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The political economy of the German Länder deficits: weak governments meet strong finance ministers

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Abstra

We analy ... d 1960 to 2005 an ... olitical economy ... othesis, that is, co ... vernments – a res ... a suggest, this resu ... r within coalition ... ance minister ... party governm ... tical business ... pears that German ... haviour, so party ideology seems to play a negligible role.

Acknowledgements

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Notes

[1] Table A1 in the Appendix offers a more detailed (but still partial) review of the empirical literature related to our study.

[2] We consider a finance minister to be strong when he or she has the same party affiliation as the prime minister.

[3] We ran our empirical models on shorter time periods, including those used in Seitz (2000) and Galli and Rossi (2002) and largely lose significance. In other words, the differenc … to the much longer ti…

[4] In our … fference as well as f…

[5] For the … e German states … data at the state…

[6] In 200… cial Justice' (Wahlalt… y consisted of disap… d new party, The Left…

[7] To som… on with the DIE LINKE. Note, however, that today's Berlin is not a former Western Land.

[8] For an explanation of the variables, see Table A2 in the Appendix.

[9] Of course, one may argue that if the election is early in the year, expenditures should raise in the pre-election year. We discuss this in detail in Subsection 'Political opportunism' of Section V.

[10] Note that we concentrate on public deficits. It may well be that there are no partisan effects in borrowing but in the structure of public spending (see, for instance, Drazen and Eslava, 2005).

[11] An alternative theory that explains higher deficits for coalition governments is offered by Alesina and Drazen (1991) and Alesina and Perotti (1994, pp. 22–29): consider a permanent fiscal shock. Coalition partners will then fight about the allocation of the fiscal burden to the respective constituencies. This situation is well modelled by the 'war of attrition'. In general, delayed adjustment to the fiscal shock will obtain, allowing debt to accumulate.

[12] Note that real debt growth is simply real deficit over real debt.

[13] Definition of all variables can be found in the Appendix in Table A2.

[14] Elections are not uniformly distributed over time. This is why year dummies are correlated with the variables ELECTION and PREELEC. While the ELECTION coefficient is never st … model with time fixe … tive specifica …

[15] One n … l bailout so that the … e in the 1970s in … t, it is hard to im … bailout. More … ent has to step in. … s are endogen …

[16] The H … Note, however … . As this is clearly v … ment and use fixed effects.

[17] He also showed, however, that the bias approaches zero as T tends to infinity. Since T is relatively large in our study (T = 46), the bias is likely to be moderate. Note that although T is much smaller in Seitz (2000, T = 21) and Galli and Rossi (2002, T = 21) both studies use the LSDV estimator.

[18] We consider the regressors summarized in w_{it} as strictly exogenous so that variables themselves and all their lags are valid instruments. Furthermore, note that the AB estimator takes first-order autocorrelation of into account. Thus, neither consistency nor efficiency is affected by first-order autocorrelation. But second-order correlation implies inconsistency (Arellano and Bond, 1991, pp. 281–282).

[19] The estimates with BB as initial estimator have slightly higher SEs. Apart from that, results remain unchanged. The complete estimates for the BB and AH estimators are available upon request.

[20] Deficit data are taken from the Statistisches Bundesamt (Federal Statistical Office) (2005). Data for the GDP was provided by the Statistical Office of Baden Württemberg and the Federal Statistical Office. All nominal numbers were deflated by the consumer price index for all households obtained from the Statistisches Bundesamt (2006). Our main results do not change qualitatively when using nominal values instead. Election dates were taken from Forschungsgruppe Wahlen (Election Research Team) (2007).

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[22] Note t y only differ
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correlati it remains
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[23] Th lection year
effects

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[25] So su 82, would
have 19 bruary 1982

would have 1982 as election year and 1981 as pre-election year.

[26] This robustness is not too surprising since there are only very few elections early in a year (8% of all elections were held in January or February).

[27] Results are independent of the alternative adopted.

[28] Again, in years of government changes, we use the inaugural date of the new government and 1 July as the cut-off date to assign a value to COAL.

[29] There never was a coalition government with more than three parties.

[30] 74% of coalition governments have a prime minister and a finance minister belonging to the same party.

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