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Elections and Municipal Economic Outcomes, Sweden 1974-1994: Alternative Data and Estimates

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Abstract: In a 2008 article, Per Pettersson-Lidbom uses regression discontinuity to test for Swedish party effects on municipal taxation, spending and employment. His study is based on the assumptions that local coalitions only include nationally represented parties and are stable over the studied time period, 1974-1994. We have instead used a full population data set of actual ruling coalitions, allowing us to relax these assumptions and to include 935 previously undefined cases in the sample. Thereby, we can remove a systematic bias towards excluding center-right coalitions. Using the same estimator as Pettersson-Lidbom we are largely unable to replicate the results in his study. Where Pettersson-Lidbom finds significant party effects, we have found either no, or only weakly significant results.

Key words: political parties, party control, partisan politics, regression-discontinuity design, natural experiments, unemployment, government employees, fiscal policy

JEL: C21, D72, D78, H71, H72

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1. Introduction

In an important study, Pettersson-Lidbom (2008) uses Swedish data and a regression discontinuity design to test whether there are party effects in municipal taxation, spending and employment. Indirectly the study also challenges the classical median voter theorem (Black 1948), which stipulates that political candidates or parties will converge towards the middle in order to woo the median voter. Pettersson-Lidbom finds significant differences between left- and right-wing local governments in Sweden, contradicting the median voter theorem. This is an important research question and the method used is very well suited to the task. Pettersson-Lidbom's study is also valuable since research on the influence of parties in local elections outside the United States is very limited. In the US, Lee, Moretti, and Butler (2004) have shown that congressional voting is highly partisan and that voters in effect elect policies, and Besly and Case (2003) that more elected Democrats in State legislatures increases state spending. On the other hand, Ferreira and Gyourko (2009) have shown that in US cities it does matter whether the Mayor is a Democrat or a Republican when it comes to spending or allocation of spending. Thus, Petterson-Lidbom's results are to some extent both contrary to the theoretical implications of the median voter theorem, and contradict previous research on local elections

Using the same estimator but more detailed data on Swedish municipal coalitions, where we also are able to relax two crucial assumptions on which his study rests, we are however largely unable to replicate his study's findings. Below, our results are presented and an alternative interpretation of the outcome is provided.

2. Empirical Background

As highlighted in Pettersson-Lidbom's article, Swedish municipalities can be regarded as an almost ideal case for testing the problem at hand. All Swedish municipalities have the same electoral system (proportional representation without thresholds) and they all have elections on the same day. All municipalities also have the same tax system and can only tax income from physical persons (as opposed to legal persons like corporations), and only as a proportional tax. These municipal taxes are not deductible from income for the purpose of calculating the tax liability at the national level, and the ability to borrow to finance current spending is also severely restricted which means there is in principle a direct connection between municipal taxes and spending.

In addition, Swedish municipalities are to a large extent regulated when it comes to what services they have to provide. Up towards 80 percent of the municipal activities are implementations of decisions made by Parliament, something which tends to make policy differences between municipalities smaller. Even so, in areas concerning traffic planning, zoning and cultural and leisure activities there is a large amount of municipal self-government, and in practice there is also still room for discretion as concerning the ambition and quality of services provided.

In Pettersson-Lidbom's paper, his approach assumes that the constitution of political coalitions are stable during the 20 years in question, and also ignores the possibility that the emergence of new parties might impact the municipal power relations. We argue that this may however be too strong an assumption for the given time period.

The Swedish political system was during a prolonged period relatively stable. On the national level, no new parties emerged from the introduction of universal suffrage in 1921 to 1988, when the Green Party and the Christian Democratic Party were elected to parliament.² Also on the municipal level

² The two liberal parties, "Liberala Landsföreningen" and "Frisinnade folkpartiet", were however merged in 1928, and a few very small national socialist and communist parties emerged in the 1930s, none of which won any seats in parliament.

the system was stable until the second municipal reform (mergers) in 1970 when local parties emerged in some municipalities.³

Since then, the number of parties represented in municipal assemblies has increased on a large scale. The new parties can be said to roughly constitute four types; One-issue parties (i.e. parties that emerge in order to stop the closure of a school or the construction of a new road, or are founded to represent a specific group of citizens, e.g. students); Parties that represent a specific geographic part of a municipality (often parties that advocate the secession of a part of a municipality they believe is neglected when it comes to municipal services, or exploited as a source of revenue for other parts of the municipality); so-called Good Government parties (parties advocating pragmatic solutions for the betterment of the entire municipality, often founded as a reaction to alleged or real corruption or abuse of power); and national parties (parties with the ambition to eventually gain representation in the national parliament).⁴

Important for the discussion at hand, in order to make Pettersson-Lidbom's method work, new parties that gain representation (and thus can influence the policy decisions taken) must not systematically support a specific political bloc (the left or the right). This assumption is however not in line with empirics as these parties (regardless of type) have almost exclusively supported the center-right when they have been included in ruling coalitions,⁵ and can thus not be argued to be much less politically center-right than the parties included by Pettersson-Lidbom.⁶

Equally important, during the studied time period three new national parties win seats in parliament, and they also gain representation in many municipalities. These new national parties, the Green Party, the Christian Democratic Party and New Democratic Party, always sided with either the left or the right; the Green Party supported left-wing coalitions and the two latter center-right coalitions (when they constituted the majority). This being so despite the fact that both the Green Party and the Christian Democrats, at least initially, described themselves as non-aligned or cross partisan. Also, the New Democratic Party, although usually being described as a right-wing populist party, did rhetorically always try to portray itself as cross partisan.

Out of these three new parties, Pettersson-Lidbom includes the Christian Democratic Party and New Democratic Party in defining a right-wing coalition. Notably however, he treats the Green Party, despite its constant alignment with the left, as a party independent of the left and right blocks and therefore excludes them from his definition of a left-wing coalition.

3. Method and Data

Further, Pettersson-Lidbom assumes the municipal coalitions to be equivalent to those on the national level, i.e. if either the Social Democratic Party and the Communist/Left Party, or the four to five parties included in the center-right coalition (the Moderate Party, Liberal Party, Centre Party, Christian Democrat Party and New Democratic Party), together get more than 50 percent of the vote

³ The first was *Samling för Sigtuna* (Rally for Sigtuna), founded in 1970 and elected to the municipal assembly in 1971.

⁴ See e.g. Wörlund (1999) or Johansson (2010)

⁵ The exceptions are some small communist parties (KFML, KPML(r), APK and SKP) that managed to get seats in a small number of municipal assemblies, mainly in Northern Sweden and Gothenburg. However, these extreme left parties have only been elected to municipalities with strong left-bloc majorities and thus never had more than negligible impact on policy.

⁶ A possible explanation is that these parties often have been formed by former members of center-right parties. The Social Democratic Party, which is the single larger party on the left during the studied time period, seems to have been more apt to retain oppositional or disillusioned politicians or voters. The local parties that represent a specific geographic part of a municipality (*Samling för Sigtuna*, *Tungelstapartiet*, *Nykvarnspartiet*) has e.g. often been formed as a reaction to center-right parties which, due to fear of never being able to win majority support in a municipality if a certain part seceded, have been anti-secession. This might imply both that the voters of secessionist parties to a greater extent come from the center-right and that established center-right parties are more accommodative in order to retain support from all parts of the municipality.

in municipal elections they form a coalition and decide the polices. If neither bloc reaches 50 percent, the municipality in Pettersson-Lidbom’s article, is coded as undefined.

In our estimates, using the exact same estimator as Pettersson-Lidbom, (see Pettersson-Lidbom, 2008, p. 1041) we instead use data showing which parties were included in all actual governing coalitions.⁷ Thereby, we can take into account municipalities were the left or right block governed in coalition with one or more additional parties (The Green Party or local parties), as well as all cases where they were governed by a coalition of fewer parties than what constituted a political bloc on the national level.⁸ Doing so has eliminated all undefined cases, constituting some 20 percent in Pettersson-Lidbom’s study.

4. Empirical Results

As seen in Table 1, where we replicate Pettersson-Lidbom’s tests as concerns fiscal policies, we are only able to replicate a very limited number of the results presented in the original article. This concerns current spending per capita and current spending as a share of income (rows 3 and 4, respectively). Contrary to Pettersson-Lidbom’s result, these estimates are only statistically significant using a limited sample, and without adding any controls. In addition, these variables are significant at a lower 10 percent level of significance as compared to his result. In this regard we should remember that we are dealing with full population data, suggesting we demand high levels of significance so as to assume estimates as having actual relevance.

(TABLE 1 ABOUT HERE)

As concerns party effects on the number of government employees per capita and the unemployment rate (Table 2), we equally find a statistically significant result as concerns local government employees per capita using the limited sample (row 1, column 5), however, this is also at a 10 percent level of significance, as compared to the 1 percent significance level in Pettersson-Lidbom’s original estimate.

(TABLE 2 ABOUT HERE)

These perhaps surprising results are most likely due to the fact that there is a party bias in the undefined cases in Pettersson-Lidbom’s study. Out of those election results regarded as undefined in his study (936 in total) only 375 constitute left majority coalitions, the equivalent of around 40 percent of the undefined cases. The original data used in his study does thereby not represent a random sample, and there is a systematic bias towards excluding center-right coalitions (see Table 3).

(TABLE 3 ABOUT HERE)

⁷ According to the law governing municipalities, the seats in committees cannot be reassigned during the electoral period, regardless of majority changes (e.g. as a result of defections from one party to another). Therefore, this is a good indicator of the majority on the election day:

⁸ This situation may occur in cases when e.g. the Social Democratic Party alone is larger than the four center-right parties and is close to having a majority of the seats, but then decides not to include the Communist/Left Party in a coalition since they assume they can count on them either voting with the Social Democrats or abstain, before voting with the center-right.

5. Discussion and Concluding Remarks

The alternative estimations presented above show that, in the Swedish case and for this specific time period, there is little support for the contention that party differences in economic outcomes can be traced on the municipal level. The only possible conclusion is that such a finding, as in Pettersson-Lidbom's earlier study, depends upon excluding a relatively large share of the center-right coalitions, as well as all coalitions on the left depending on the Green Party. In other words, previous results are valid only when excluding new and emerging parties from the equation, but as we have argued above, the question is then to what extent this more limited sample of the data is better suited to address the theoretical problem at hand.

Contrary to Pettersson-Lidbom's study, our results therefore speak more in favor of the median voter theorem which would predict small, if any, party differences along the lines discussed here.

Another interpretation at hand, less theoretically exciting perhaps but important none the less, is that Swedish municipalities may be too regulated as to what they do and how they finance their activities to be able to trace any measurable differences along party bloc lines.

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Table 1. Party Effect: Fiscal Policies

	1	2	3	4	5	6	7
Log (Total spending per capita)	0.003 (0.008)	0.004 (0.008)	-0.000 (0.008)	-0.001 (0.008)	0.002 (0.011)	0.004 (0.008)	0.007 (0.008)
Log (Total spending as a share of income)	0.008 (0.008)	0.009 (0.008)	0.008 (0.008)	0.008 (0.008)	0.003 (0.010)	0.002 (0.008)	0.006 (0.008)
Log (Current spending per capita)	-0.001 (0.009)	-0.000 (0.009)	-0.003 (0.009)	-0.003 (0.009)	0.025* (0.013)	0.001 (0.009)	0.006 (0.009)
Log (Current spending as a share of income)	0.004 (0.008)	0.005 (0.008)	0.006 (0.009)	0.006 (0.009)	0.026* (0.014)	-0.001 (0.009)	0.004 (0.009)
Log (Total revenues per capita)	0.002 (0.008)	0.003 (0.008)	-0.004 (0.008)	-0.005 (0.008)	-0.002 (0.012)	0.001 (0.008)	0.001 (0.008)
Log (Total revenues as a share of income)	0.007 (0.008)	0.008 (0.007)	0.004 (0.008)	0.004 (0.008)	-0.001 (0.012)	-0.001 (0.008)	-0.001 (0.008)
Log (Proportional income tax rate)	0.004 (0.003)	0.004 (0.003)	0.003 (0.003)	0.003 (0.003)	-0.005 (0.004)	0.004 (0.003)	0.004 (0.004)
Sample	Full	Full	Full	Full	±2	Full	Full
Left vote share polynomial	First	Second	Third	Fourth	None	Fourth	FourthXtime
Controls	No	No	No	No	No	Yes	Yes
Observations	4981	4981	4981	4981	675	4981	4981

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 2. Party Effect: Economic Policies

	1	2	3	4	5	6	7
Log (Government employees per capita)	-0.007 (0.011)	-0.006 (0.011)	-0.008 (0.011)	-0.008 (0.011)	0.023* (0.012)	-0.004 (0.011)	-0.001 (0.011)
Log (Unemployment rate)	0.026 (0.027)	0.022 (0.026)	0.015 (0.027)	0.015 (0.027)	-0.028 (0.058)	0.013 (0.026)	0.022 (0.027)
Sample	Full	Full	Full	Full	±2	Full	Full
Left vote share polynomial	First	Second	Third	Fourth	None	Fourth	FourthXtime
Controls	No	No	No	No	No	Yes	Yes
Observations	4980	4980	4980	4980	675	4980	4980

Note: For unemployment there are 4521 observations

Table 3. Differences, Pettersson-Lidbom and our data

	Pettersson-Lidbom	Lakomaa & Korpi
Total no. undefined majorities	936	0
Total no. left majorities	2478	2853
Total no. center-right majorities	2499	3060