

## Chapter 5

# Analysis of the Association Between Political Change in Local Government and Municipal Financial Condition in Spain During the Great Recession

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### ABSTRACT

*The political influence on the financial condition of local government has been examined in various studies in the academic literature. However, no clear relationship has yet been established between such political factors and the constituent elements of financial condition sustainability in the context of the recent Great Recession. The aim of this study is to evaluate the dimensions of electoral size, defined for the chapter's purposes as the effective number of parties, and of transfer (i.e., how electoral gains and losses are related to the configuration of the party system) using a series of aggregate indices. Once these indicators are obtained, they are related to various indicators of financial condition for five Spanish cities. The results obtained show that financial condition either worsened or presented little change in the different cases considered and that various scenarios of aggregate volatility during the study period were detected.*

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## **1. INTRODUCTION**

Various studies have examined the question of political influence on the financial condition of local government (Borges, 1995; Bastida & Benito, 2008; Klomp & De-Haan, 2011). In this respect, Benito et al. (2012) empirically analysed how the characteristics of the governing party impact on the financial activities of the local entity. However, no clear relationship has yet been established between such political factors and the constituent elements of financial condition sustainability in the context of the recent Great Recession (López-Hernández et al., 2012).

Nor has this phenomenon been considered previously with respect to the global economic and financial crisis, although the latter situation may be related to financial sustainability and political change. It has been suggested that financial condition might be modified by ideological political changes, and that a transboundary crisis (Ansell et al., 2010) could affect the relationship (Zafra-Gómez et al., 2013; Zafra-Gómez, López-Hernández, Plata-Díaz & Garrido-Rodríguez, 2016).

From a political standpoint, the present study uses a series of aggregate indices to evaluate the dimensions of electoral *size*, defined for our purposes as the effective number of parties, and of *transfer*, i.e. how electoral gains and losses are related to the configuration of the party system. Once these indicators are obtained, they are related to various indicators of financial condition for five Spanish cities – Barcelona, Madrid, Valencia, Seville and Zaragoza – during the period 2007-2011, which was characterised by the impact of the Great Recession (the transboundary crisis). Each of these cities underwent political changes during this period, either in the ideology of the governing party or as a change of mayor within the same political party.

The results obtained show that financial condition either worsened or presented little change in the different cases considered, and that various scenarios of aggregate volatility during the study period were detected.

The rest of this paper is structured as follows: section 2 presents the theoretical framework used to examine financial condition and its relationship with political characteristics; section 3 then describes the study method employed in this respect, after which section 4 summarises the results of our analysis. Finally, the main conclusions drawn are presented in section 5.

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