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Electoral Democracy and Local Finances: Fiscal Populism in Mexico

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Abstract

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 welfare 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 qualitative comparison of eight municipalities uncovers the mechanisms by which electoral competition drives municipal fiscal decisions.

Keywords

urban politics, government responsiveness, Mexican cities, fiscal populism, urban finance

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Introduction

Local governments in developing countries have witnessed myriad changes in recent decades, not least of which include decentralization and democratization (Bardhan and Mookherjee 2006; Grindle 2007; Shah 2006). 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 (Faguet 2014; Przeworski, Stokes, and Manin 1999). But, has that been the case? This paper explores how electoral democracy has been translated into budgetary decisions in the case of Mexican cities. 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 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 1990s (Hiskey and 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 local budgets seems more than pertinent.

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 expenditure[1] (mainly payroll).[2] Together, these two categories typically make up over 80% 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 (Cabrero and Jurado 2002; Gatica Arreola and Soto 2012; Kinto 2009; Moreno 2007a, 2007b).[4] 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 25–30% 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 100,000 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. Contrary to the conventional wisdom that electoral competition produces more responsive governance (Fiorina 1981; Mayhew 1974; Powell 2000; Przeworski, Stokes, and Manin 1999), 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 municipal administrations with a stronger hold on power. I explain this puzzling finding with the concept of *fiscal populism*. Hence, this work aligns with others (Boulding and Brown 2014; Clearly 2007; Meza 2015; Moreno 2007a, 2007b) that have shown a negative correlation between tighter elections and responsiveness but goes further by explaining the mechanisms that produce unresponsive *fiscal* decisions.

This argument is supported through a mixed-method research design. I first conduct a large-*n* statistical analysis to explore the correlation between electoral competition and current expenditure across all Mexican municipalities, examining the overall trend of this correlation in 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 reveals a positive correlation between political competition and current expenditure in municipalities with population over 100,000 inhabitants in the last three governmental terms (roughly from 2011 to 2019). The qualitative comparison, which draws on 29 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.

This project makes two key 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 inspired the analysis of local finances in Mexico in the 1990s and early 2000s, but we know little about how the situation has developed as multi-party competition has consolidated. 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 the concept of fiscal populism, drawing on original field research in eight municipalities to develop a theoretically grounded account of how electoral competition can produce poorly responsive policy outcomes in the fiscal realm 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 (De la O 2024; Grindle 2010; Oliveros 2013), and in cases that grant at least a minimal level of autonomy to local politicians over spending decisions.

Electoral Competition, Responsiveness, and Fiscal Populism

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 a result, scholars have hypothesized a positive relationship between electoral competition and government responsiveness (Fiorina 1981; Mayhew 1974; Powell 2000; Przeworski, Stokes, and Manin 1999) 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 (Avelino, Brown, and Hunter 2005; Brown and Hunter 1999, 2004; Kaufman and Segura 2001). Similarly, Stasavage (2005) finds that democracies in Africa—despite their weak institutions and pervasive poverty—spend more on primary education than nondemocracies. Other global cross-national statistical analyses (Besley and Kudamatsu 2006; Lake and 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.

The link appears to be more dubious at the local level. Subnational comparative studies on the United States (Stonecash 1987), the United Kingdom (Boyne 1998), Mexico (Clearly 2007; Moreno 2007*a*, 2007*b*), and Brazil (Boulding and Brown 2014) have failed to find positive relationships between political competition and social spending or welfare indicators. Moreno (2007a, 2007b) 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 yields 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 (Besley and Burgess 2002; Chhibber and Noonddin 2004). 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 and Wilkinson 2007; Robinson and Verdier 2013; Stokes 2005; Weitz-Shapiro 2012). This work fits in with the literature that tests the proposition of higher electoral competition–higher responsiveness and provides evidence to the contrary. Furthermore, I help resolve this puzzling finding by illuminating the local-level mechanisms through which electoral competition can have this perverse effect.

Fiscal Populism

I argue that in contexts where elections are competitive, local politicians face incentivizes 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. In the present day, populism in its *political* dimension is used to describe a thin-centered ideology, with a Manichean world view in which leaders represent "the people" against "the enemies of the people" by pursuing redistributive policies (Benczes 2022). Not surprisingly, national leaders like Hugo Chavez, Jair Bolsonaro, and Andrés Manuel López Obrador have been depicted as populist politicians. Populist leaders have 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; Ostiguy 2013; Weyland 2013).

My conceptualization of fiscal populism in local governance is rooted, however, in the *economic* dimension of populism, which was pioneered by the work of Dornbusch and Edwards (1991) on the development trajectories of the Latin American economies. They defined the term of 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" (Dornbusch and Edwards 1991, 9). Their focus is on the use of macroeconomic policies by populists and its consequences: periodic economic crises that hurt the poor in particular.

The term economic populism evokes irresponsible and unsustainable policies and alludes to politicians that reject restraints on the conduct of economic policy (Rodrik 2018). At the core of economic populism are politicians that make economic policy decisions with a short time horizon, underplaying the long-term consequences of their policies. To prevent the most noxious consequences of economic populism in macroeconomic policy—for example, hyperinflation—many Latin American countries have adopted autonomous institutions, such as Central Banks, that enact policy with a long-term technocratic approach.

The concept of fiscal populism takes inspiration from the essential aspects of economic populism and applies them to the local level. It recognizes that "rational politicians have an inclination to embark on time-inconsistent policies" (Benczes 2022, 117) and that populists, in their disregard for constraints on economic policies, tend to neglect technocratic approaches to their decision-making processes. I argue that politicians in electorally competitive contexts will face incentives to engage in fiscally populist policies. In this light, fiscal populism is expressed in the local arena by: (i) expenditure decisions that reward electoral allies—like patronage hiring (Oliveros 2013) or discretionary transfers (Garay, Palmer-Rubin, and Poertner 2020)—rather than investing in the necessary public goods to enhance the longer-term welfare of most citizens; and (ii) revenue decisions that limit direct taxation for fear of the electoral costs of such unpopular measures. Fiscally populist leaders are then short-sighted; they invariably confront a tradeoff between spending on current expenditure and investing in longer-term public works. Fiscally populist mayors give preference to the former option.[5]

The concept of fiscal populism diverges from clientelism, which has received considerable attention in recent literature on local politics in Mexico and elsewhere. Clientelism is defined in varied ways, but most coincide on a set of practices to alter vote intentions improperly using economic resources (Hilgers 2012; Nichter 2014). The improper use of economic resources can come from illegal campaign funding or from misappropriation of government funds to buy votes. Whereas clientelist practices stress the illegal or improper misuse of economic resources to alter voters' decisions, fiscal populism is not centered at this sort of transgression. Instead, the concept is centered at a type of decision-making rationale among politicians that pertains budgetary choices, which are conditioned by electoral pressures. It is about a logic used by mayors and treasurers to partition the budget and determine its sources. Fiscal populism is about giving preference to electoral gains in detriment of making longer-term budgetary decisions aimed at increasing welfare. Thus, the concept stresses the tradeoff that any budgetary decision in the context of limited resources involves. Lastly, fiscal populism describes a pattern catalyzed by electoral competition that affects *both* sides of the fiscal equation: expenditure and revenue, whereas most of the clientelist practices detected in the literature *only* involve public expenditure decisions.

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 and Huerta 2018).[6] 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.[7] 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

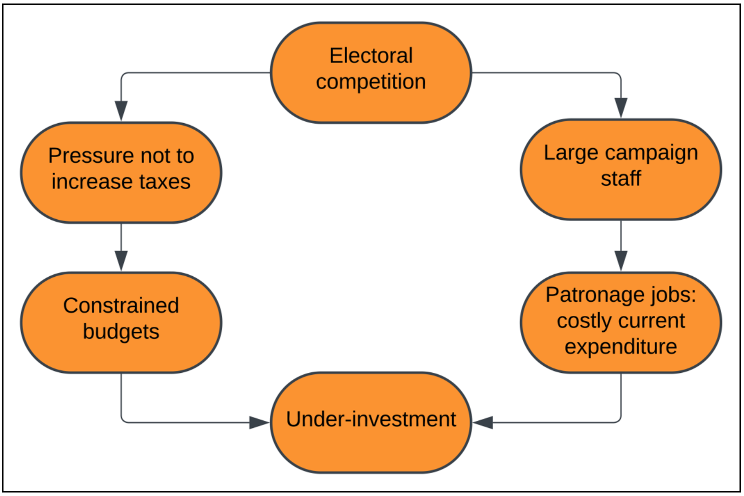

Figure 1. Fiscal populism causal diagram.

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 institutional 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).

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 noncompetitive local governments. On the contrary, one-party dominance has been linked to excessive spending on patronage in Mexico and elsewhere (Diaz-Cayeros, Estévez, and Magaloni 2016; Gibson 2013; Grindle 2015). 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. My concern is to elucidate the dynamics underlying fiscal *non*-responsiveness that prevails in the majority of *electorally competitive* municipalities in contemporary Mexico.

It is important to note that the fiscal populism 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. Conversely, subnational governments in Mexico have a long history of patronage spending under conditions of electoral autocracy (Giraudy 2010). Neopatrimonial systems of domination go back to the post-Revolutionary regime (Durazo Herrmann 2010, 91). Throughout the 20th century municipal governance was characterized by discretional and unchecked power, wherein municipal authorities granted jobs in exchange for personal favors and loyalty.

Local Expenditure and Electoral Competition in Mexico

This section briefly explains the fiscal decentralization process in Mexico and the fiscal federalist arrangements that underlie the incentives and limits to the use of local budgets. Mexico's process of decentralization was triggered in the early 1980s by the reform of constitutional Article 115, which delineates the fiscal capabilities and limits of municipal governments. The overarching goal of the reform and subsequent reforms in the 1990s was to increase local governments' fiscal autonomy and to delegate certain functions to these governments[8] in the hope of improving public services and permitting stronger accountability relationships between citizens and local governments (Unda and Reyes 2024, 322–26).

Nevertheless, the pro-decentralization reforms have had a limited impact (Merino 2004; Rafael and Trillo 2005; Cabrero 2013). 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.[9] In short, municipal governments have neglected their revenue-raising capacity. Even though decentralization on the expenditure side has been more far reaching than on the revenue side (Sobarzo 2006), local governments still spend a low proportion of total public expenditure. 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.[10]

Although municipalities have exercised more influence on the expenditure than on the revenue side, the expenditure composition at the aggregate level was very inertial until the mid-90s. Figure 2 shows a large shift in the pattern of investment in the late 90s in which smaller municipalities spent more on 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 on municipal budgets.

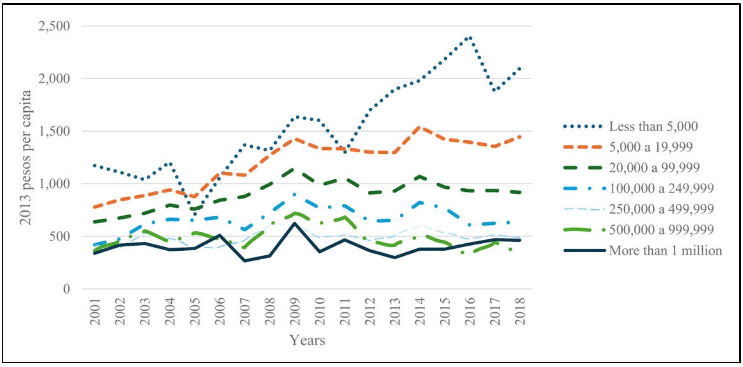

Figure 2. Investment per capita, disaggregated by municipal family.
Source: Own elaboration based on INEGI database "*Estadisticas de Finanzas Publicas Estatales y Municipales*;" & for population data: INEGI "Census and intercensal historical series (1990-2010)," "Intercensal Survey 2015," and "Population and Household Census 2020." 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

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).[11] The criterion to distribute this type of grant is equalizing;[12] 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), 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 2.

The changes in expenditure patterns noted in Figure 2 provide two relevant implications. First, given that earmarked transfers constitute a larger percentage of budgets for smaller municipalities, larger municipalities are a better place to observe either fiscal populism or responsive budgetary decisions at play. In a nutshell, urban municipalities have more room to make fiscal decisions than do rural ones. Second, the creation of earmarked transfers (*aportaciones*) in Mexico has guaranteed higher levels of investment in small municipalities than in the past, probably higher than government officials would have preferred to allocate in light of the well-documented link between poverty and clientelism.

Research Design

As discussed, the original proposition about the positive impact of electoral competition on government responsiveness has prompted empirical studies

Table 1. Expected Correlations Under Fiscal Populism Hypothesis.

	Current expenditure		Investment	
Electoral competition	High	Low	Low	High
High	X		X	
Low		X		X

providing mixed results. The fiscal populism hypothesis proposed here predicts a negative impact. 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 independent variable (electoral competition) and dependent variables (current expenditure and investment).

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. I then examine the overall trends of this correlation in different classes of municipalities, according to population. Next, I perform a qualitative comparison of municipalities aimed at testing my hypothesis and finding the mechanisms through which electoral competition affects municipal budgets. The comparative analysis of eight urban municipalities involves data collection from both semi-structured interviews with public officials and public finance indicators.

Regarding case selection for the qualitative component, I chose eight urban municipalities with populations above 100,000 inhabitants. This municipality size comprises 217 municipalities, constituting 8.9% of the total and 58.6% of the national population. I focus on urban municipalities since they should be less vulnerable to government capacity deficits and thus capable of responding to electoral pressure with public goods provision if incentives are aligned to do so. 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 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 calculated the average range of the proportion allocated to investment and current expenditure per municipal family in the governmental term under study. I then compare it to the proportions that my eight case studies allocated to each of these expenditure items to determine if the case studies were above, below, or within the "normal" range of expenditure proportions relative to their families. For instance, Table 1 in Appendix 1 shows that municipalities with 100,000–250,000 inhabitants, on average, allocated between 54.54% and 59.04% of their total budgets on current expenditure. Because Rosarito spent 72.6% on this category, it is classified as having high levels of current expenditure.

While regression models employ a continuous measure of population, I interpret these results by disaggregating marginal effects within municipal "families." Creating these population-based groups allows me to detect heterogeneous effects across categories that exhibit similar levels of economic and social development in light of nonexistent or unreliable municipal GDP calculations in Mexico. Less populated municipalities tend to exhibit lower indicators of citizen welfare (World Bank 2009, 62–66). Still, it is worth noting the variation that exists amongst the three municipal families represented by the eight case studies. Large municipalities like Zapopan and Tijuana, given their wealth, could cover bulky investments with a smaller proportion of their budgets. In contrast, the smaller, less rich, and urbanized municipalities of Navojoa or Tepatitlán, could, with the same proportion of their budget, do only maintenance works and thus rely to a greater extent on the state and federal budgets for large infrastructure investments. The results of this classification exercise are shown in Table 1, Table 2, and 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)

Results of Statistical Analysis

Apart from the boundaries and incentives set by fiscal federalist arrangements, the electoral competition faced by local politicians also shapes their fiscal decisions. The multivariate statistical analysis conducted here reveals a positive correlation between electoral competition and current expenditure, which gets stronger as municipalities get bigger. In this analysis, the independent variable is Margin of Victory, which is calculated as the absolute value of the difference in vote margin (in percentage points) between the highest and second-highest voted parties in the immediately preceding election. A *higher* margin of victory reflects *less competitive* elections. The dependent variable is a proportion of the municipal budget (over the three-year term) that is allocated to current expenditure. The fiscal populism hypothesis is confirmed by a negative statistical association between Margin of Victory and Proportion Current Expenditure.

I employ the municipal term (typically three years) as the unit of analysis, which smooths out spending across the years of an administration.[13] 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 main disadvantage of this approach is the reduction in statistical power. However, interviews with municipal personnel supported the notion that spending is best understood over the course of a full term for two reasons. First, mayors' spending *decisions* often do not correspond to the year that the cost is accounted for, particularly for large infrastructure investments that require permitting and cut across multiple years. Second, the independent variable—level of electoral competition—is coded only once per term, during the election that was won by the mayor in question; thus, the individual years within a mayoral term do not constitute independent observations

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.) While population is included in the model as a continuous variable I display the marginal effects by groups based on municipal population (municipal families). This mode of interpretation permits detection of heterogeneous effects of electoral competition in different-sized municipalities.

Figure 3 displays marginal effects of vote margins in municipal elections on the proportion of budgets allocated to current expenditures.[14] 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 10 percentage-point increase in margin of

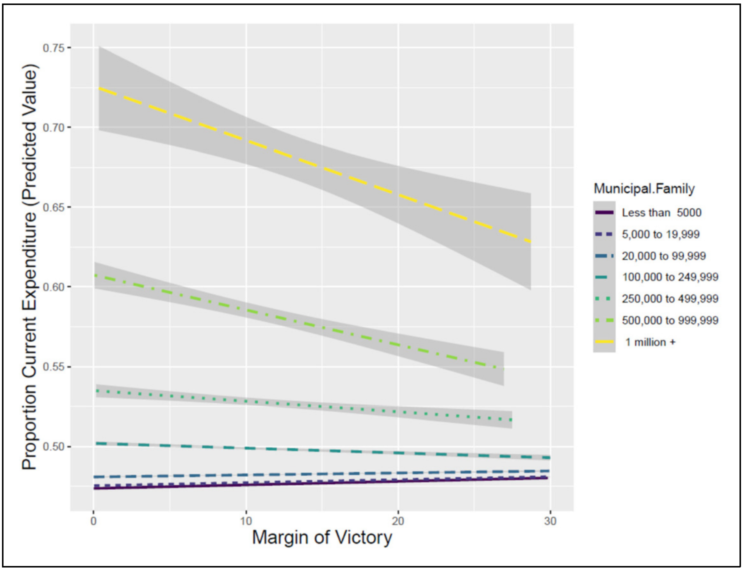

Figure 3. Electoral competition and current expenditure by municipal family (all municipalities).

victory is associated with approximately one percentage point less of spending on current expenditure (see models in Appendix 2). This relationship is derived from an ordinary least squares regression model that controls for potential confounding variables including the party in power and the level of economic marginality of the municipality.[15] As expected, given the fiscal constraints on smaller municipalities, the relationship increases in intensity as the size of municipalities grow. For the largest municipalities (over one million in population) a 10 percentage-point increase in vote margin is associated with about a seven percentage-point decrease in current expenditure. For the median municipality with over a million population, this decrease represents roughly 112 million pesos less in current expenditure (about 6 million U.S. dollars). Given larger budgets, the largest municipalities enjoy the greatest margin to respond to electoral incentives through budgetary appropriations.

The overall contrast between urban and rural municipalities is attributable to Mexico's institutional context as explained above. Rural municipalities have little room to decide how to allocate their budgets. The slightly positive slope for the two families of municipalities with populations under 20,000 suggests that for these smallest of local governments, current expenditure may in fact decrease with electoral competition in line with the electoral accountability thesis.

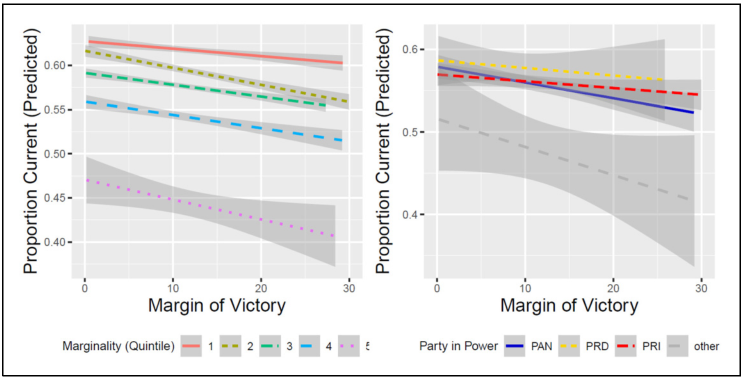

Figure 4. Electoral competition and current expenditure in municipalities with more than 100K inhabitants (by party and marginality).

This finding is robust across important categories of variation, including party in power and socio-economic levels of the municipality. The plots in Figure 4 demonstrate the marginal effect of Margin of Victory on Proportion Current Expenditure for urban municipalities when disaggregating for the level of marginality of the municipality (left panel) and for the party in power (right panel). All lines in these two panels demonstrate a negative slope, confirming that this statistical association is not confounded by either of these factors. In short, fiscal populism afflicts urban municipalities broadly in Mexico. The qualitative analysis in the following section uncovers the mechanisms through which electoral competition affects spending decisions.

Comparative Study

In this section, I conduct a 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.[16] 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 3), confirming the fiscal populism hypothesis. Second, I present the 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.

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

Elections and Expenditure Composition in Eight Cities (2015–2018 and 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, as depicted in Table 1. The same logic used to classify variation in the dependent variables (as described in section Research Design and shown in Tables 1 and 2 in Appendix 1) 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 families. In Table 3, for instance, Tepatitlán is labeled with a high level of electoral competition since municipalities within its family in their 2015 or 2016 elections showed an average range of margin of victory between 11.41% and 13.36%, whereas Tepatitlán's mayor won by the narrower margin of 6.6%.

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

The comparative study rests on 29 semi-structured interviews.[17] The main author conducted all interviews between July 2017 and May 2018.[18] The interviewing process in each municipality started targeting officials with a clear command over fiscal decisions like mayors, treasurers, revenue, and expenditure directors found through municipal government websites. Generally, those interviewees mentioned or suggested interviewing other officials who were part of the planning or execution of budgetary decisions. Within most municipalities, I interviewed both elected officials (mayors) and several career bureaucrats. The most detailed information was typically provided by bureaucrats who were able to speak of approaches to managing the municipal budget over multiple mayoral terms, referencing both technical aspects of the position and political pressures. Conducting interviews in the offices of these figures allowed me to observe the context within which they work.[19]

Field research findings demonstrate that fiscal populism emerges under conditions of electoral competition. Municipal personnel interviewed affirmed that electoral pressures result in patronage 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. Thus, bureaucratic accumulation exacerbates a problem that results from electoral pressures contributing to making current expenditures heavier. In addition, the bureaucrat's rationale when confronted with the immediate questions of how to allocate the budget overwhelmingly prioritizes payroll, given that they fear the high political costs of reducing the number of municipal employees or their benefits. In sum, bureaucratic accumulation and assigning priority to covering the payroll exacerbates the overspending on current expenses in detriment of investment.

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 increase 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).

This section is organized in two 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) Electoral campaign commitments are compensated with municipal jobs. Interviewees provide a granular explanation of why the payroll has become even more onerous in recent years, citing the granting of permanent jobs and costly employment benefits. Moreover, budgetary decision makers 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 a result, infrastructure investment is often limited to that which is mandated by earmarked transfers.

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 Laws[20] 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 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 request resources from 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 decision makers 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.

Paying Electoral Support with Jobs and Why the Payroll Becomes so Onerous

Incoming municipal administrations hire many new personnel, following through on commitments made during the electoral campaign. 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. 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 magnitude of 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 Zapopan[21] 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 types of jobs in the municipal government. The policy should be not to hire any administrative employees, but operative employees are indeed necessary.

But why not cut the payroll dismissing former administrations' employees? Because it is highly unpopular and politically costly. 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. Local decision makers think it is politically costly to reduce the payroll, and as a result they give priority to it when allocating the budget.

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.

Relatively speaking, most municipalities have restricted budgets. There are never enough resources to cover the expenditure needs, especially in developing countries. In other words, having a fiscal gap is a characteristic of developing countries (Bahl and Linn 1992, 52). Thus, the point here is to show that despite budgetary constraints, the priority in allocating scarce resources is given to covering payroll expenses instead of investing in public works. This is due to a rationale in decision makers (fiscal populism) that gauge that the political costs of reducing the payroll or reducing its level of priority over other expenses is a less desired option. In sum, municipal decision makers consider allocating resources to investment residual.

Conclusions

This paper has analyzed how electoral democracy has been translated into budgetary decisions in Mexican cities. I show that municipal governments that face higher levels of electoral competition tend to spend less money on much-needed infrastructure investments and overspend on current expenditure. This work aligns with other empirical studies that have tested the link between electoral democracy and responsiveness but goes further by explaining the mechanisms that produce unresponsive fiscal decisions with the concept of fiscal populism.

I argued that in contexts where elections are competitive, local politicians are often 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 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 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.

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 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 *size* of current expenditure. They point out two institutional causes that exacerbate ballooning municipal payrolls: the granting of permanent jobs (*basificación*) and increasing work benefits. Municipal officials further explained that when partitioning the budget, the top priority is to cover the payroll expense. Dismissing people from previous administrations or reducing their benefits is considered politically costly. In this light, allocating scarce resources to investment is a residual decision. 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).

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.

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 captured in this paper—could help voters be more effective at influencing the budgetary decisions of their local government. The possibility of reelecting a mayor, as it attunes the accountability process, may permit less space for fiscal populism. Further research is needed to measure the effect of the reelection mechanism on increasing fiscal responsiveness in Mexico.

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, Estrada, and Fajardo (2020), who find that patronage was more rampant in low-ranked jobs in Ghana and Ecuador, respectively.

The findings of this paper point to some policy proposals. First, the rules and allocation formulas that determine the size of intergovernmental transfers to municipalities can be improved to incentivize the generation of own revenue more effectively by local governments. The effort to increase property taxation, for instance, should be recognized and rewarded. Second, municipal officials made clear that a key problem of municipalities is the suffocating cost of the payroll, which restates the importance of the professional civil service and similar regulations. Professionalizing civil services to ensure that most public jobs are allocated on the basis of meritocratic criteria could reduce the space currently available to decision makers to enact fiscally populist measures.

Third, the Mexican case suggests that regulations, monitoring, and effective enforcement aimed at fostering more responsive fiscal behavior is necessary. Currently, municipalities in Mexico are supervised by the federal government through national laws, like the Law of Financial Responsibility of States and Municipalities and through the Federal and States Chief Audit Offices (ASF for its acronym in Spanish) that are part of the federal and state legislatures. However, these supervising bodies and mechanisms are focused on deterring the illicit misuse of public money. While preventing corruption is important, there is also a need to design and implement a system that focuses on promoting budgetary measures that respond to citizen needs. Of course, adopting these types of policies depends, in part, on the willingness of politicians to tie their own hands in the use of patronage and to reduce the level of discretion they currently enjoy allocating the budget; a rare phenomenon in any democracy.

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Notes

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. Remaining expenditure items besides public works and current expenditure are: (i) transfers, allowances, and subsidies, (ii) debt, (iii) other expenses.
4. Many municipalities in Mexico—particularly in rural areas—face infrastructure deficits due to the lack of resources rather than a political calculus of the mayoral administration. The focus of this article is on urban municipalities (over 100,000 inhabitants) where mayors enjoy greater margin to allocate spending between these categories.
5. It is worth emphasizing that capital expenditures are not per se more responsive to citizens' interests than current expenditure. Both types of spending are necessary to run a municipality. Increasing the payroll for personnel involved in the provision of public goods and services could be a responsive way to apportion the budget. Conversely, capital projects that are highly visible but have little impact on the welfare of most citizens—known as plazismo (Méndez 2021, 34)—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.
6. While it is known that illegal campaign finance takes place in Mexican municipalities (Casar and Ugalde 2019; Serra 2016), it is hard to know with precision (i) the size of the illegal funds fueling municipal races, (ii) the recipients of these illegal funds (political parties/municipalities), and (iii) what the money is used for. Illegally raised funds are widely used for other illegal purposes, mainly, vote buying. My expectation is that illegal campaign contributions (by private actors like businesses or drug-trafficking organizations) would contribute to an increase in fiscal populism by further disrupting the notion of responsiveness to the public as a guiding principle in budgetary decision-making.
7. As the evidence in the empirical section shows, electoral competition triggers the hiring of new personnel by the incoming administrations, which is exacerbated by labor regulations that make it very difficult to dismiss personnel and results in bureaucratic accumulation. All these explain the heaviness of the payroll.
8. 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, and garbage collection.
9. Source: OECD, fiscal decentralization database, tax revenue: https://www.oecd.org/tax/fiscal-decentralisation-database.htm#C_3 accessed on October 11, 2020.
10. Source: OECD fiscal decentralization database, consolidated expenditure: https://www.oecd.org/tax/fiscal-decentralisation-database.htm#C_3 accessed on October 11, 2020.
11. Resources from FAISM should be allocated for potable water, sewage, drainage, rural lighting, basic infrastructure in clinics and schools, housing improvement, and infrastructure maintenance.
12. For more on the criteria to distribute earmarked transfers and consequential effects see Ibarra (2018).
13. An alternative approach would be to take the municipality-year as the unit of analysis and introduce control variables for the year-of-term in the model. I

opted against this approach for two reasons: (a) this approach would artificially inflate the sample size by triple-counting each unit at which the independent variable takes effect (the mayoral term); and (b) including fixed effects for year-of-term would be insufficient to account for heterogeneity of municipal spending cycles (e.g. between competitive and non-competitive municipalities), and thus would fail to eliminate bias in estimation of the correlation between electoral competition and spending composition.

14. These marginal effects are derived from model 5 in “Multivariate model of current expenditure” in Table 1 in Appendix 2. The model draws on electoral data constructed from: Eric Magar (2018) Recent Mexican election vote returns repository, https://github.com/emagar/elecReturns; and Historical information of municipal presidents, National Municipal Information System, National Institute for Federalism and Municipal Development (http://www.snim.rami.gob.mx/).
15. Alternate specifications also included as a control variable the total of fiscal transfers from higher levels of government. In all models, the coefficient on this variable was negative and statistically significant, although this is difficult to interpret because these models also included population, which determines the greatest share of transfers. The direction or significance for the main variable of interest (Margin of Victory) did not change for any of the models, however.
16. The logic of case selection is explained in section Research Design.
17. The list of the interviewees is in Table 1 in Appendix 3.
18. The project was mainly funded by the Lincoln Institute of Land Policy, Agreement LMU082616.
19. Field research for this project was conducted while the author was affiliated with a university outside of the United States that does not have a formal IRB process. Nonetheless, I took efforts to assure that my research conformed to standards of protection, making clear that participation was completely optional, offering to preserve anonymity of participants, and conducting interviews away from participants’ colleagues and superiors. I have no reason to believe that my research introduced risk to interview participants. All participants happily agreed to share their names in the research and were eager to participate.
20. The Revenue Law establishes next year’s revenue target and shows disaggregated data for each revenue item.
21. 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.

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Appendix 1

Table 1. Case Studies' Ranking on Current Expenditure Within Its Municipal Family in the Last Governmental Term.

		Current expenditure % of total		
Municipal family	Case studies	Municipal family normal range	Current exp. % of total	Ranking in municipal family
100,000–249,999	Rosarito	54.54–59.04	72.63	High
	Tepatitlán		58.99	Medium
	Comitán		46.05	Low
	Navojoa		57.35	Medium
500,000–1 million	Hermosillo	58.55–65.51	59.62	Medium
	Tuxtla Gutiérrez		68.95	High
1 million +	Zapopan	54.65–67.04	61	Medium
	Tijuana		75.15	High

Table 2. Case Studies' Ranking on Investment Within Its Municipal Family in the Last Governmental Term.

		Investment % of total		
Municipal family	Case studies	Municipal family normal range	Investment % of total	Ranking in municipal family
100,000–249,999	Rosarito	22.59–27.38	5.96	Low
	Tepatitlán		22.41	Low
	Comitán		28.47	High
	Navojoa		17.64	Low
500,000–1 million	Hermosillo	12.71–18.34	10.78	Low
	Tuxtla Gutiérrez		10.23	Low
1 million +	Zapopan	11.15–18.66	18.46	Medium
	Tijuana		10	Low

Appendix 2

Multivariate Models of Current Expenditure

	All Mun's	All Mun's	Over 100K	Over 100K	Over 100K
Margin of Victory	0.02	0.02	-0.12^{*}	-0.12^{*}	-0.14^{***}
	(0.02)	(0.02)	(0.05)	(0.05)	(0.04)
Population		0.00^{***}		0.00^{***}	0.00^{**}
		(0.00)		(0.00)	(0.00)
Transfer Payments		-0.00^{***}			-0.00^{***}
		(0.00)			(0.00)
Margin of Victory:Population		-0.00^{*}			
		(0.00)			
Marginality Index					-10.49^{***}
					(0.70)
PAN Mayor					−1.19
					(1.31)
PRD Mayor					-3.07^{**}
					(1.19)
PRI Mayor					2.05
					(1.09)
(Intercept)	48.21^{***}	47.20^{***}	56.86^{***}	54.69^{***}	45.36^{***}
	(0.29)	(0.30)	(0.85)	(1.01)	(1.04)
R^2	0.00	0.03	0.01	0.03	0.33
Num. obs.	5752	5752	626	626	626

$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

Appendix 3

Table 1. List of Interviewees.

State	Municipality	Nombre del funcionario	Post
Baja California	Tijuana	Ricardo Chavarria Morales	Treasurer (Tesorero)
Baja California	Tijuana	Sandra Flores Bernal	Planning and budget director (Directora de Programación y Presupuesto)
Baja California	Tijuana	Juan Pablo Guerrero	Tax collection director (Director de Recaudación)
Baja California	Playas de Rosarito	Gerardo Alfredo Rocha	Treasurer (Tesorero)
Baja California	Playas de Rosarito	Jaime García Hernández	Expenditure and payments coordinator (Coordinador de Egresos y Pagaduría)
Baja California	Playas de Rosarito	José Manual González	Tax collection director (Director de Recaudación de Rentas)
Baja California	State-level	Bladimiro Hernández Díaz	Secretary of planning and finance of BC (Secretario de Planeación y Finanzas)
Chiapas	Tuxtla Gutiérrez	María Cristina Palomeque Rincón	Treasurer (Tesorera)
Chiapas	Tuxtla Gutiérrez	Edmundo Román Maldonado	Accounting and finance director (Director Financiero y Contable)
Chiapas	Tuxtla Gutiérrez	Miguel Ángel López Reyes	Financing development director (Director de Desarrollo para el financiamiento)
Chiapas	Tuxtla Gutiérrez	Carlos Alberto Ramos Flores	Planning secretary (Secretario de Planeación)

(continued)

Table 1. (continued)

State	Municipality	Nombre del funcionario	Post
Jalisco	Tepatitlán	Atanasio Ramírez Torres	Expenditure director (Jefe de egresos)
Jalisco	Tepatitlán	Gabriela Orozco Flores	Revenue director (Jefa de ingresos)
Jalisco	Tepatitlán	Fernando Ibarra Reyes	Treasurer (Tesorero)
Jalisco	Tepatitlán	Héctor Hugo Bravo Hernández	Mayor (Alcalde)
Jalisco	Zapopan	Pablo Lemus Navarro	Mayor (Alcalde)
Jalisco	Zapopan	Sara Macías Arellano	Revenue director (Directora de Ingresos)
Jalisco	Zapopan	Alain Dimitrius Izquiero Reyes	Adviser, office of fiscal policy (Asesor en oficina de Política Fiscal)
Jalisco	Zapopan	Luis García Sotelo	Treasurer (Tesorero)
Jalisco	Zapopan	Roberto García Piña	Social programs director (Director de Programas Sociales)
Jalisco	Zapopan	Sofía Montserrat Godínez Melgoza	Expenditure and budget director (Directora de Presupuestos y Egresos)
Jalisco	State-level	Hugo Alberto Michel Uribe	Undersecretary of planning and finance of Jalisco (Subsecretario Planeación, Administración y Finanzas de Jalisco)
Jalisco	State-level	Héctor Rafael Pérez Partida	Secretary of planning and finance of Jalisco (Secretario de Planeación, Administración y Finanzas de Jalisco)
Jalisco	State-level	Miguel Orlando Turriza Cuevas	Expenditure director (Director General de Egresos)
Sonora	Hermosillo	Carlos Vicente Ortiz Arvayo	Expenditure director (Director de Egresos y Control Presupuestal)
Sonora	Hermosillo	Alfonso Morfín Woolfolk	Revenue director (Director de Ingresos)

(continued)

Table 1. (continued)

State	Municipality	Nombre del funcionario	Post
Sonora	Navojoa	María Teresita Yescas Enríquez	Treasurer (Tesorera)
Sonora	Navojoa	Clemente Zazueta Rivera	Planning and public expenditure director (Director de Planeación y Programación del Gasto Público)
Sonora	Navojoa	Paulino Quiróz Rincón	Economic development director (Director de Desarrollo Económico)