

ECONOMIC POLICY AND ELECTORAL OUTCOMES

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This paper studies the connection between economic policy and electoral outcomes. In particular, it analyzes the impact of the conflict between the agro-manufacturing sector and the national government on the congressional elections for national deputies in the 134 municipalities of the province of Buenos Aires — a conflict which stemmed from the increase in taxation and the imposition of quantitative restrictions on the sector's production and exports. The municipalities differ greatly in their productive structures; therefore, a policy that is detrimental (beneficial) to a certain sector of activity may be expected to have a greater negative (positive) impact on the election results for the governing party in those municipalities where that sector is quantitatively important. The estimations show that the relative importance of the agro-manufacturing sector, controlling for economic, social and political variables, had a positive impact on the party in office in 2007 and a negative one in 2009.

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I. Introduction

Fiscal theory evolved from the vision of a benevolent government which took decisions (e.g., on tax rates) with passive adaptation on the part of producers and consumers, towards models that incorporated the economic reaction from those

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agents by modifying their tax behavior as a response to the variables set by the government (changes in the taxable base according to the elasticities of supply and demand, tax avoidance through loopholes, and evasion). At a further stage, politicians and bureaucrats came on scene with their own interests, as well as consumers and producers reacting economically (modifying their tax base) and politically (voting).¹ This study focuses on this last group, observing how economic policy decisions may influence electoral results and how the government may appeal to fiscal instruments to compensate for presumably negative reactions on the part of voters.

The case under study is the connection between election results and fiscal policies in the 134 municipalities of the province of Buenos Aires. The results of the 2007 congressional elections for the partial renewal of deputies at the National House of Representatives were compared to those of the 2009 elections. The municipalities differ greatly in their productive structures, so that a policy that is detrimental (beneficial) to a certain sector of activity may be expected to have a greater negative (positive) impact on the election results for the governing party in those municipalities where that sector is quantitatively important. The policy under consideration in this study is the one related to the agri-food chain (AFC), which has been affected by high and increasing tax rates over exports and by quantitative restrictions which deteriorated the prices paid to the producers (selling quotas, prohibitions on exporting, etc).²

The results suggest that voters take into consideration the effects of public policies at the time of voting and that they change according to whether the policies are for or against their interests. The relative importance of the AFC had a positive impact on the party in power in 2007 and a negative one in 2009. The government, foreseeing a negative reaction on the part of voters, appealed to increases in the conditioned transfers to the municipalities, which had a positive impact on the votes for the ruling party, but could not compensate for the negative impact of the policy on the AFC.

¹ Hettich and Winer (1999).

² See, among others, Nogués and Porto (2007), Bisang (2008) and Foro Agroindustrial (2009).

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