

Relationship between municipal budget management and political cycle in regional main cities of the Czech Republic

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Abstract

Public budget management is an important issue determining public service provision, fulfilment of public interests, realizing politics in general and many other aspects public sector. Public budget management should follow regulations related to good governance, effectivity, efficiency and effectiveness, responsibility, transparency etc. On the other hand, there is strong connection to political representation and political interests that could influence public budget management. This paper focused on relationship between public budget management and political (election) cycle on the municipal level of regional capitals of the Czech Republic. The research question asks whether there is a relationship between municipal public spendings and political (election) cycle. Simple descriptive and comparative analysis was applied. The results indicate some mutual relationship, respecting findings of academic research.

Keywords: municipal spendings, political budget cycles, municipal budget management, elections, political representation

1. Introduction

The paper focuses on the relationship between municipal budget management, respectively municipal spendings' trends, and political (election) cycles. The purpose is to reveal this potential relationship using selected indicators related to both issues and basic statistics. The research question asks whether there is a relationship between municipal spendings, their trends, and political (election) cycle. It is anticipated, that municipal spendings rise in election periods, in accord with the idea about populist tendencies of political representation and effort to win the most mandates. The paper is structured according to the traditional logic, when the applied methodology is presented, theoretical and academic findings are presented, the analysis of selected indicators related to the topic is performed and finally the findings are discussed.

Methodology of the paper, which should lead to answering the research question, is based on descriptive and comparative analysis of several indicators that are described as follows:

- Total spendings of municipal budgets as a sum of spendings of particular regional capitals, presented in thousands of Czech Crowns (also CZK).
- Share of capital spendings on total spendings of municipal budgets as a sum of capital and current spendings of particular regional capitals, presented in percents.
- Spendings of particular regional capitals per capita, presented in thousands of Czech Crowns.
- Voter turnout in communal elections 2014, 2018 and 2022, presented in percentage of eligible voters.
- Election results in communal elections 2014, 2018 and 2022, structured into four groups representing political parties' characteristics, according to reached mandates in percents. These groups are structured as follows: Traditional left parties (Czech Social Democratic Party and Communist party); traditional right parties (Civic Democratic Party, TOP 09, SPOLU coalition, Mayors and Independents); traditional centrist parties (Christian and Democratic Union – Czechoslovak People's Party, ANO 2011, Czech Pirate Party, SPD); Local parties. Construction of groups do not precisely follow traditional division of the political spectrum but is related to the contemporary trends in politics of particular parties, as well as to national political establishment. In case of coalitions, the rule of the major leader was applied. The sum of percentage is not 100, because minor part of voters voted for parties that did not earn any mandate.

The regional capitals of the Czech regions (level NUTS 3) were used as a case study. The capital city Prague was excluded because of its specific, exceptional position. The period between 2011 and 2022 was chosen for the budget management evaluation, which allows for a longer-term examination of the phenomenon. Three communal elections to municipal self-management council were held in this time period, specifically in 2014, 2018 and 2022.

Data related to budget management were retrieved from Monitor system which is an application managed by Ministry of finance of the Czech Republic. Data related to voter turnout, election results and municipal populations were retrieved from database of the Czech Statistical Office.

They were evaluated potential relationships between municipal budget management indicators and election indicators, mainly the relationship between trends of municipal budget spendings on one hand and political (election) cycle on the other. Some other basic (descriptive and comparative) evaluations about municipal budget management and election results were also made.

2. Theoretical background

In this part of the paper are briefly introduced the issues concerning Czech municipal self-government and relationship between budget management, spendings and political (election) cycle.

Municipal self-government is embedded into Constitution of the Czech Republic (see Act 1/1993 Coll., Constitutional law). Its essence comes from principle of power decentralization and subsidiarity (Ministry of the Interior of the Czech Republic, 2005). Municipalities in the Czech Republic have their own elected council, mayor and municipal authority, which have powers to decide on local issues and matters of public interest within the municipality (Ministry of the Interior of the Czech Republic, 2005). Municipal budget management is based on the administration and use of financial resources, which municipalities raise mainly in the form of taxes, fees, subsidies and other revenues. Municipal budget management (Sebestova et al., 2018) focuses on planning, managing and controlling financial flows to ensure quality public services and local community development. One of the key principles of municipal budget management is the principle of economy (Hrůza, 2013), which means the efficient and responsible use of financial resources for the benefit of the inhabitants of the municipality (Also Sebestova et al., 2018; Benito et al., 2021). Another important principle is transparency (Benito et al., 2021), which ensures public scrutiny of management and openness of information about the municipality's economic activities. Municipal self-government and municipal management are supported by the Act on Municipalities No. 128/2000 Coll., which defines the powers, competences and procedures concerning the functioning and management of municipalities in the Czech Republic.

Elections to municipal councils in the Czech Republic are held under an electoral system based on the principle of proportional representation. Election process (see Act on Elections to Municipal Councils No. 491/2001 Coll.) could be briefly introduced as follows – candidates draw up an electoral list, municipality is divided into election districts (each district has appropriate number of mandates), eligible voters are provided with ballot papers with electoral lists of candidates, voters vote in election rooms (express their preferences, choose candidates or electoral list and insert ballot papers into ballot box), after the elections are over, the votes are counted and the seats are distributed among the lists of candidates on the basis of the results (based on proportional representation, which takes into account the proportion of votes obtained by each list of candidates).

Candidate lists that have received enough votes to win seats are represented in the municipal council. After the elections, the municipal council is constituted and elects its leadership board. The situation is different in different countries; for instance, Vrba points out facts regarding unemployment in Vietnam, which are also linked to budget relationships (Vrba, 2022). Also, Vrba and Linhart (2020) show the situation in the time of crisis (Vrba, Linhart, 2020). Based on findings of literature and academic research (Cioffi et al., 2012; Brender & Drazen, 2003; Manjhi & Keswani Mehra, 2015; Shi & Svensson, 2003; Chortareas et al., 2016; Brender & Drazen, 2004; Klomp & de Haan, 2011), it exists so called political budget cycle. That could be defined as a mutual dependence relationship between economic cycle and election cycle (Brender & Drazen, 2004), or periodical fluctuation of fiscal policy due to the election cycle

(Shi & Svensson, 2003), or (mis)using the needs of voters and public spendings for electoral purposes (Manjhi & Keswani Mehra, 2015). According to Shi & Svensson (2003) it is a consequence of moral hazard and relationships between government and voters. It is generally agreed (Shi & Svensson, 2006; Shi & Svensson, 2003; Manjhi & Keswani Mehra, 2015; Brender & Drazen, 2003; Cioffi et al., 2012), that it could be observed an increase in public budget spendings, visible investments (like investments into transport infrastructure or publicly attractive infrastructure) or borrowings, decrease in local taxation (see Alesina & Paradisi, 2014) or budget balance.

Chortareas et al (2016) point at more distinctive political budget cycles and pre-election spendings growth in case of municipalities (what is not true in case of significantly indebted municipalities; Alesina & Paradisi, 2014). The main threat in case of political budget cycle emergence is post-election recession (Manjhi & Keswani Mehra, 2015), negative market distortions (Brender & Drazen, 2004), or time lag between political actions and economic consequences (Klomp & de Haan, 2011; Brender & Drazen, 2004; Alesina & Paradisi, 2014).

The main motive for emerging of political budget cycle seems to be an effort of politicians to be (re)elected (Brender & Drazen, 2003; Klomp & de Haan, 2011; Chortareas et al., 2016; Brender & Drazen, 2004; however, Cioffi et al., 2012 point out that higher spendings before election could be related to political representation that cannot be re-elected anymore, alternatively when it is not possible to connect wasting and particular party or politician). Excessive spendings could be tamed by national government, but only of there is the same party affiliation (party discipline, see Cioffi et al., 2012; Chortareas et al., 2016). Klomp & de Haan (2011) declare that the existence of political budget cycle and excessive pre-election expansive fiscal policy is rather short-term phenomenon, and that long-term fiscal policy is not usually severely affected. Alesina & Paradisi (2014) add conditional emergence of political budget cycle.

Assumed relationship between fiscal expansion and economic growth (that may or may not be real) is used to justify increased expenditure and to demonstrate politicians' competency and his efforts to fulfil public interest (that may or may not be real) - see Brender & Drazen (2003); Manjhi & Keswani Mehra (2015); Shi & Svensson (2003); Klomp & de Haan (2011); Brender & Drazen (2004). Pre-election fiscal expansion can be a result of two political strategies (Manjhi & Keswani Mehra, 2015; Klomp & de Haan, 2011; Chortareas et al., 2016; Brender & Drazen, 2004). The first is opportunism, when politicians try to get maximum votes and manipulate with budget management (Shi & Svensson, 2006). In this case, the consequences are usually more expensive and there is significant difference between pre- and post-election political behaviour (Shi & Svensson, 2003). The second is party loyalty and reflection (mirroring) voters' preferences (based on the importance of various voter groups). In this case, politicians usually work with fiscal expansion and restriction in the whole political cycle. As Manjhi & Keswani Mehra (2015) point out, generally the behaviour of politicians is rather irrational; municipalities seem to be more responsible and rational, compared to national governments, as well as developed countries with longer democratic tradition (Klomp & de Haan, 2011).

Budget management and existence of political budget cycle are related to the quality of governance, transparency, efficiency of public service, quality of democracy and political ethics, clientelism and quality of institutions, left or right orientation of politicians and polarization of political spectrum, electoral system and regulations, quality of human capital, information asymmetry between voters and politicians, to the level of socio-economic development (Cioffi et al., 2012; Manjhi & Keswani Mehra, 2015; Shi & Svensson, 2003; Shi & Svensson, 2006; Klomp & de Haan, 2011; Chortareas et al., 2016; Brender & Drazen, 2004). The former idea of academic research about emergence of distinctive political budget cycles and higher pre-election public spendings dominantly in developing countries and new democracies has already been overcome (Brender & Drazen, 2003; Shi & Svensson, 2006; Brender & Drazen, 2004; Alesina & Paradisi, 2014). Although, in new democracies and systems with shorter democratic tradition could higher pre-election spendings substitute inexperience, lack of competencies and other tools of political marketing and communication (Brender & Drazen, 2003; Klomp & de Haan, 2011; Brender & Drazen, 2004).

Voters can reward or punish fiscal expansion in elections (Brender & Drazen, 2003; Chortareas et al., 2016). The latter is more likely in case of more informed, rational and engaged voters, as well as in case of fiscally conservative public (Brender & Drazen, 2004; Alesina & Paradisi, 2014). Its role may play also media (Brender & Drazen, 2003). Like point out Shi & Svensson (2003) or Brender & Drazen (2004), electorate is more likely to be incompetent, naive and less informed, on the other hand, wants competent politicians (and it is what fiscal expansive policy may indicate). If there is general dissatisfaction with the government, fiscal expansion is usually also ineffective in elections (Manjhi & Keswani Mehra, 2015).

To validate the hypothesis about existence and significance of budget political cycle, several variables are usually employed (see, e. g. Brender & Drazen, 2003; Shi & Svensson, 2006; Klomp & de Haan, 2011; Chortareas et al., 2016). Fiscal variables are represented by budget balance, total spendings, borrowings or grants, capital spendings, visible investments; election variables are represented by voter turnout, election year, party affiliation (usually of mayor), communication in media, election results, characteristics of political spectrum; control variables may include economic performance, dominant types of public spendings, corruption index, institutional index, democracy index, voters' awareness, information asymmetry, population structure and characteristics.

Overall, the effectivity of fiscal expansion as pre-election tool is ambiguous (see Chortareas et al., 2016; Brender & Drazen, 2004; Alesina & Paradisi, 2014).

3. Empirical findings

As can be seen in Figure 1, the total spendings of municipal budgets fluctuate over the period under review. However, it can be identified that in election years and the years immediately preceding them, total spendings show an increasing trend (except for 2021, but this time period was affected by COVID-19 pandemics). Because it is anticipated that increase is dominantly embedded into capital investments, the decomposition of total spendings was made and two main groups of spendings were explored (see Figure 2). It is possible to conclude that the

increase of total spendings could be really associated with the increase in their capital component.

Despite fluctuations in spendings levels, it is possible to observe positive municipal budget balances for most of the period under review (although surpluses tend to be lower in election periods). Negative balances were reported in 2018 (an election year) and 2020 (based on data of Ministry of finance). They could be indicated several municipalities that report budget deficit more often. These are Karlovy Vary (7 years in period under review), Pardubice, Olomouc (both 5 years in period under review).

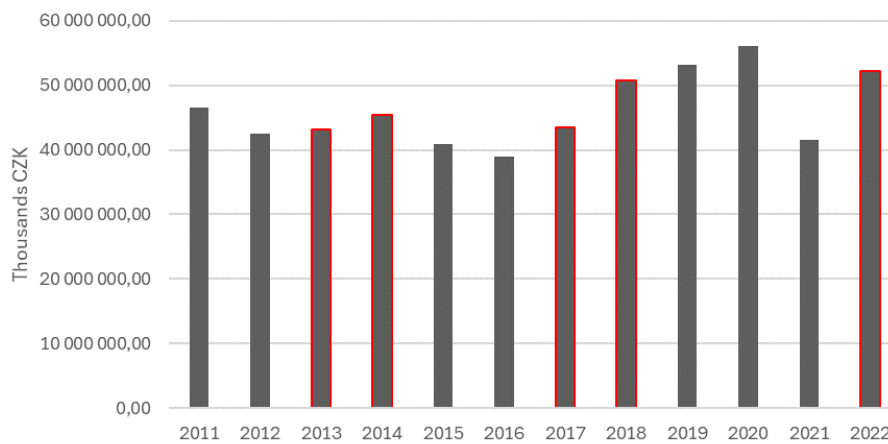


Figure 1: Total spendings of municipal budgets; 2011 to 2022; thousands CZK

Source: Ministry of finance; Monitor

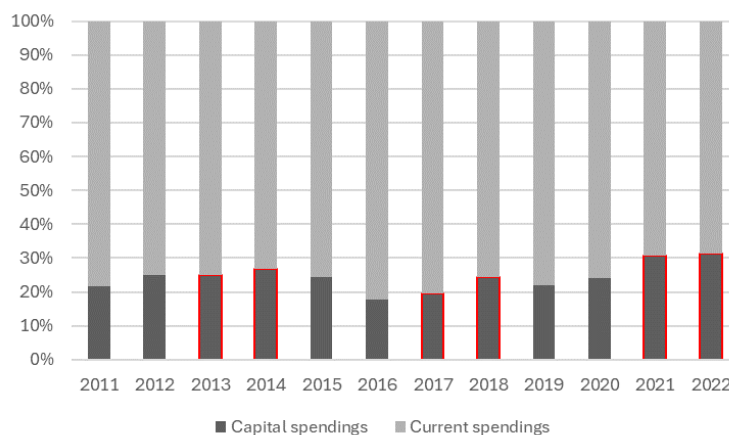


Figure 2: Share of capital spendings on total spendings of municipal budgets; 2011 to 2022; thousands CZK. Source: Ministry of finance; Monitor

Table 1 provides a closer look at the development of municipal budget spendings in the period under review for particular regional capitals. The total amount is covert to population of the municipality in relevant year. In general, it is mostly possible to see, that most of the municipalities slightly or more significantly raise their spendings in election periods. In case of the biggest municipalities or municipalities with higher regional or national importance, the increase is more significant. Connection with election periods, political cycle and the level of public budget spendings are obvious also in case of capital spendings of municipalities (based on data of Ministry of finance).

Table 1: Spendings of regional capitals per capita; 2011 to 2022; thousands CZK

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Brno	35,58	32,04	32,42	33,90	29,28	30,07	33,60	39,65	40,17	45,72	4,33	46,43
Ostrava	35,42	34,58	37,69	37,49	29,37	28,56	31,92	36,67	39,16	42,48	45,37	5,00
Plzeň	32,05	32,45	30,14	36,84	34,80	29,79	33,31	37,19	41,71	41,68	40,74	45,22
Pardubice	24,62	19,98	18,44	20,04	22,57	20,95	24,82	27,53	27,91	30,15	30,12	34,68
Hradec Králové	23,13	20,86	22,67	21,79	19,87	19,17	18,76	23,75	22,75	23,15	26,99	33,09
Liberec	23,48	17,24	18,52	19,42	17,38	18,10	21,07	25,47	26,27	23,60	26,58	29,63
Ústí nad Labem	21,36	15,19	15,18	17,66	19,04	16,48	18,47	22,06	23,27	25,09	25,81	28,72
Karlovy Vary	23,34	23,07	21,63	20,46	24,80	20,77	21,11	27,82	28,69	26,58	30,73	32,32
České Budějovice	22,69	19,05	17,95	20,91	18,57	19,07	21,26	23,36	25,37	26,15	26,47	29,48
Jihlava	21,88	21,37	21,48	22,06	29,78	20,03	20,10	24,57	27,93	25,63	31,05	38,65
Olomouc	24,01	24,31	23,92	22,49	19,79	19,19	23,25	26,08	26,36	26,49	28,55	30,27
Zlín	20,12	16,86	19,32	20,85	20,27	18,96	20,61	23,77	23,90	22,82	25,03	33,48

Source: Ministry of finance; Monitor; Czech Statistical Office

Let us now look at information about communal elections in years 2014, 2018 and 2022. Figure 3 introduces trends in voter turnout. It is obvious, that over time, voter interest shows an increasing trend. Brno and Hradec Králové (and maybe Plzeň) indicates slight decline in voter turnout in 2022. Thus, relatively positive trend in quality of civil society and democracy could be concluded.

If we look at the election results, following findings could be formulated:

- Over time, there is significant decrease in success of traditional left parties (namely Czech Social Democratic Party and Communist party). In 2022 these parties gained only 3 mandates in Brno.
- On the other hand, there is enormous increase in electoral success in case of more or less centrist parties. This is caused mainly by the success of emerging parties like ANO 2011, Czech Pirate Party, partially of SDP party (these parties are considered to be

centrist despite their initial orientation, because they siphon off votes of other parties from left or right part of political spectrum).

- Election results of local parties could be affected by general (dis)satisfaction of citizens with national political representation and its politics, secondly by perception of a better understanding of local problems and citizens' needs. In some municipalities, the position of local parties persists (e. g. Ostrava, Pardubice, Liberec or Zlín), in others it declines. It is not without interest that in the case of municipalities with more periods of budget deficits (Karlovy Vary, Pardubice, Olomouc) the position of local parties is stronger. This could
- The composition of the political spectrum of the municipal council does not appear to affect the level and fluctuation of municipal budget expenditures in the context of the political cycle. The spending trends outlined above hold true in cities where right or left, conservative or liberal parties are more successful.
- Based on abovementioned finding, election results, changes in political parties and changes in the political spectrum in municipal councils are not associated with changes in budget management.

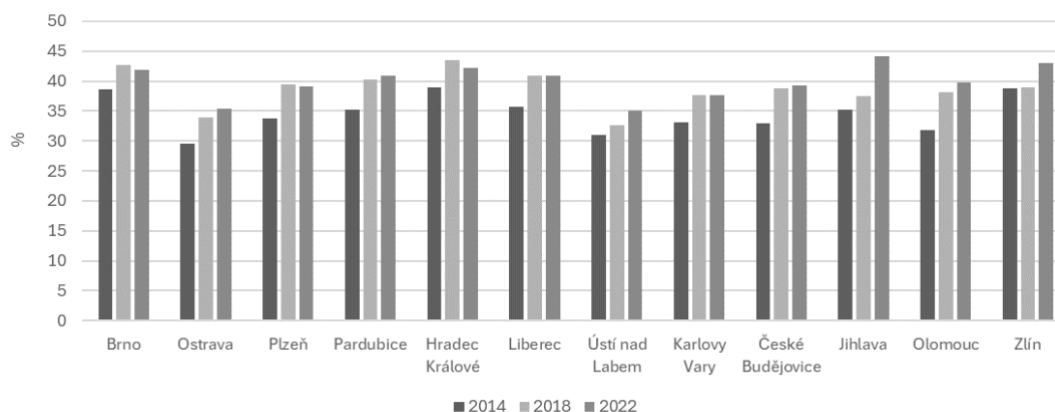


Figure 3: Voter turnout; 2014, 2018, 2022; percentage
 Source: Czech Statistical Office

Table 2: Election results; 2014, 2018, 2022; grouped

	2014											
	Brno	Ostrava	Plzeň	Pardubice	Hradec Králové	Liberec	Ústí n L.	Kar. Vary	Č. Budějovice	Jihlava	Olomouc	Zlín
LP	24,39	29,63	24,91	20,87	21,81	15,4	22,71	17,41	25,56	29,43	27,54	18,13
RP	21,55	5,78	26,59	14,87	13,03	27,08	12,27	6,46	6,6	16,81	20,28	31,59
CP	31,75	27,52	23,56	21,44	14,17	18,05	26,08	22,79	26,18	28,13	33,33	28,92
LP	11,88	13,75	7,31	26,98	37,39	25,45	23,68	32,17	14,17	9,46	14,15	0
	2018											
	Brno	Ostrava	Plzeň	Pardubice	Hradec Králové	Liberec	Ústí n L.	Kar. Vary	Č. Budějovice	Jihlava	Olomouc	Zlín

LP	6,28	14,47	12,18	10,99	6,14	0	6,78	5,06	6,98	15,22	10,29	0
RP	18,55	9,73	28,93	14,59	10,26	40,48	8,47	7,75	6,46	15,17	22,85	32,36
CP	47,07	54,24	40,43	37,87	34,02	21,36	27,99	33,82	33,38	37,15	39,57	40,9
LP	0	11,49	0	22,29	29,27	18,53	41,64	26,98	36,12	28,08	18,03	15,05
	2022											
	Brno	Ostrava	Plzeň	Pardubice	Hradec Králové	Liberec	Ústí n L.	Kar. Vary	Č. Budějovice	Jihlava	Olomouc	Zlín
LP	6,1	0	0	0	0	0	0	0	0	0	0	0
RP	42,12	21,1	35,42	20,23	23,93	9,78	8,91	16,09	29,36	32	25,24	23,05
CP	37,31	51,38	42,78	47,08	40,06	42,55	39,75	51,74	39,33	46,82	43,16	55,35
LP	5,96	12,64	9,8	28,87	12,77	41,54	32,71	21,97	17,32	0	24,2	16,99

Note: TLP = Traditional left parties; TRP = Traditional right parties; TCP = Traditional centrist parties; LP = Local parties; Ústí n L. = Ústí nad Labem; Kar. Vary = Karlovy Vary; Č. Budějovice = České Budějovice

Source: Czech Statistical Office

4. Conclusion

Based on explored information, it is possible to answer the research question of this paper in the following manner: “There exists certain relationship between the development of municipal budget expenditures in the regional capitals of the Czech Republic and the political (or electoral) cycle. This relationship is based on the relative increase in spending during election periods”. The current political representation and the composition of the municipal council have no influence on the development of municipal spendings in relation to the political cycle. The findings could indicate possible insensitivity and lack of interest of citizens and their rather low participation in budget management and control. This finding is in accord with academic findings (introduced above), including the idea about situation in so called new democracies, when the Czech Republic can be seen as a country with rather shorter democratic tradition.

Overall, it is important that municipalities manage their finances relatively responsibly and transparently and have a long-term strategy for sustainable economic development, not affected by relatively short political cycle or populist tendencies. This includes careful spending planning, debt management, monitoring spendings and ensuring adequate sources of funding. This may be due to an appropriately set regulatory framework. Poor municipal budget management and uncontrolled spendings increasing could have various negative consequences, namely e. g. increase of indebtedness, decrease of financial stability and sustainability, decrease of quality of public service and public sustainable investments, loss of credibility and accountability, increase of local taxes and fees, disruption of long-term development, in severe cases even financial crisis, insolvency, state intervention or local bankruptcy.

Connection between budget management and politics on communal level is inevitable, but it should have limitations and should be based on ratio and good governance principles. In case of abuse in case of misuse of the public budget for political struggle and the acquisition of political power, there is a strong risk of populism and poor, unsustainable public finance management. Moreover, negative consequences for democracy, public interests, society and institutions could be recognized. Based on this, following threats are relevant:

- Reduction of complexity, simplification of complicated issues and provision of shallow solutions. Ignoring the real causes of problems and superficial solutions that may be ineffective or even counterproductive.
- Populism often builds on the polarisation of society, with politicians stirring up tensions between different sections of the population. This can lead to political instability and conflict.
- Weakening democratic institutions and restriction of citizens' freedoms in the name of public interest.
- Short-term political gains and popularity could be made at the expense of long-term strategic interests and the sustainability of public policy. This can lead to decisions being taken based on immediate reactions and emotions rather than rational and professional judgement.
- Limitations of cooperation and lack of political and expert debates could slow down solutions to severe problems and challenges of contemporary economy and society or environment.
- Populist policies can have ambiguous effects on economic stability and social security, can have negative effects on the municipal long-term economy and citizens' living conditions.

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