

Chapter 1

The impact of Financial Information on Voting Behaviour

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ABSTRACT

In the public sector, citizens have been recognized as potential users of financial reporting elaborated by governments. A specific use of financial reporting by citizens is voting decisions, where they can approve or disapprove of the politicians' management. Political budget cycles literature contains many studies that evidence that politicians manage the budget in order to increase their possibilities of being reelected, but there is no consensus about the outcome. This chapter aims to study to what extent financial management influences electoral outcomes and if there is any evidence that the financial management of governments has an impact on election results. The study is focused on Spanish local governments and uses data from the elections of 2011 and 2015. The results indicate that governments with higher capital investments or fewer deficits have no advantages in the elections. However, citizens reward government policies with higher levels of social expenditures and punish higher fiscal pressure.

DOI: 10.4018/978-1-5225-7820-8.ch001

INTRODUCTION

The introduction of an electoral system in which citizens can elect their political representatives is typical of democracy and tries to guarantee the functioning of political systems. It allows the political party in power to obtain the necessary legitimacy to carry out its fiscal, social and economic policies. The citizens can use elections to decide about the type of governments they prefer, as they are at the same time resource providers to governments and user of the services provided by them. Because of this, statements of concepts of accounting standard boards state that taxpayers and citizens are potential users of public administration financial reporting. Accounting literature about the usefulness of governmental financial reporting has also included this group of users and found a strong interest. A specific use of financial reporting by citizens is voting decisions, where they can approve or disapprove of the politicians' management.

Political budget cycles literature maintains that the need to have voters' support may lead political managers to adopt policies that enhance their possibilities of being re-elected. Politicians may have incentives to try to influence voting intentions. It is argued that this can lead to increase public spending before elections to improve the chances that they (or their party) will be re-elected (Drazen & Eslava, 2010).

Some authors have tried to study the effect of political budget cycles on the management of expenses and revenues (Boetti et al., 2012; Klein, 2010; Sakurai & Menezes-Filho, 2011; Cioffi et al., 2012; Wagner, 2012; Wang & Hou, 2012; Guillamón et al., 2013; Lopez, 2013; Sjahrir et al., 2013; Vicente et al., 2013). They study whether governments adopt policies of expense and revenue manipulation in the year prior to elections, either from the perspective of total expenditure or from its composition. The results are not conclusive.

From this perspective, there is also a stream of the literature that has tried to analyze the effect of political cycles, that is if governments that use expenditures to increase their possibilities of being reelected really obtain advantages in the voting box. This implicates to assess if citizens and users perceive the financial management of governments and the signals that politicians send them. As financial management is shown in financial statements, this could indicate that financial information have an impact on voting decisions and therefore the usefulness that they can have for citizens and other users to evaluate the public policies.

This chapter addresses two empirical research questions: (1) Does financial management influence electoral outcomes, that is, to what extent can it be said that voters perceive accounting data? (2) What impact does the socioeconomic context have on electoral outcomes? While numerous factors might affect election outcomes, the paper considers only accounting ratios that can be calculated on the basis of the information included in the financial report and socioeconomic variables. The

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