation of transfers as a dependent variable in columns 3 and 4 given that this item has a lot of zeros in my sample and therefore it is not reliable to use the logarithm transformation used in previous specifications. The interpretation of the results in these two columns is analogue to the one given to a log-linear model²⁶, and thereby allow me to rule a

²⁵This reduction was due to the availability of data.

²⁶This interpretation is possible due to the fact that the values that transfers take when they are

differential effect of national government transfers over public expenditure when the elected mayor of a municipality belongs to a left-wing party.

Finally, I use the logarithm of total non-tax revenue²⁷ (variable for which I have more reliable data) as dependent variable in columns 5 and 6 in order to estimate my baseline model and show that this proxy of transfers is likewise not correlated with the political identity of the elected mayor. Column 5 shows that electing a third party candidate rises the amount transferred to a municipality after elections in 10%, when compared to a municipality that elected the candidate of a traditional party. In the same direction, the results in column 6 show that the previous effect is concentrated in the municipalities that elected a non-left third party, while electing a left-wing mayor had no effect over the amount received from the national government. These two last columns show that effectively there was a relation between the political ideology of the mayor elected in 1988 and the amount of resources national government gave a municipality. Nevertheless, they show that this relation does not affect the municipalities that elected left-wing candidates (as it is dominated by the “other kind” of third parties) and thereby does not invalidate the selection effect interpretation given to all previous results.

6.6 Partisan ideology and the role of traditional parties

The level of public policy set by parties that differ in their ideological positions should likewise be different. If this was the case, then the additional increase in public expenditure that municipalities where a left-wing party won the 1988 mayor elections can be explained by the mere fact that these type of parties are likely to spend more. If the latter is true, then the level of expenditure should correspondingly differ between municipalities where the Liberal party won and those where the Conservative one did. Nevertheless, ideology has not been a determinant factor in Colombian political history (Escobar and Osorno (2015)), inasmuch as the ruling elite of both traditional political parties traces back to the same source. Thereby, I argue that my results are not being driven by a mere partisan ideology but by an effective selection process of candidates. In order to provide evidence against this partisan explanation of my results, I present table 14.

not zero are larger than 1.

²⁷Transfers from national government is one of the 6 items that, summed up, compose the non-tax income. Other items are: fines, commercial operations revenue, rent and voluntary contributions.

Table 14: Effect of the victory of a Liberal party candidate over total public expenditure. Robustness Regressions

Dependent Variable: Logarithm of Total Public Expenditure				
	(1)	(2)	(3)	(4)
Interaction between Post (1988) and the victory of a:				
<i>Third Party candidate</i>	0.0873** (0.0365)		0.155*** (0.0431)	
<i>Liberal Party candidate</i>			0.0998*** (0.0307)	0.0260 (0.0209)
<i>Left-Wing Party candidate</i>		0.173* (0.0942)		0.179* (0.0954)
<i>Other Third-Party candidate</i>		0.0568 (0.0370)		0.0624* (0.0371)
Constant	7.994*** (0.0100)	7.994*** (0.00999)	7.994*** (0.0100)	7.994*** (0.0100)
Observations	6.662	6.662	6.662	6.662
R-squared	0.630	0.632	0.630	0.630
Number of municipalities	983	983	983	983
Fixed Effects:				
Year	✓	✓	✓	✓
Municipality	✓	✓	✓	✓
Political Controls	✓	✓	✓	✓

All standard errors are robust and clustered by municipality. *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 984 municipalities and 7 years (1984 to 1990). Post (1988) is a dummy that equals 1 for the years 1988-1990. Categorization of parties was done according to their ideological basis, and candidate identification is based on the affiliation each candidate reported in the 1988 electoral race. For more information, consult the data section of this paper. The sum of Left-Wing and Other Third parties is equivalent to the original treatment group. Fixed effects not shown to save space. All regressions include a full set of political preferences controls.

The first column of table 14 show the baseline results of this investigation, while column 2 shows the selection effect identified earlier in this section. Column 3 begins by estimating the same baseline model, dividing the control group between those municipalities where the candidate of the liberal party won the elections, and those where the conservative one did (used as reference thereby not shown). This column shows that a municipality that elected a liberal candidate saw a rise in expenditure 9% bigger than one that elected a conservative one, and how when the elected official belonged to a third party this effect rises up to 15%. Column 4 decomposes even further the sample, as it breaks down the treatment group between left and non-left third parties. In this column it is noticeable that the victory of a liberal candidate no longer has a differential effect over public expenditure, while electing a left-wing candidate still represents an additional effect over total public expenditure of 10% when compared to municipalities that elected other third parties candidates, and of 17% when compared to the ones where the conservative candidate won. This results confirm that partisan ideology did not play a major role in the budgetary process in Colombia, given the historical closeness of political preferences between parties.

Table 15: Fiscal Indiscipline.

Effects of the victory of a left-wing sparty over total public expenditure and debt-service expenses.

Dependent Variable is the logarithm of:	<i>Total Public Expenditure</i>	<i>Debt Service Expenses</i>
	(1)	(2)
Victory of a Left-Wing Party X Post (1988)	0.173* (0.0942)	0.461 (0.446)
Victory of Other Third-Party X Post (1988)	0.0568 (0.0370)	0.312 (0.212)
Constant	7.994*** (0.0100)	4.838*** (0.0576)
Observations	6,662	3,143
R-squared	0.630	0.220
Number of municipalities	983	839
Fixed Effects:		
Year	✓	✓
Municipality	✓	✓
Political Controls	✓	✓

All standard errors are robust and clustered by municipality. *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 984 municipalities and 7 years (1984 to 1990). Post (1988) is a dummy that equals 1 for the years 1988-1990. Categorization of parties was done according to their ideological basis, and candidate identification is based on the affiliation each candidate reported in the 1988 electoral race. For more information, consult the data section of this paper. The sum of Left-Wing and Other Third parties is equivalent to the original treatment group. Fixed effects not shown to save space. All regressions include a full set of political preferences controls.

6.7 Lack of experience and fiscal indiscipline

One last alternative explanation to my result is that elected mayors that belonged to third parties (and particularly to left-wing ones) shared a particular characteristic that made them both win their respective races and prefer a higher level of public expenditure. This hypothesis presents itself as an identification challenge given that there are many personal features that by definition are very difficult to measure as, for example, the ability a certain candidate has to speak in public venues or how they relate to other people. Nevertheless, in order for any of these attributes to threaten my results, it must be true that there exists a correlation between the officials characteristics and his/her preferences over public expenditure level.

One characteristic that shared all third-party candidates was that they lacked experience in public offices at the moment they were elected.²⁸ This inexperience could have led to an irresponsible use of public expenditure and thus to a differential effect of electing one of these candidates as mayors. If the latter is true, then the expendi-

²⁸Following the discussion conducted in the first two sections, they were making their debut in an election and thereby as mayors.

ture item that should have been more affected by this kind of behavior are the debt related expenses. Table 15 studies the relation between this item and electing a third party mayor. Column 1 shows the selection effect result, whereas columns 2 shows the results of estimating each of this model using debt service expenses as dependent variable. As it can be noticeable, there is no relation between the party affiliation of the elected mayor and the level of debt service expenses, which allows me to conclude that inexperience of third party officials is not the driving force behind my results.

7 Conclusion

In this paper I studied the effect over public expenditure that the electoral reform of 1986 had in Colombian municipalities. This reform introduced elections for the mayor's office for the first time in Colombian history, and thereby changed the nature of the functionaries that came to power afterwards. Using a political economy approach, I argued that such reform increased the selection of candidates previous to the democratic contest bringing public policy closer to the voter's preferences. I found that the reform increased public expenditure in all of Colombian municipalities, and that this effect was 8% greater in those places where a non-traditional political movement won the contest, compared to municipalities that elected the candidate of a traditional party. To decompose even further this result, I broke down the group of non-traditional political parties and identified the left-wing ones, arguing that they were the ones that represented the biggest break from political history in Colombia, and found that municipalities that elected a candidate from one of these parties saw a rise in public expenditure 17% greater than those places that elected other kind of officials (both representatives from other type of third parties and from traditional ones). Finally, I tested alternative hypothesis and concluded in favor of my selection effect interpretation of the results.

This paper shows how enfranchising excluded segments of the population has a direct effect over policy making, and how it's consequences may vary according to the particular context in which this enfranchisement takes place. When democratically elected, mayors have different incentives shaping their decisions, and voters have the ability to reward and/or punish their performance. This emerging tension can give birth to several outcomes in terms of public policy and, consequently, has to be further studied in order to achieve a greater comprehension of it. Three main lines of work are suggested

in order to improve the analysis of the electoral institutions in Colombia. First of all, it would be of great value to point out precisely the party affiliation of those mayors that ruled each municipality between 1958 and 1988 in order to explore the variation in the preferences of traditional parties. On the other hand, the institutional arrangement in Colombia was completely modified after the 1990 Constitutional Assembly and, amongst others, a new regulation for political parties was established. This new law gave birth to several minor parties and weakened the rule of traditional ones, so it would be very enlightening to evaluate the effect of this reform with a political economy approach similar to the one adopted in this paper. Finally, it is important to give the clientelism story a deeper look and, as far as possible, try to point out its prevalence and effect over economic outcomes in Colombia.

References

- D. Acemoglu, S. Johnson, and J.A. Robinson. “Institutions as a fundamental cause for long-run growth”, chapter 6, pages 386–464. Elsevier, 2005.
- A. Alesina and G. Tabellini. “*A Positive Theory of Deficits and Government Debt*”. Review of Economic Studies, 57:403–414, 1990.
- A. Alesina and G. Tabellini. “Bureaucrats or Politicians? A single policy task”. *American Economic Review*, 97(1):169–179, 2007.
- A. Alesina and G. Tabellini. “*Bureaucrats or Politicians? Part ii: Multiple policies tasks*”. Journal of Public Economics, 92:426–447, 2008.
- S. Ansolabehere and J.M. Snyder. “The incumbency advantage in U.S. elections: An analysis of state and federal offices, 1942-2000”. *Election Law Journal: Rules, Politics and Policy*, 1(3):315–338, 2002.
- S. Ashworth. “*Electoral Accountability: Recent Theoretical and Empirical Work*”. Annual Review of Political Science, 15:183–201, 2012.
- R. Barro. “The control of Politicians: An economic model”. *Public Choice*, 14:19–42, 1973.
- R. Bernal and X. Peña. “Guía Práctica para la Evaluación de Impacto”. Centro de Estudios sobre el Desarrollo Económico. Facultad de Economía, 2011.
- T. Besley. “Principled Agents? The Political Economy of Good Government”. Oxford University Press, 2006.
- T. Besley and S. Coate. “*Elected versus Appointed Regulators. Theory and Evidence*”. NBER working papers, 7579, 2000.
- Colombia Nunca Más. Consolidación y exterminio de la oposición política en el Bajo Nordeste Antioqueño, 2001. URL <http://www.derechos.org/nizkor/colombia/libros/nm/z14I/cap8.html>. Accessed: November 17, 2015.
- Corporación Acción Humanitaria por la Convivencia y la Paz del Nordeste Antioqueño. Segovia, 22 años después, 2010. URL <http://prensarural.org/spip/spip.php?article4811>. Accessed: November 17, 2015.

- A. Drazen and M. Eslava. “Electoral manipulation via voter-friendly spending: Theory and evidence”. *Journal of development economics. Elsevier.*, 92(1):39–52, 2010.
- J.C. Escobar and E.Z. Osorno. “Acerca de los estudios sobre partidos políticos en Colombia”. *Reflexión Política*, 1434:36–49, 2015.
- M. Eslava. “Ciclos políticos de la política fiscal con votantes opuestos al déficit. El caso colombiano”. *El Trimestre Económico*, 0(290):289–336, 2006.
- J.D. Fearon. “Electoral Accountability and the Control of Politicians: Selecting Good Types Versus Sanctioning Poor Performance”, chapter 2, pages 55–97. Cambridge university Press, 1999.
- L. Fergusson and G. Suarez. “Política Fiscal. Un enfoque de tributación óptima.”. Centro de Estudios sobre el Desarrollo Económico. Facultad de Economía, 2011.
- L. Garay. “Colombia: estructura industrial e internacionalización 1967-1996”. Departamento Nacional de Planeación, 1998.
- A. Gómez-Suárez. “La coyuntura geopolítica generada por la destrucción de la Unión Patriótica (1985-2010)”. *Estudios Políticos*, 43:180–204, 2013.
- S. Hirano and J.M. Snyder. “Primary Elections and the Quality of Elected Officials”. *Quarterly Journal of Political Science*, 9(4):473–500, 2014.
- Misión de Finanzas Intergubernamentales. “Informe Final”. Departamento Nacional de Planeación. DNP, 1981.
- O.L. Namen. “La elección popular de alcaldes: Una herramienta para acercar el gasto público los votantes? Evidencia sobre la composición del gasto público en los municipios colombianos, 1984-1990”. *Master’s thesis, Universidad de Los Andes*, 2011.
- M. Osborne and A. Slivinski. “A model of political competition with citizen-candidates”. *The Quarterly Journal of Economics*, 111(1):65–96, 1996.
- M. Pachón and F. Sánchez. “Base de datos sobre resultados electorales CEDE, 1958-2011”. *Documentos CEDE*, 29, 2014.
- T. Persson and G. Tabellini. “Political Economics. Explaining Economic Policy”. MIT Press, 2000.

J. A. Robinson and T. Verdier. "The Political Economy of Clientelism ". The Scandinavian Journal of Economics, 115(2):260–291, 2013.

J. Roemer. "Political Competition: Theory and Applications". Harvard University Press, 2001.

Kenneth Rogoff. "*Equilibrium Political Budget Cycles*". American Economic Review, *80(1): 21–36, March 1990.*

S. Stokes, T. Dunning, M. Nazareno, and V. Brusco. "Brokers, Voters and Clientelism". Cambridge University Press, 2013.

A Variable Definition and Regression Tables

Table A1: Variable Dictionary

Variable	Description	Source
<i>Electoral Results</i>		
<i>Winner party of 1988 mayor elections</i>	Party that won the 1988 major elections. Value equals 1 if neither the Liberal nor the Conservative parties won.	
<i>Measure of elections predictability</i>	Average share of the city council (between 1974 and 1986) in the hands of the party that won the 1988 major elections. (1-average).	All electoral results variables are constructed from the <i>Electoral Results Database</i>
<i>Historic political competitiveness</i>	Absolute value of the voting difference between the winner and the loser parties in the city council elections previous to 1988. (Average)	constructed by [Pachón and Sánchez, 2014] and available at request at the Universidad de Los Andes Economic Faculty data center. The database contain information for every popular election held in Colombia between 1958 and 2011.
<i>Share of voting for winning candidate</i>	Votes for candidate / total voting in the municipality in 1988 major elections.	
<i>Left-Wing parties</i>	Dummy =1 if the winner of the 1988 major elections was (or became) a member of: UP, ANAPO, Progresistas, ASI, Movimiento Civico Independiente, Movimiento Alternativa Democratica, Movimiento Convergencia Ciudadana, or Izquierda Democratica.	
<i>Council overturn</i>	Dummy =1 if the majoritarian party in the city council changed between 1984 and 1988.	
<i>Public Expenditure</i>		
<i>Total public expenditure</i>	All expenses made by a municipalities government in a calendar year.	
<i>Categories of expenditure:</i>		All expenditure related variables are drawn from the database constructed by [Eslava, 2006] and [Drazen and Eslava, 2010] with data from the Colombian Government Accountability Office (<i>Contraloría General de la República de Colombia</i>).
<i>Payroll</i>	Amount spent paying state's bureaucracy.	
<i>Transferences</i>	Transferences made to other local (dependent) entities.	
<i>Ordinary</i>	Amount spent in inputs required for the state's operation.	
<i>Functioning</i>	The sum of transferences, ordinary and payroll expenses.	
<i>Investment</i>	Expenses aimed to the improvement of public patrimony in a municipality.	
<i>Debt-Service</i>	Expenses aimed to pay public debt obligations (completely or partially).	

Variable	Description	Source
<i>Municipal Characteristics</i>		
<i>Province</i>	Sub-Division of Colombian Departments.	Panel CEDE
<i>Total Area</i>	Squared kilometers of a municipality.	Panel CEDE
<i>Traveling distance to state's capital</i>	Road kilometers to the state's capital city.	Panel CEDE
<i>Traveling distance to Bogot</i>	Road kilometers to Colombia's capital city.	Panel CEDE
<i>Traveling distance to closest market</i>	Road kilometers to closest major marketplace.	Panel CEDE
<i>Height above sea level</i>	Meters Above Sea Level (MASL).	Panel CEDE
<i>Population</i>	Total population of a municipality (logarithm).	[Eslava, 2006]
<i>Age</i>	Mean population age in 1985.	National census (1985)
<i>Internal Revenue</i>	Municipal per-capita income (logarithm).	[Eslava, 2006]
<i>Basic unmet needs index</i>	Municipal unmet basic needs index (logarithm).	[Eslava, 2006]
<i>Literacy Rate</i>	Percentage of literate adults in 1985.	National census (1985)
<i>Migration</i>	Percentage of non-native residents in 1985.	National census (1985)
<i>Education</i>	Mean education level of the population in 1985.	National census (1985)
<i>Unemployment</i>	Percentage of unemployed economically active population in 1985.	National census (1985)
<i>Civil State</i>	Percentage of married couples in 1985.	National census (1985)
<i>Occupation by Spaniards</i>	Dummy =1 if the municipality was occupied by Spaniards during colonial times.	Panel CEDE
<i>Indigenous settlements</i>	Dummy =1 if the municipality was a native settlement before colonial times.	Panel CEDE
<i>Land Conflicts</i>	Dummy =1 if the municipality had land property related conflicts during the first half of the XX century.	Panel CEDE
<i>Partisan Violence</i>	Dummy =1 if the municipality was struck by the partisan violence of the 1950's decade.	Panel CEDE

Table A2: Effect of the victory of a third-party candidate over total public expenditure. Historical municipal political preferences as control variables. Base-Line results.

Dependent Variable: Logarithm of Total Public Expenditure							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Victory of a Third Party X Post (1988)	0.0704** (0.0332)	0.0754** (0.0355)	0.0639* (0.0328)	0.0628* (0.0327)	0.0654** (0.0328)	0.0637* (0.0328)	0.0873** (0.0365)
Interaction between Post(1988) and:							
<i>Elections predictability</i>	0.0732* (0.0414)						0.0652 (0.0432)
<i>Historic political competence</i>		-0.0394 (0.0376)					-0.0435 (0.0379)
<i>Occupation by Spaniards</i>			0.0126 (0.0196)				0.0100 (0.0204)
<i>Indigenous settlements</i>				0.00524 (0.0194)			-0.000830 (0.0193)
<i>Violence</i>					-0.0322 (0.0278)		-0.0171 (0.0300)
<i>Land conflicts</i>						-0.0467 (0.0442)	-0.0394 (0.0449)
Constant	7.993*** (0.00997)	7.993*** (0.00996)	7.994*** (0.00999)	7.994*** (0.00998)	7.994*** (0.00998)	7.994*** (0.00997)	7.994*** (0.0100)
Observations	6,669	6,669	6,662	6,662	6,662	6,662	6,662
R-squared	0.630	0.630	0.630	0.630	0.630	0.630	0.630
Number of municipalities	984	984	983	983	983	983	983
Fixed Effects:							
Year	✓	✓	✓	✓	✓	✓	✓
Municipality	✓	✓	✓	✓	✓	✓	✓

All standard errors are robust and clustered by municipality. *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 7 years (1984 to 1990). Post (1988) is a dummy that equals 1 for the years 1988-1990. Occupation by spaniards, indigenous settlements, violence and land conflicts are dummy variables drawn from the CEDEJ panel database that take the value of 1 if a municipality experienced one of these phenomena. Elections predictability corresponds to the average voting received by the party that won the 1988 mayor elections in the city council elections held between 1974 and 1986. Historic political competence is measured as the average absolute value of the voting difference between the winning and losing party in all previous city council elections (1974-1986). All control variables are included linearly in each regression (not shown to save space). Fixed effects not shown to save space.

Table A3: Effect of the victory of a *Unión Patriótica* candidate over total public expenditure.

Dependent Variable: Logarithm of Total Public Expenditure			
	(1)	(2)	(3)
<i>Post (1988) X Victory of a candidate of:</i>			
Third Party	0.0873** (0.0365)		
Non-left third party		0.0568 (0.0370)	0.0479 (0.0362)
Left-Wing party		0.173* (0.0942)	
Patriotic Union			0.174 (0.122)
Other kind of Left-Wing party			0.136 (0.145)
Constant	7.994*** (0.0100)	7.994*** (0.0100)	7.994*** (0.0100)
Observations	6,662	6,662	6,662
R-squared	0.630	0.630	0.630
Number of municipalities	983	983	983
Year	✓	✓	✓
Municipality	✓	✓	✓
Political Controls			
	✓	✓	✓

All standard errors are robust and clustered by municipality. *** p<0.01, ** p<0.05, * p<0.1. All regressions are done by Ordinary Least Squares and use a sample of 984 municipalities and 7 years (1984 to 1990). Post (1988) is a dummy that equals 1 for the years 1988-1990. All regressions include a full set of political preferences controls.