

Democratization and Local Finances: Fiscal Populism in Mexico

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Abstract:

How has increasing political competition affected local spending decisions in transitional democracies? This article explains variation in the composition of municipal spending, focusing on Mexican urban municipalities. Contrary to the conventional wisdom that electoral competition produces more responsive governance, I uncover strong evidence that competitive elections drive municipal governments to underinvest in infrastructure and overspend on current expenditure. I explain this puzzling finding with the concept of *fiscal populism*—a set of budgetary policies meant to be electorally popular in the short run, despite their long-run detrimental developmental effects. Fiscal populism leads to underinvestment through two mechanisms: (1) excessive spending on patronage hiring to reward electoral allies and (2) neglecting to increase own revenue—especially taxes—for fear of electoral costs. This argument is supported through a multi-method research design. A large-n statistical analysis establishes the positive correlation between electoral competition and current expenditure, a relationship that is strongest in the most populous municipalities. A qualitative comparison of eight municipalities uncovers the mechanisms by which electoral competition drives municipal fiscal decisions. My findings have implications for ongoing debates about local government responsiveness, suggesting that the electoral logic behind local public goods provision is more complex than previously believed.

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I. Introduction

Local governments in developing countries have witnessed myriad changes in recent decades, not least of which include decentralization and democratization (Shah, 2006; Bardhan & Mookherjee, 2006; Grindle, 2007). Decentralization has been a policy prescription for developing countries on the grounds of allocative efficiency and the deepening of democracy, by devolving power to local governments and increasing citizen participation. While the depth of decentralization and democratization waves varies by country, they both have accompanied the process of development across the world.

The interaction of electoral democracy at the local level and fiscal decentralization has had important impacts on local governance. Theory predicts that local governments should perform better and be more responsive to citizens under these new circumstances. But, has that been the case? This paper aims to contribute to part of the answer by exploring how electoral democracy has been translated into budgetary decisions in the case of Mexican cities. How have increasing political competition and the incentives posed by new intergovernmental fiscal arrangements affected local spending decisions? Are urban municipalities investing more in much-needed infrastructure and public services to respond to the interests of an increasingly empowered local polity? Or do these pressures instead push urban municipalities to expand spending in other areas that are electoral expedient—such as patronage hiring—yet offer fewer benefits to citizens?

Mexico's process of decentralization was triggered in the early 1980's by the reform of constitutional Article 115, which delineates the fiscal capabilities and limits of municipal governments. The overarching goal of the reform was to increase local governments' fiscal autonomy and to delegate certain functions to these governments, in the hope of improving public services and permitting stronger accountability relationships between citizens and local governments. Mexican municipalities were given power over immovable property (such as the property tax) and land taxation and became responsible for the provision of drinking water, street lighting, parks and gardens, streets and roads, police force, and garbage collection.

Nevertheless, aggregate data suggest that fiscal decentralization has yet to deliver. The average municipality in Mexico has become increasingly dependent on intergovernmental transfers and has not increased its level of investment. Local governments depend on the revenue that federal and state governments transfer—73% of national municipal revenue in 2018 came from intergovernmental transfers; and expenditure composition has varied little through the decades—in 1970, 22% of municipal expenditure was devoted to public works and 23% to the same aim in 2018. Similarly, in 2019, 61% of aggregate municipal expenditure (which represents 2% of GDP) was spent on current expenditure, which has remained the most onerous type of expenditure over the last four decades.

The focus of this article is on the composition of municipal expenditure, where clear contrasts emerge. A conventional breakdown of municipal spending includes investment (public works) and

current expenditure¹ (mainly payroll).² Together, these two categories typically make up over 80 percent of the budget for Mexican municipalities.³ While both forms of expenditure are clearly necessary to run a municipality effectively, there is strong evidence that the typical Mexican municipality drastically under-invests in infrastructure and overspends on current expenditure (Moreno, 2007; Kinto, 2009; Gatica & Soto, 2012). Great variation exists, however. Mexican municipalities range from those that dedicate less than 10% of their spending to investment in public works, such as Ensenada and Gomez Palacio, to those that invest around 25 to 30% of their resources, such as Tehuacán, Valle de Chalco and Cárdenas.

This article seeks to explain variation in the composition of municipal spending, focusing on medium and large-sized (above 100 thousand inhabitants) Mexican cities. Explaining why some municipalities make better allocative decisions than others is important to advance research on local governance and public finance and to guide policy prescriptions in Mexico and beyond. It is worth emphasizing that allocating resources to current or capital expenditures are not *per se* non-responsive or responsive allocations of public money. Both categories are necessary to run a municipality. Paying the salaries of personnel directly involved in the provision of public goods and services could be a responsive way to apportion the budget. Capital projects that are highly visible but have little impact on the welfare of most citizens are hardly the most responsive way to allocate the city's budget. However, in a context in which it is widely acknowledged that municipalities commonly fall prey to underinvestment and overspending on current expenditure, it is important to understand the pressures that push toward the latter.

Underinvesting in infrastructure has negative economic and social consequences (IMF, 2019; Cavallo & Powell, 2019; Sanchez & Srithongrung, 2015). According to the IDB (Inter-American Development Bank), there is an annual \$150 billion shortfall in infrastructure investment across countries in Latin America. The estimated costs of not investing to expand capital stocks in infrastructure can cost the region 15 percent points of forgone GDP in the next 10 years. Moreover, such underinvestment is found to be regressive since poor households devote a higher share of their income to pay for infrastructure services than richer households do (Cavallo & Powell, 2019:81-86).

Contrary to the conventional wisdom that electoral competition produces more responsive governance (Mayhew, 1974; Fiorina, 1981; Przeworski, Stokes, & Manin, 1999; Powell, 2000), I uncover strong evidence that competitive elections drive municipal governments to underinvest in infrastructure and overspend on current expenditure. Municipal governments that face higher levels of electoral competition spend *less* money on much-needed infrastructure investments than

¹ My data source, INEGI (National Institute of Statistics and Geographical Information), classifies the following items as part of municipal investment: public works on schools, hospitals and any construction in areas related to energy, telecommunications, transport, water supply and irrigation works, urban development works, and the improvement of urban roads. In broad terms, according to the Mexican Central Bank, investment expenditure is defined as “spending by government departments and entities in order to acquire, increase, preserve or improve their capital goods.”. Likewise, the Bank refers to current expenditure as “public sector spending which does not create an asset but constitutes consumption; in other words, expenses related to the hiring of human resources and to the purchase of goods and services required to develop administrative functions”.

² In urban municipalities around 62% of current expenditure is allocated to payroll expenses.

³ The remaining portion consists of (i) transfers, allowances, and subsidies, (ii) debt, (iii) other expenses. For further explanation see figure 2 and its related footnotes.

municipal administrations with a stronger hold on power. I explain this puzzling finding with the concept of *fiscal populism*.

I define fiscal populism as a set of budgetary policies meant to be electorally beneficial in the short run, despite their long-run detrimental welfare effects. Research on Latin American economic history has shown how populist approaches to macroeconomic policy yields pernicious developmental effects (Dornbusch & Edwards, 1991; Kaufman, 2011; Mazzuca, 2013). Dornbusch and Edwards (1991:9) define economic populism as “an approach to economics that emphasizes growth and income redistribution and deemphasizes the risks of inflation and deficit finance, external constraints, and the reaction of economic agents to aggressive nonmarket policies.” I extend this concept—developed in reference to macroeconomic policy—to characterize an approach to *local* fiscal decisions. At the heart of economic populism is the privileging of short-term abundance over long-term obligation. My extension to the local realm depicts a fiscally populist mayor as one who (a) avoids unpopular revenue measures (increasing taxation or austerity); and (b) uses (limited) public funds for electorally expedient expenditures—especially patronage hiring—at the expense of long-term investment deficits.

This argument is supported through a multi-method research design. I first conduct a large-n statistical analysis to explore the correlation between electoral competition and current expenditure, examining the overall trends of this correlation in the groups of municipalities according to population. Findings from this statistical analysis help formulate the fiscal populism hypothesis. Next, I analyze original field research evidence from eight municipalities to test my hypothesis and depict the mechanisms that underlie the relationship between electoral competition and current expenditure.

The quantitative analysis finds that there is a positive correlation between political competition and current expenditure in medium and large municipalities in the last three governmental terms (roughly from 2011 to 2019). The qualitative comparison, which draws on close to 30 interviews with municipal public officials, helps explain what is driving the allocation of public resources in these urban municipalities. I find strong evidence that the pressure of electoral competition drives municipal governments to: (i) avoid adopting needed revenue enhancing measures given the political cost public officials attribute to these measures, and (ii) spend more on current expenditure, which is used in large part as patronage to reward political allies. These findings contradict prevailing theoretical predictions on the positive effects of electoral competition on government responsiveness.

Mexico is an optimal setting to analyze the link between electoral competition and fiscal policy given the long timeframe post-decentralization, which aligned with a national process of democratization that emerged unevenly over its territory. Contrary to most “third-wave” democracies, Mexico experienced a bottom-up political opening process in which the 70-year one-party dominant system started to crack with increasing opposition victories at the state and municipal levels beginning in the 1990’s (Hiskey & Bowler, 2005). Over the past three decades, elections at the subnational level have become increasingly competitive, to the point where today only a handful of states and municipalities have yet to experience party alternation. At the local level, since 2004 close to 60% of municipalities elect a mayor from a different party than that of the previous mayor, showing a high level of alternation. In this light, understanding better how

political competition at the municipal level affects the decisions to allocate urban budgets seems more than pertinent.

This project makes several contributions to scholarship and policy about local governance. First, it updates a discussion about electoral democracy and municipal responsiveness that received considerable attention in the immediate aftermath of these processes but has since been neglected. Processes of decentralization and democratization incentivized the analysis of local finances in Mexico the 1990's and early 2000's but this has receded, leaving lots of questions open. My findings reassess and deepen some of the previous conclusions, capitalizing on a longer time frame, during which municipal governance patterns have evolved. Second, I develop a framework that is tailored to unbiased statistical analysis of municipal fiscal data. While previous research has analyzed all of Mexico's municipalities in a single sample, I construct a novel framework for municipal finance studies by classifying municipalities into "family" categories based on size, uncovering significant heterogeneity. Additionally, while previous studies analyze fiscal data annually, ignoring the cyclical nature of municipal spending (i.e. mayors tend to spend more in election years), I consolidate the fiscal data by electoral terms making my observational unit the mayoral term (typically three years).

Third, I develop the concept of fiscal populism, offering a theoretically grounded account of how electoral competition can produce poorly responsive policy outcomes in the realm of fiscal policy specifically. While previous scholarship has demonstrated how electoral pressures drive politicians to resort to clientelistic appeals to voters, we know less about how these pressures influence higher-level governance decisions like spending and revenue generation. I would expect fiscal populism in municipal finances to prevail in many developing democracies, where patronage hiring is widespread (Grindle, 2010; Oliveros, 2013), and in cases that grant at least a minimal level of autonomy to local politicians over spending decisions.

II. Electoral Responsiveness and Fiscal Populism

With strong encouragement by the World Bank, the International Monetary Fund, and other multilateral organizations (Bardhan & Mookherjee, 2006; Grindle, 2007:5; World Bank, 2008; Fedelino & Ter-Minassian, 2010), countries in Latin America and elsewhere decentralized many aspects of governance in the latter part of the twentieth century. Decentralization is best understood as a project of state reform, composed of public policies that transfer responsibilities and resources to subnational governments (Falleti, 2005: 328). It is also a multidimensional process in which power is devolved in the administrative, political, and fiscal spheres (Campbell, 2003; Montero & Samuels, 2004; Falleti, 2005).

In early scholarship, economists were the strongest proponents of fiscal decentralization suggesting that it would more efficiently allocate public goods and services. These assertions were based on the logic that local governments have a better knowledge of local needs and would strive to be more responsive in order to attract citizens and private investment (Tiebout, 1956; Coase 1960; Oates 1972, 1977).

Political scientists have suggested that decentralization deepens and consolidates democracy by strengthening accountability to citizens (Diamond and Tsalik, 1999). This assertion assumes that

decentralization offers citizens greater information about government performance, which allows them to reelect responsive governments and vote out nonresponsive ones. However, the threat of electoral defeat is only present in electorally competitive systems. As result, scholars have hypothesized a positive relationship between electoral competition and government responsiveness (Mayhew, 1974; Fiorina, 1981; Przeworski, Stokes, & Manin, 1999; Powell, 2000) and there is little reason to believe that decentralization will produce responsive governments under noncompetitive conditions.

The notion that electoral democracy translates into more responsive governments has propelled a long list of empirical studies, yielding mixed findings. Several cross-national studies on the Latin American region have found that democracies spend more on health and education than authoritarian countries (Brown & Hunter, 1999, 2004; Avelino, Brown & Hunter, 2005; Kaufman & Segura, 2001). Similarly, Stasavage (2005) finds that democracies in Africa—despite their weak institutions and pervasive poverty—spend more on primary education than non-democracies. Other global cross-national statistical analyses (Besley & Kudamatsu, 2006; Lake & Baum 2001) have found similar results: democratic societies achieve better public health and education indicators.

In contrast, Ross (2006) has found that democracy has little or no effect on infant and child mortality rates. He also notes that democracies do spend more on education and health, but these resources tend to go to middle- and upper-income groups. Similarly, subnational comparative studies on the United States (Stonecash, 1987) the United Kingdom (Boyne, 1998), Mexico (Clearly, 2007; Moreno, 2007) and Brazil (Boulding & Brown, 2014) have found that political competition and social spending and welfare indicators are not positively correlated. Moreno (2007) and Cleary (2007), for instance, tested the prediction that electoral competition would increase coverage of drinking water and drainage (indivisible public goods) in Mexican municipalities in the 1990-2000 period but found no relationship.

In sum, empirical evidence on the proposition that electoral democracy is correlated with more responsive public policy outcomes yield mixed results, motivating a subsequent literature in search for the factors that account for this inconsistent link. Why is it that democracy sometimes has a positive impact on government responsiveness and other times does not? Some have stressed particularities of the electoral system, such as the number of parties, how well informed the electorate is and the electoral rules (Chhibber & Noondin, 2004; Besley & Burgess, 2002). Others, studying developing countries, point to high levels of poverty and deficits in state capacity as conditions propitious for patronage politics and electoral clientelism (Kitschelt, 2000; Kitschelt & Wilkinson, 2007; Robinson & Verdier, 2013; Stokes, 2005).

My analysis confirms that electoral competition prompts weaker responsiveness in fiscal policy and builds on this literature by delineating the mechanisms through which electoral pressures shape fiscal decisions. Furthermore, I focus on urban municipalities, which should be less vulnerable to capacity deficits and thus *capable* of responding to electoral pressure with public goods provision if incentives are aligned to do so.

I argue that in contexts where elections are competitive, local politicians face incentives to engage in *fiscal populism*, a set of budgetary policies meant to be electorally beneficial in the short

run, despite their long-run detrimental welfare effects. This concept—which I develop to describe local fiscal policy—draws on previous research on “economic populism,” in the macroeconomic realm (Dornbusch & Edwards, 1991; Kaufman, 2011; Mazzuca, 2013). In essence, economic populism emphasizes short-term abundance and deemphasizes long-term obligation. At the local level, fiscal populism is expressed in: (i) expenditure decisions that reward electoral allies—like patronage hiring (Oliveros, 2013) or discretionary transfers (Garay, Palmer-Rubin & Poertner, 2020)—rather than investing in the necessary public goods to enhance the welfare of most citizens; and (ii) revenue decisions that limit direct taxation for fear of the electoral costs of such unpopular measures.

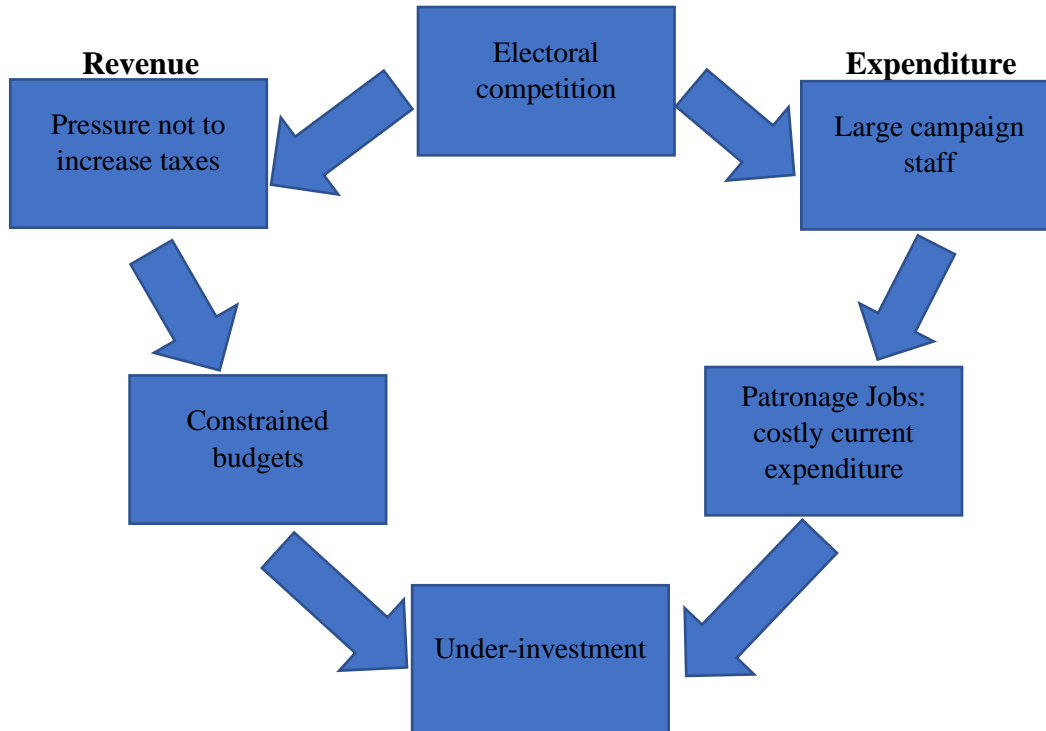
My conceptualization of fiscal populism in local governance adapts an important concept that has typically been used to describe high-profile national leaders on both the left and right, such as Hugo Chavez and Jair Bolsonaro. While a highly contested and multi-dimensional concept, traits commonly attributed to populist leaders are a personalistic style of governance and a concern with establishing a direct connection with “the people,” as opposed to abiding by technocratic norms of impartial governance (Mudde 2013, Weyland 2013, Ostiguy 2013). In the fiscal realm, populist leaders are known to be short-sighted, prioritizing spending in a way to appeal directly to voters (low taxes, visible social programs, subsidized consumer goods). At the local level, fiscal populism is similarly short-sighted and personalistic. What my findings reveal is that populist governance is not limited to high-profile national leaders subject to mass media coverage, but that it can be expressed in similar ways in the more intimate sphere of local politics.

Fiscal populism leads to underinvestment in local public goods through two mechanisms, as displayed in Figure 1. On the spending side, fiscal populist administrations react to electoral pressure with patronage politics rather than investing in the necessary public goods. More competitive elections necessitate hiring large campaign staffs to engage in the process of organizing rallies and mobilizing voters. Limited campaign budgets, however, restrict the ability of candidates to compensate this staff monetarily, particularly in cases such as Mexico where campaign spending is publicly funded and subject to legally binding caps (Valdez & Huerta, 2018). Instead, electorally victorious candidates often reward campaign staff with jobs in the municipal government. This widespread patronage hiring, coupled with restrictions on dismissing holdover personnel—often protected by permanent contracts—causes municipal payrolls to balloon. Inflated payrolls lead to overspending on current expenditure and underspending on needed public goods and services.

But why don't mayors simply increase municipal revenue—such as through higher property tax collection—to cover spending on personnel and new investment? Limits on municipal revenue are explained by a second mechanism inherent to fiscal populism: a reluctance to increase tax revenue or any other levies on the local population due to their political cost. Local politicians promise in campaigns not to increase property taxes and other modes of local revenue generation. As a result, local government budgets are highly restricted and greatly dependent on fiscal transfers, which are often earmarked to cover specific types of investments. In short, fiscal populist governments avoid enacting revenue-enhancing policies, such as increasing tax rates or improving their capacity to increase tax compliance since they expect such measures to be politically costly. This is in line with previous findings that show that electoral competition deters decision makers from taking

measures necessary to increase property tax in Mexican municipalities (Unda-Gutierrez, 2021; 2018).

Figure 1. Fiscal Populism Causal Diagram



Ultimately, these two pressures—bloated personnel spending and constraints on revenue—combine to produce drastic underinvestment in much needed public goods and services. This is not to say that patronage politics is absent in non-competitive local governments. On the contrary, one-party dominance has been linked to excessive spending on patronage in Mexico and elsewhere (Grindle, 2015; Diaz-Cayeros et al, 2016; Gibson, 2013). However, what I uncover is that less competitive municipalities are not subject to the two pressures described above to the same degree. Rather, municipal administrations that do not face electoral threats are able to focus on a longer time frame in their fiscal policy decisions and thus enact policies that respond more effectively to the structural needs of their constituents.

It is important to note, however, that this dilemma is not inescapable. Within Mexico, for example, there exist exceptional cases of municipal governments that increase tax collection and execute important public works in the context of closely fought elections. Future research is required to uncover the mechanisms that explain these exceptional cases. My present concern, however, is to elucidate the dynamics underlying fiscal *non*-responsiveness that prevails in the majority of municipalities in Mexico.

III. Research design

As discussed in the previous section, existing theory predicts that higher levels of political competition will bring about better and more responsive governments. The fiscal populism

hypothesis proposed here states the contrary, that higher levels of electoral competition will trigger budget allocations fueled by patronage politics, which would be reflected in more money devoted to current expenses (mainly payroll) at the cost of investment in public works. Table 1 lays out the expected correlation between the dependent variables (current expenditure and investment) and the independent variable (electoral competition).

Table 1. Expected Correlations Under Fiscal Populism Hypothesis

Electoral Competition	Current expenditure		Investment	
	High	Low	Low	High
High	X		X	
Low		X		X

I test the fiscal populism hypothesis through a mixed-methods approach. I first conduct a large-n statistical analysis to explore the correlation between electoral competition and current expenditure, to then examine the overall trends of this correlation in the different types of municipalities (according to their size). Next, I perform a comparison aimed at testing my hypothesis and finding the mechanisms by which the positive correlation between electoral competition and current expenditure can be explained.

The comparative analysis of eight urban municipalities involves data collection from both semi-structured interviews with public officials and public finance indicators. These two types of evidence are used to test my fiscal populism hypothesis. The interviews seek to uncover the mechanisms by which electoral competition (or other factors) might be affecting expenditure allocations.

Regarding case selection. I chose eight urban municipalities with populations above 100,000 inhabitants. This municipality size comprises 217 municipalities, constituting 8.9% of the total but encompassing 58.6% of the national population. Smaller municipalities were avoided given the different types of developmental challenges that these more rural settings face.⁴ To control for intra-state political and economic differences, I selected pairs of municipalities in each of four states. I also controlled for the presence of political alternation and the level of development as measured by the Municipal Human Development Index (MHDI) of 2010. All of the cases were above the 2010-MHDI national average (0.737).

Moreover, the eight cases reflect variation in the dependent variables. To establish the variation on the dependent variables, I first classified the proportion allocated to investment and current expenditure, during the term subject of analysis (three-year governmental period), as high, medium, and low in relation to its “municipal family” for each of these eight cities. Municipal families are a function of population size since the number of inhabitants is a good descriptor of the type and level of development of the municipality.⁵ The rationale behind this exercise is to consider the variation in the dependent variables in a less arbitrary manner and taking into

⁴ Mexican municipalities show a negative correlation between population and poverty rates, electricity and water coverage, and illiteracy rates. The less populated the municipality, the worse the welfare conditions. This is a “typical” behavior since levels of urbanization are positively related to higher welfare indicators (World Bank, 2009: 62-66).

⁵ In the light of non-existent reliable municipal GDP calculations in Mexico.

consideration the great heterogeneity among the 2,455 municipalities in Mexico by classifying them in municipal families. The results of this classification exercise are shown in Table 1, Table 2, in Appendix 1.

The municipalities chosen are listed in Table 2. The governmental terms analyzed are 2015-2018 for municipalities in the states of Chiapas, Jalisco, and Sonora and 2016-2019 for those in Baja California. At the time the interviews were conducted three municipalities were in the hands of the PAN (*Partido Acción Nacional*), three had a PRI government and two had elected the PMC (*Partido Movimiento Ciudadano*) for the first time.

Table 2. Case studies and governing political parties

State	Municipality	Governing party and governmental term
Baja California	Playas de Rosarito	PAN (2016-2019)
	Tijuana	PAN (2016-2019)
Chiapas	Comitán de Domínguez	PRI (2015-2018)
	Tuxtla Gutiérrez	PRI Coalition (2015-2018)
Jalisco	Tepatitlán	PMC (2015-2018)
	Zapopan	PMC (2015-2018)
Sonora	Hermosillo	PRI Coalition (2015-2018)
	Navojoa	PAN (2015-2018)

IV. Political competition and local expenditure in Mexico: the aggregate picture

This section provides a national and longitudinal (1970-2018) account of the process of expenditure decentralization in Mexico drawing on two sources of municipal fiscal data: (1) original archival research (1970-1989 data);⁶ and (2) the INEGI online database “Statistics on Municipal Public Finance”⁷ (1990-2018). The following depiction shows the most salient trends in municipal finance at the national level, helping illustrate the background of the more granular analysis developed in coming sections. I furthermore present results from multivariate statistical analysis that reveal a positive correlation between electoral competition and current spending, a relationship that has a particularly strong magnitude in urban municipalities.

Mexico’s decentralization process granted municipal governments significant, but not overwhelming autonomy over policymaking and fiscal policy. Important examples of policy decentralization include education and health policy, which were decentralized to states in the first half of the 1990s. However, the design of both policies remained in the federal government, while state governments were the agents responsible for the implementation of education and health

⁶ Archival research was conducted in the Ministry of Finance Archive Antonio Ortiz Mena (Fondo Histórico de Hacienda Antonio Ortiz Mena) and the Archive of Lerdo de Tejada Library (Archivo Histórico de la biblioteca Lerdo de Tejada).

⁷ Available here: <https://www.inegi.org.mx/programas/finanzas/#>

policy. An immediate consequence of this type of decentralization has been the sharing of responsibilities among different levels of government in domains like education, health, social spending, special police, specific transfer programs, development agreements and national parks (Hernández y Torres, 2006: 16).

Even though decentralization on the expenditure side has been more far reaching than on the revenue side (Sobarzo, 2008),⁸ the process has not been free of obstacles. The transferring of service provision from states to municipalities in the early stages of decentralization was slow and full of administrative, technical, and political obstacles (Ziccardi, 1995: 18). According to Barraca (2005), for example, the transfer of service provision to municipalities was vetoed by some governors given that these services produced numerous spaces of patronage that they were not willing to lose. Nevertheless, the assignment of expenditure responsibilities to subnational governments shows a deeper decentralization than on the revenue side. In 2019, 58.8% of the national expenditure was carried out by the federal government, 34.3% by the states and 6.9% by municipal governments.⁹

The composition of municipal expenditures is very stable at the aggregate level. Figure 2 shows the four main items of expenditure: current spending,¹⁰ capital spending,¹¹ spending on debt¹² and other expenses.¹³

⁸ Despite the reforms, tax revenue has remained highly centralized in the federal government. In 2017, 94.3% of tax revenue was collected by the federal government, 4.09% by the state governments and only 1.6% by the municipalities (OECD, fiscal decentralization database, tax revenue: https://www.oecd.org/tax/fiscal-decentralisation-database.htm#C_3 accessed on October 11, 2020). In a nutshell, municipal governments have not fully used their revenue raising capacity and depend greatly on fiscal transfers.

⁹ Source: OECD fiscal decentralization database, consolidated expenditure: https://www.oecd.org/tax/fiscal-decentralisation-database.htm#C_3 accessed on October 11, 2020.

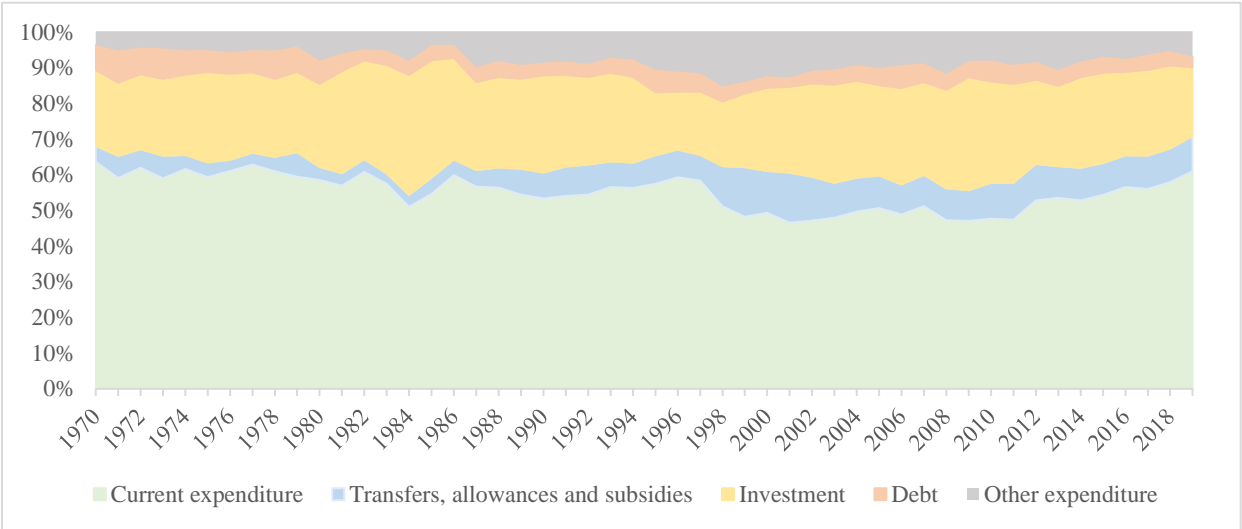
¹⁰ Current expenditure comprises from 1970 to 1988: administrative expenses and for 1989 onwards: personal services, materials and general supplies and services.

¹¹ Public investment includes the concept of public works used from 1970 to 1988 and for 1989 onwards: public investment and financial investments and other provisions.

¹² Debt is a stable concept from 1970 to 2013 in our sources.

¹³ Other expenditures include from 1970 to 1988: (i) transfers and subsidies; (ii) offset movement accounts and (iii) results of operations, and from 1989 onwards: (i) transfers, and subsidies, (ii) movable, immovable and intangible assets, (iii) other expenditures, (iv) final availability.

Figure 2. Municipal Expenditure Composition

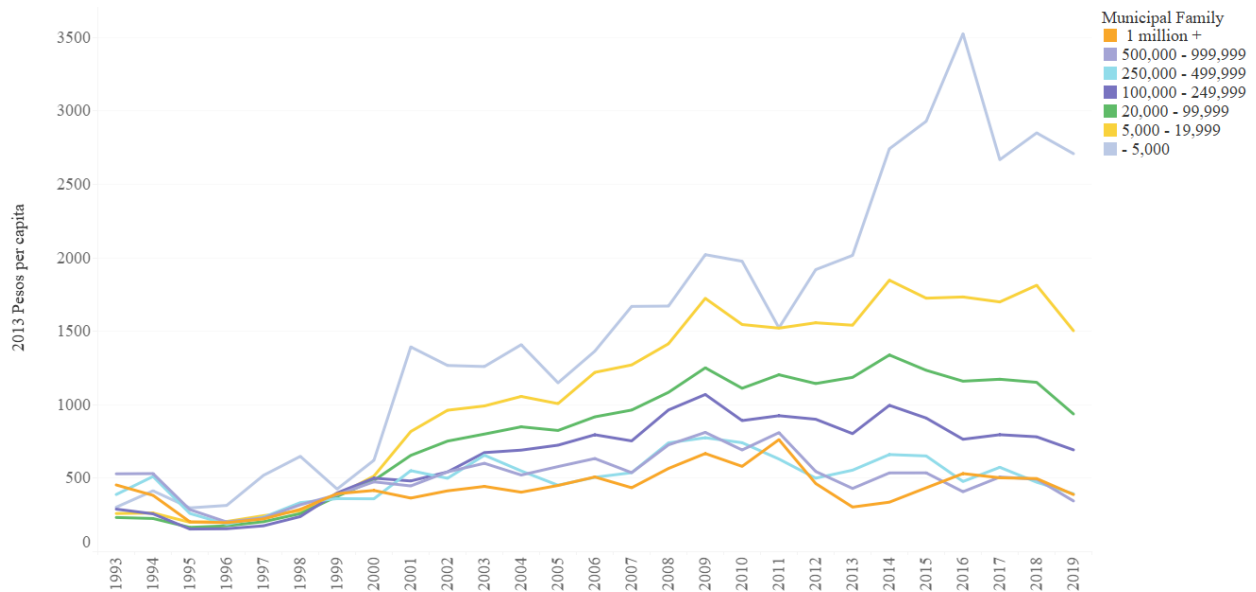


Sources: Own elaboration based on INEGI, 1984, 1985, 1990; and INEGI online database “Estadísticas de Finanzas Públicas Estatales y Municipales.”

However, the aggregate picture disguises the stark variation in expenditure decisions by municipality size. Figure 3 shows that smaller municipalities spend more on investment and public works relative to bigger ones. Rather than reflecting decision making by municipal leaders, this is clearly an effect of the weight that conditional transfers have had in municipal budgets in Mexico. In 1997, a reform to the Law on Fiscal Coordination formally decreed the earmarked fiscal transfers called “*aportaciones*” of which the main component is the municipal social infrastructure fund (FAISM for its acronym in Spanish).¹⁴ The criteria to distribute this type of grant is equalizing; it aims to reduce horizontal imbalances among municipalities. Not surprisingly, rural, and less populated municipalities, which tend to experience higher levels of poverty, illiteracy, and reduced electricity and water access (Unda Gutierrez, 2019; 84-87, 89), are more dependent on conditional transfers. The fact that smaller municipalities depend more on fiscal transfers and that a good part of these grants are conditional to investment in public works explains the pattern shown in Figure 3. Given that earmarked transfers constitute a larger percent of budgets for smaller municipalities, aggregate data suggest that fiscal populism (increasing current expenditure in response to electoral competition) is more pronounced in larger municipalities.

Figure 3. Investment per capita, disaggregated by municipal family

¹⁴ Resources from FAISM should be allocated for potable water, sewage, drainage, rural lighting, basic infrastructure in clinics and schools, housing improvement and infrastructure maintenance.



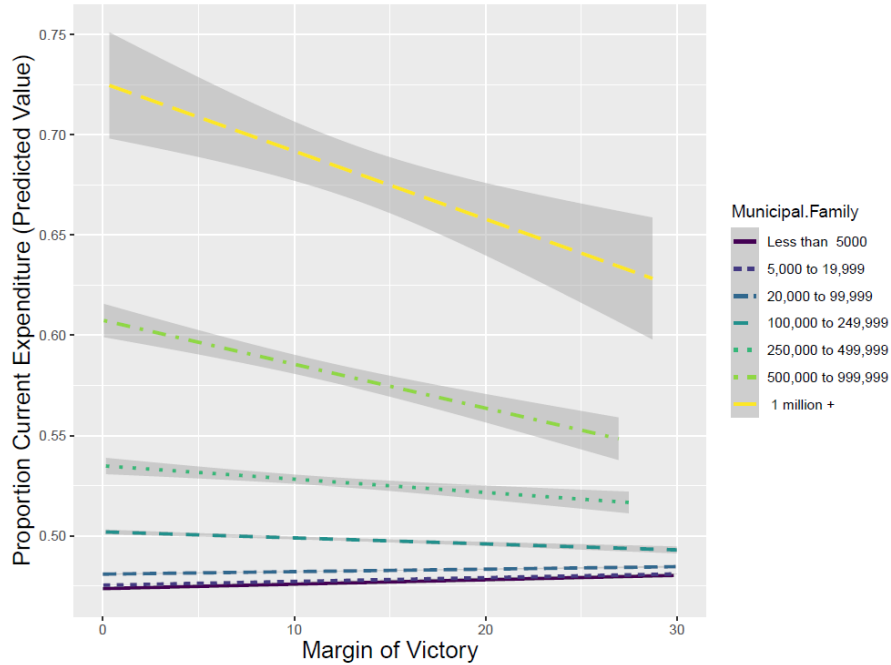
Source: own elaboration based on INEGI database “*Estadísticas de Finanzas Públicas Estatales y Municipales;*” & for population data: INEGI “Census and intercensal historical series (1990-2010),” “Intercensal Survey 2015,” and “Population and Household Census 2020.”¹⁵

Figure 4 displays marginal effects of vote margins in municipal elections on the proportion of budgets allocated to current expenditures.¹⁶ Importantly, the unit of analysis is the municipal term (typically three years), which smooths out spending across the years of an administration. This measurement avoids misleading findings resulting from uneven patterns of spending, such as the common practice of increasing spending—especially current—in the last year of a term. The full sample includes the last three complete terms for each of Mexico’s 2,446 municipalities. (In practice, the sample size is smaller—1,917 per term—given missing data for several small rural municipalities for electoral and fiscal data.) Results are broken down by groups based on municipal population (municipal families). Dividing into groups in this way has advantages over simply controlling for population because it allows an analysis of the quite different political logics and fiscal circumstances in different classes of municipalities.

Figure 4. Electoral competition and current expenditure by municipal family (all municipalities)

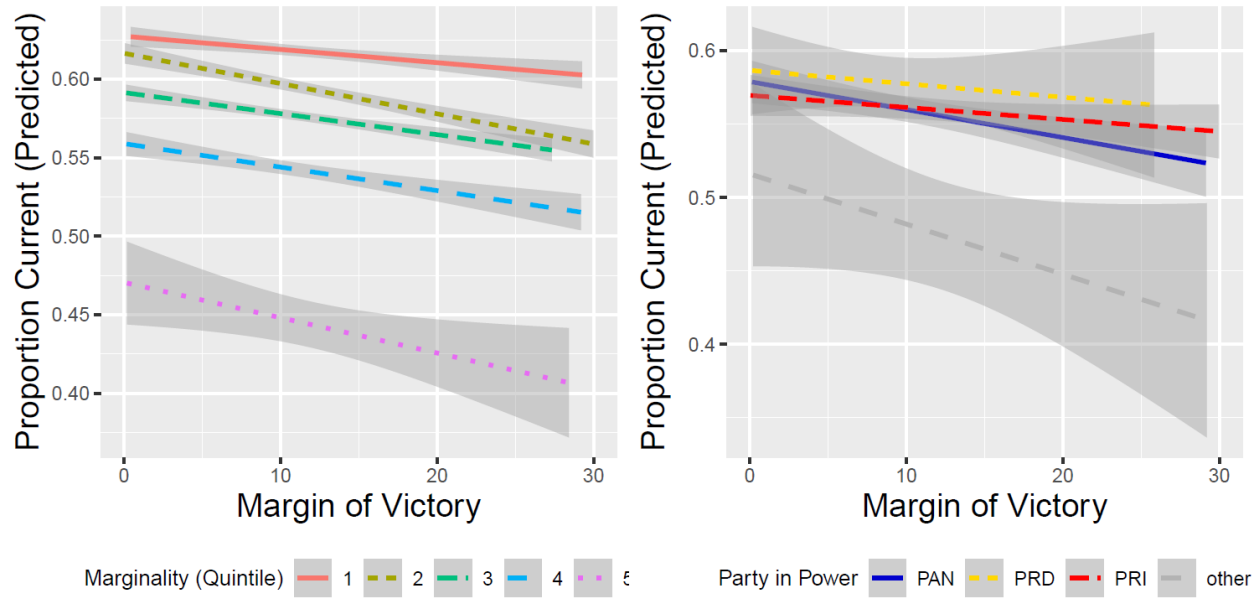
¹⁵ Available here: <http://en.www.inegi.org.mx/programas/ccpv/cpvsh/>
<http://en.www.inegi.org.mx/programas/intercensal/2015/>
<https://www.inegi.org.mx/sistemas/Olap/Proyectos/bd/censos/cpv2020/pt.asp>

¹⁶ These marginal effects are derived from “Multivariate model of current expenditure” in Appendix 2, Table 1. The model draws on electoral data constructed from: Eric Magar (2018) Recent Mexican election vote returns repository, <https://github.com/emagar/elecReturns>; & Historical information of municipal presidents, National Municipal Information System, National Institute for Federalism and Municipal Development, <http://www.snim.rami.gob.mx/>



This multivariate analysis confirms the negative relationship between vote margins and current spending for urban municipalities (those with population over 100,000). For this subset, a ten-point increase in margin of victory is associated with approximately one percentage point less of spending on current expenditure (see models in Appendix 2). The contrast between urban and rural municipalities is attributable to Mexico’s institutional context. A relatively smaller proportion of urban municipalities’ budgets is made up of earmarked transfers that limit current expenditure. This finding is robust across important categories of variation, including party in power and socioeconomic level (Figure 5). In short, fiscal populism afflicts urban municipalities broadly in Mexico. The qualitative analysis in section 5 uncovers the mechanisms through which electoral competition affects spending decisions.

Figure 5. Electoral competition and current expenditure in municipalities with more than 100K inhabitants (by party and marginality)



V. Comparative Study

In this section I conduct qualitative comparison using field research evidence, oriented to testing the fiscal populism hypothesis and illustrating the mechanisms by which electoral competition drives municipal fiscal decisions.¹⁷

I first test the fiscal populism hypothesis concentrating on the fiscal data of my eight case studies during the governmental period under study, identified in Table 2. Tables 3 and 4 show the relationship between electoral competition and expenditure composition. These replicate the findings from the large sample described above (Figure 4), confirming the fiscal populism hypothesis. Second, I present qualitative evidence collected during field work. The evidence provided helps depict the political incentives faced by local officials dealing with budgetary decisions and lend support to the fiscal populism hypothesis.

Elections and expenditure composition in eight cities (2015-2018 & 2016-2019)

If the fiscal populism hypothesis holds, we expect to see a positive correlation between the proportion of current expenditure and electoral competition and a negative correlation between electoral competition and investment. The same logic used to classify variation in the dependent variables (as described in section III) was used to mark the variation in the independent variable (electoral competition). In other words, to establish high, medium, or low electoral competition in the eight case studies their margins of electoral victory are compared with their respective municipal family.

¹⁷ The logic of case selection is explained in section III.

Table 3. Correlation between electoral competition and current expenditure

Municipal Family	Case Studies	Electoral competition	Current expenditure % of total	Fiscal populism hypothesis holds?
100,000 - 249,999	Rosarito	High	High	YES
	Tepatitlán	High	Medium	Moderate
	Comitán	Low	Low	YES
	Navojoa	Low	Medium	Moderate
500,000 - 1 million	Hermosillo	Medium	Medium	Moderate
	Tuxtla Gutiérrez	High	High	YES
1 million +	Zapopan	Medium	Medium	Moderate
	Tijuana	High	High	YES

Table 4. Correlation between electoral competition and investment

Municipal Family	Case Studies	Electoral competition	Investment % of total	Fiscal populism hypothesis holds?
100,000 - 249,999	Rosarito	High	Low	YES
	Tepatitlán	High	Low	YES
	Comitán	Low	High	YES
	Navojoa	Low	Low	NO
500,000 - 1 million	Hermosillo	Medium	Low	Moderate
	Tuxtla Gutiérrez	High	Low	YES
1 million +	Zapopan	Medium	Medium	Moderate
	Tijuana	High	Low	YES

Tables 3 and 4 demonstrate overall correlations in support of the fiscal populism hypothesis. None of the case studies either in the correlation between electoral competition and current expenditure or investment go against the expected pattern (except for Navojoa in Table 4). Municipalities with high levels of electoral competition have relatively high levels of current expenditure and low levels of investment in comparison with other municipalities in their population-based families.

Moreover, all those instances in which the fiscal populism hypothesis holds (*YES* in Tables 3 and 4), correspond to municipalities in which the electoral competition increased in relation to the previous election and all those instances in which the fiscal populism hypothesis is *moderate* correspond to municipalities that experienced a reduction in electoral competition in comparison to their previous elections. For instance, the mayor of Zapopan during the period of study (2015-2018) won by 14.7%, whereas his predecessor's margin of victory was narrower (8.3%). The variation in electoral competition between the election under study and the previous one among our case studies lends further support for the fiscal populism hypothesis.

Evidence from the ground: fiscal populism in action

Field research findings demonstrate that fiscal populism emerges under conditions of electoral competition. Municipal personnel interviewed affirmed that electoral pressures result in clientelist hires, enlarging the payroll. Several municipal bureaucrats interviewed suggested that helping during electoral campaigns is compensated with a job in the municipal administration. Moreover, many of these new hires are not dismissed when the mayor's term is over. Some are granted a

permanent job, creating an extra layer of cost that carries over to the next terms. Bureaucratic accumulation is the primary driver of burdensome current expenditure.

Similarly, public officials explained that tax increases or revenue enhancing measures are not adopted due to electoral pressures. Some bureaucrats even recognized that not raising taxes was a campaign promise, while others link the inaction to the political cost such unpopular measures can cause in a future election. These findings align with previous qualitative and quantitative work on the determinants of property tax collection in Mexico. Mayors, treasurers, and cadaster directors decide not to raise rates, to update cadastral values, or to make the process of property tax collection more efficient because they believe that these measures will entail a large political cost (Unda Gutierrez, 2018).

The comparative study rests on 29 semi-structured interviews with mayors, treasurers, revenue and expenditure directors, and other officials in charge of fiscal decisions.¹⁸ This section is organized in 3 thematic blocks, which substantiate the following narrative and logic:

(a) Budgetary decision makers portray the overall municipal fiscal situation in terms of a highly constrained budget (*gasto muy comprometido*). Increasing own-revenue, especially tax revenue, is considered off the table, given its political cost, this is fiscal populism on the revenue side.

(b) Decisionmakers unanimously rank paying the payroll as the top budgetary priority. Delaying salary payments or dismissing employees is expected to have a huge political cost, leading payroll to take precedence over investing in public goods, whose electoral payoff is more indirect or may even not be attributed to the municipal administration. As result, infrastructure investment is often limited to that which is mandated by earmarked transfers.

(c) The size of current expenditure is the structural problem of Mexican municipalities. Electoral campaign commitments are compensated with municipal jobs. Interviewees provide a granular explanation of why the payroll has become so onerous in recent years, citing the granting of permanent jobs and costly employment benefits.

(a) The political cost of increasing taxes

Decision makers find their budgets very constrained by current expenses, particularly payroll. For smaller municipalities debt obligations with contractors further constrain budgets. Given that municipalities cannot run deficits, as established in the Law of Financial Responsibility, any expenditure increase must be compensated with either higher revenue collection or the successful request for more resources from higher levels of government. None of the municipal governments analyzed opted for the former option in a significant way, fearing the political cost of increasing revenue collection.

Officials of most municipalities said they keep expenses within limits set in the Annual Revenue Laws¹⁹ and do not seek to acquire debt to increase spending. Many of these municipalities have had to contribute funds to pay off loans acquired under previous administrations. Officials from Navojoa, Rosarito, and Hermosillo claimed to have a serious problem with debt inherited from

¹⁸ The list of the interviewees is in Table 1 in Appendix 3.

¹⁹ The Revenue Law establishes next year's revenue target and shows disaggregated data for each revenue item.

former administrations, mostly in the form of pending payments to contractors (*deuda de proveedor*). For example, the expenditure director of Navojoa complained:

“I would love to say ‘we, the new administration, start with a zero-based budget.’ First, we cannot because there is lots of debt and financial expenses...every administration, really, carries over lots of supplier debt.”

Officials in the eight case studies do not consider increases in tax revenue a feasible option to amplify municipal budgets. Although some interviewees suggested measures to increase tax collection, these were mostly superficial, and none involved the introduction of new taxes or the increase of tax rates. Instead, municipalities gauge as a priority and a more attractive option to look for and ask for resources to the federal and state governments. There is even a colloquial way to refer to this task: “*bajar recursos*” (bringing down resources) from the federal government. The refusal to increase taxes is driven by the perceived electoral cost. The Treasurer of Tijuana asserted:

“It is difficult to assume the political, electoral and social costs. We know that no taxes are welcome, nor any fees or charges. We know we should not be collecting revenue from the federal treasury (referring to fiscal transfers) but still, collecting taxes is more difficult.”

To the extent that municipal staff seek to increase revenue, they do so through small alternative sources that are seen as less politically costly, such as fines, fees, and surcharges. In the words of the treasurer of Hermosillo:

“We are looking for ways to increase revenue, but not by raising taxes. The mayor does not want to raise taxes. Right now, what the mayor has increased is the water fee, because water is very cheap in Hermosillo.”

Or in the words of Rosarito’s public revenue director:

“The commitment was to not increase taxes. The citizenry was very insistent on that regard. The common citizen demanded that the property tax was not increased, rather that it was reduced. So, the mayor said that she was not going to reduce property tax payments but that she was going to find a way not to increase it.”

In sum, municipal decisionmakers fear the political cost of raising taxes, which results in very constrained budgets. Reacting to electoral pressures by promising not to increase taxes if candidates win the mayorship, or once in office avoiding taking measures to increase taxes are indicators of fiscal populism.

(b) Dividing the pie: payroll comes first

The priority in allocating the budget is to cover the payroll and broader current expenses. In turn, devoting resources to public works is a residual decision. Investing more in providing more and better public services as result of electoral pressures would be in line with the proposition that more democratic governments respond better to citizens. However, the qualitative evidence gathered here states the opposite supporting the fiscal populism hypothesis.

Hermosillo’s expenditure director puts it in the following way:

“From all that I got from the revenue office, I have to subtract the payroll, the most basic expenses, and the debt payments...from those 2,700 million pesos that Alfonso (revenue director) gave me I subtract all these, so I was left with 500 million pesos, which can finally be considered for the mayor’s projects.”

In the same line, the treasurer of Tuxtla says:

“Once you have determined the size of the expenses comprised in item 1000 (payroll), we can start ranking the expenditure priorities, but the critical variable here, for us, is item 1000. Once taking it into consideration we can plan the percent that can go to municipal investment.”

The spending decisions are taken in a very inertial way, due to the high constraints imposed by the payroll and other items of current expenses. In most of the case studies (except for Tepatitlán and Zapopan) the spending decisions are made in a very vertical manner and with little discussion among different offices in the municipal apparatus. The mayor makes most of the budget allocation decisions according to his campaign commitments or the reputation his administration wants to be recognized for. Tepatitlán and Zapopan stand out for making more consensual decisions, taking into consideration the town council and other municipal agencies, which propose their spending annual programs to the treasurer and the mayor.

All interviewees asserted that municipal investment is mainly made with resources coming from upper levels of government. Infrastructure spending is largely derived from earmarked transfers, especially from the Fund for Social Infrastructure (FAISM). As the treasurer of Tijuana puts it:

“If investment is made, it is because it is already earmarked as such.”

Interviewees in three municipalities mentioned that in cases where they have had extra funds, either because of savings due to budget cuts (Tijuana), debt restructuring (Rosarito); or windfall revenue due to the sale of municipal land (Tijuana and Zapopan), this has been allocated to public works.

In sum, municipal decisionmakers consider allocating resources to investment residual; public works are almost entirely done with conditional transfers. As highlighted before, conditional transfers—like the FAISM—have had a critical impact on budget allocation in Mexican municipalities. Since the late 1990's smaller municipalities (more rural and poorer) allocate more of their budgets to public works (as shown in figure 3). However, bigger municipalities, like our case studies, receive relatively less in conditional transfers and with that they experience less pressure from fiscal federalist arrangements to invest.

(c) Current expenditure: the structural problem of municipalities

Most interviewees consider the high level of current expenditure to be “the structural problem” of Mexican municipalities. Payroll is the main culprit for the high levels of current expenditure. It is the rule that new administrations want to bring in their own personnel. The variation is in the space available to fit the new bureaucrats in each municipality. When asked what the criteria were to hire new personnel in the municipal treasury, the revenue director of Tepatitlán responded bluntly:

“The head of the human resources office has a list of people that want to work here, it is the list of people with whom there is not only a moral commitment because it is the cousin of someone, but because there is a campaign commitment with them.”

It is worth highlighting how natural was for the revenue director of Tepatitlán to justify nepotism as a moral commitment, and to suggest that it is even more justifiable to hire someone that helped during the electoral campaign.

Several of the interviewees gave their opinion on the reasons behind heavy payrolls. The expenditure director of Hermosillo suggests that the processes of "*basificación*" (of granting permanent jobs) practiced by outgoing administrations contributed to inflating the payroll:

"We witnessed it from the start of the administration. People who had been working for only six months had already been granted permanent jobs...According to the municipal regulations, to have a permanent post in the municipal government you must have worked for five years in the administration."

In the same tone, the treasurer of Zapopan explains that the increase in current spending has to do with "the *cursed trap*, the cycle of *basificación*." He explains:

"The cursed trap is when the public employee continues working in the next administration for more than six months. As a result, he acquires labor rights that allow him to get a permanent job (*basificación*). If you fire him, he will fight over it and will win over you. That is what happens administration after administration, every three years, if nothing else gets done to fix this issue...Clearly what they do (referring to new administrations) is to kick out the people they can kick out and get in their own people, but because there is no space to get all their people in, they create new temporary posts too."

Similarly, the treasurer of Tijuana recognizes that current expenditure is necessary. After all, municipal services are provided by people, but in the case of Tijuana "the bureaucratic apparatus has grown exponentially, and they have won labor union rights." He adds that in Tijuana:

"We have created many parallel structures. We need to hire a little more than one thousand employees to perform the job of those who have permanent jobs but do not work. That is why we have tried to include and convince those with permanent positions to perform their jobs. If they are already here, if we pay them already, they should work. Some do want to take part, but others don't."

According to the treasurer of Tijuana, one way to reduce the problem is by encouraging voluntary retirements. The recommendation, in this regard, from the mayor of Zapopan²⁰ is to not hire any administrative employees:

"If we (the municipal administration) do not do a daily expenditure check, the expenditure will grow in all directions, and it will become obese. I would distinguish two items within the expenditure budget: the administrative costs and the operative costs. What was common in previous administrations was: '*you helped me during the campaign, as result I will give you the job of director of irrelevant matters,*' and these people would be paid for doing nothing. We eliminated all these type of jobs in the municipal government. The policy should be not to hire any administrative employees, but operative employees are indeed necessary."

In sum, current expenditure is considered a very onerous burden that leaves little budgetary space to municipalities. Incoming municipal administrations hire many new personnel, following through on commitments made during the electoral campaign. However, these patronage appointments become a more permanent and onerous problem because more and more people are granted permanent jobs and gain costly employment benefits after accruing seniority.

²⁰ It is worth noting that the 2015-2018 Zapopan administration, in relation to the previous one, increased both, own-revenue and current expenditure in 7%, while the margin of victory in 2015 was wider than in the 2012 election.

VI. Conclusions

Over the past three decades electoral competition in Mexican municipalities has consistently increased. Existing theory predicts that electoral democracy increases government responsiveness, but that has not always been the case. Empirical comparative evidence at the national and international levels have yielded mixed results. More interestingly, a subsequent literature has concentrated on explaining why it is that this mechanism is sometimes disrupted; what accounts for the disconnect between electoral competition and government responsiveness? This paper contributes to this literature by offering the concept of *fiscal populism* as an explanation for the disruption in the positive link between electoral competition and government responsiveness in the public finance domain.

I argue that in contexts where elections are competitive, local politicians are instead incentivized to engage in fiscal populism a set of budgetary policies meant to be electorally beneficial in the short run, despite their long-run detrimental welfare effects. I further delineate two mechanisms by which fiscal populism leads to underinvestment in local public goods. On the spending side, fiscal populist administrations will react to electoral pressure with resource allocations to reward supporters rather than investing in the necessary capital projects to enhance the welfare of most citizens. On the revenue side, fiscal populist governments will avoid enacting revenue-enhancing policies, such as increasing tax rates or improving their capacity to increase tax compliance since they expect such measures to be politically costly.

I relied on a mixed-methods approach to test the fiscal populism hypothesis. My large-n analysis is based on a novel way to organize the data promising more accurate results. The statistical analyzes concentrates on urban municipalities (with more than 100K inhabitants), taking the municipal term (typically three years) as the unit of analysis. Furthermore, municipalities were grouped by population size to distinguish the different patterns that emerge from the effect of electoral competition on spending decisions according to municipal families. The statistical findings suggest that the more competitive the elections are (vote margin decreases), the more the elected administration spends on payroll in detriment to the resources devoted to investment. These findings hold up across municipalities that vary according to prominent alternative explanations—the party in power and the municipal socioeconomic level.

A qualitative comparison of eight municipalities further tested the fiscal populism hypothesis and illustrated the mechanisms by which electoral competition drives municipal fiscal decisions. On the one hand, the fiscal data corresponding to the mayoral term under analysis in these case studies, show a positive correlation between electoral competition and current expenditure and a negative one between the former and the level of investment, replicating the findings of the statistical analysis in the large sample. More importantly, the qualitative evidence collected during field work (based on 29 semi-structured interviews) helped depict the political incentives faced by local officials dealing with budget decisions and it shows ample support for the fiscal populism hypothesis.

Interviewees repeatedly affirmed that municipal hiring responded to commitments made during electoral campaigns. What is more, decision makers suggest an explanation for the heaviness of current expenditure. They point out two institutional causes that exacerbate ballooning municipal payrolls: the granting of permanent jobs (*basificación*) and increasing work benefits. Similarly,

interviewees explained that they avoid making decisions to increase own revenue levels for fear of the political cost of such measures, confirming the second mechanism proposed by the fiscal populism hypothesis. This finding reinforces the results of previous work that points out that higher electoral competition deters decision makers from taking measures necessary to increase property tax in Mexican municipalities (Unda Gutierrez, 2021; 2018).

My findings suggest that electoral competition in Mexican municipalities have incentivized municipal officials to engage in fiscal populism, going against the virtuous relationship between electoral democracy and government responsiveness suggested by the theory. Fiscal populist measures result in underinvestment in detriment of better and more public services, which may help understand why the level of satisfaction with basic public services in urban municipalities has remained low, at around 41% (INEGI, 2019) in the last decade.²¹

The high levels of political alternation seen in Mexican municipalities could be interpreted as the voters' response to fiscal populist measures that have contributed to constant low levels of government responsiveness. However, the possibility of reelecting good mayors since the 2018 elections –not yet capture in this paper, could help voters be more effective at deciding who should make the budget decisions in the local government. The findings of this paper made clear that the structural fiscal problem of municipalities is the suffocating cost of the payroll, which restates the importance of the professional civil service and similar regulations.

While the present analysis has focused on the case of Mexico—a middle income Latin American country—my expectation is that fiscal populism would prevail in municipal finances in many developing democracies, with (i) electorally competitive systems, (ii) some degree of autonomy to local politicians over spending decisions, (iii) and politicized civil service hiring. I would also expect fiscal populism on the expenditure side to be more pronounced in the levels of government where low-skilled officials are more prevalent in the payroll (likelier at the more local level). This expectation is in line with the work of Brierley (2021) and Brassiolo et al, (2021), who find that patronage was more rampant in low-ranked jobs in Ghana and Ecuador respectively.

Future research should probe the differential effects of electoral competition on electoral spending across local governments with different levels of economic development. Much of the scholarly work on clientelism recognizes that marginalization and poverty levels are good predictors of clientelist practices,²² which may persuade us to think that fiscal populism would be more prevalent in less developed places. However, at least in the Mexican case, poorer municipalities (more rural) do not spend more on payroll relatively to richer municipalities (more urban), in great part because of the equalizing criteria with which earmarked fiscal transfers are allocated (as shown in Figure 3).

²¹ The survey ENCIG (*Encuesta Nacional de Calidad e Impacto Gubernamental*) has measured since 2011 level of satisfaction of the urban population (municipalities with more than 100K inhabitants) with basic public services (potable water, sewerage and drainage systems, lighting, parks, garbage collection, police, streets and roads). It shows the percent of the urban population “very satisfied” or “satisfied” with such services.

²² It is worth noting that most of the practices mapped in studies on clientelism involve public expenditure decisions, but no public revenue decisions (taxes, charges, fees). An advantage of the *fiscal populism* concept is that it describes a pattern catalyzed by electoral competition on both sides of the fiscal equation: expenditure and revenue.

My conclusions point to the importance of policy measures to reduce fiscal populism. Such measures include professionalizing civil services to ensure that most public jobs are allocated on the basis of meritocratic criteria. In addition, the Mexican case suggests that regulations and effective enforcement that limit the amount of resources dedicated to the payroll by municipal governments can be effective. Of course, adopting such policies depends on the willingness of politicians to tie their own hands in the use of patronage, a rare phenomenon in any democracy.

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