

Regional Heads' Discretionary Spending in Local Election

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Abstract: - Various research in several nations showed that incumbent regional leader who ran for a second term exploited their budgetary authority to win re-election. The budget components used are primarily expenditures on people and capital. The purpose of this study was to examine whether discretionary spending on social assistance and capital expenditure occurred during Indonesia's simultaneous local elections in which the incumbent was re-run for a second term. We used panel data regression analysis to examine district-city leaders' 2017 and 2018 simultaneous local elections. The sample of 504 municipal districts showed empirical evidence that the incumbent increased spending on social assistance, equipment and machinery, and road irrigation and network maintenance. This finding is consistent with prior research indicating the incidence of discretionary spending in incumbent led local elections.

Key-Words: - Determination CEO, CEO Attributes, Coal Based Companies, Firm Performance

Received: December 4, 2022. Revised: May 5, 2023. Accepted: May 20, 2023. Published: June 1, 2023.

1 Introduction

Local elections in Indonesia allow voters to assess regional leaders' performance over five years. However, because the regional head shares budgetary authority with the local legislature, the incumbent can craft the Regional Revenue and Expenditure Budget (APBD) to suit their political interests. Regional leaders who run for re-election in local elections for the second term have the opportunity of using budgetary authority to win re-election, [1], [2], [3], [4], [5].

Regional heads increase budget components directly relevant to the voters and increase infrastructure spending in the year preceding the local election to demonstrate their ability to administer their regions, [1], [6], [7]. The political budget cycle, discretionary spending, or pork-barrel spending are all terms used to describe the phenomenon of using spending for political purposes. Discretionary spending refers to various expenditures other than mandatory government spending given or allocated to specific constituents without reference to an objective formula, [6].

Previous studies in Canada, Russia, Colombia, and France, budget allocations for social services and local government infrastructure increased in each country in the run-up to local elections. In Canada, provincial governments increased spending on social services and roads in the run-up to the general election, [2]. As the regional head elections

approach, Russian's local governments increase public spending directly related to the people, [1]. Colombia's local governments have also increased direct public and infrastructure spending, particularly on roads and energy and water infrastructure, to sway voters to re-elect the incumbents, [7]. When facing mayoral elections in France, mayors reduce tax revenues and increase capital expenditures, [8].

Additionally, the study discovered that spending to advance the political interests of incumbent regional heads occurs in Indonesian regencies/cities that hold direct local elections, [9]. The expenditure category "other" increased in Indonesia's direct election years, but the total administrative expenditures do not, [9]. In Indonesia, political budget cycles occur solely during direct elections; indirect elections did not occur. Discretionary spending or the political budget cycle has not been widely carried out in Indonesia. Study in Indonesia regarding the political budget cycle was carried out when the Indonesian government had not implemented accrual-based accounting standards, so there were differences in spending components [9]. This study continues, [9], [5], and examine a more detailed budget components, namely social assistance spending and capital spending.

2 Hypothesis Development

Politicians, including politicians in local government, are agents who represent and act on behalf of the people as principals, [10]. The regent/deputy regent and mayor/deputy mayor as regional heads in regency/municipal government are political positions. They are elected through regional head elections by the voters of each region. Because regional heads are rational individuals, they tend to maximize their satisfaction and interests, [11], [10]. One of the motives of politicians in making government policies is the increase in the number of votes that voted for them in the next general election, [12].

People expect the performance of regional heads after the general election to be influenced by the budget issued by the regional head before the regional head election, [13]. Regional head incumbents with high competence who participate in the contestation of regional head elections for the second period increase regional spending and reduce regional revenues better than incompetent regional heads, [14], [13]. The regional head's budget policy in the year leading up to the regional head election is to increase social and infrastructure spending, [1], [2], [3], [14], [15].

Social Assistance spending is a program in the local government's budget that is not directly related to implementing programs and activities. The provision of social assistance to the community depends on the policies of local government officials so that they could be used for the regional heads' political interests. Previous research by, [16], [17]. found that regional heads in Bali and North Sumatra provided "material benefits" to the community to win their hearts. Beneficiaries receive social assistance expenditures in cash or goods.

This study argues that in the fiscal year leading up to the local election, regional heads who will run for a second term will increase social assistance to the electorate. The increase in electoral related budgets demonstrates the regional leaders' ability to lead their regions. Abundant social assistance spending will signal the community that the regional head cares for them, [4], [7], [18], [13].

Based on the description above, hypothesis (1) is then constructed as:

H1: The local election that regional heads participate in has a positive effect on increasing social assistance spending.

The Regional Head will increase infrastructure expenditure in the local election year. Regents/majors want to show that they can lead the region. Infrastructure budgets, especially roads and energy and water construction, increased in

Colombia's municipal, [7]. Provincial governments in Canada also increase their budget allocations ahead of the general election, especially on road spending, [2]. Irrigation and agriculture expenditure also increase in India's subnational government at the timing of the election, [19].

This study argues that to demonstrate the competence of regional heads to the electorate, in the year leading up to the general election, regional heads will increase capital expenditures for both equipment and machinery expenditures, building and building capital expenditures, as well as road, irrigation, and network capital expenditures.

Based on the description above, the proposed hypothesis (2) to (4) is as follows.

H2: Local election that regional heads participate in has a positive effect on increasing equipment and local government machinery spending

H3: Local election that regional heads participate in has a positive effect on increasing buildings and infrastructure spending.

H4: Local election that regional heads participate in has a positive effect on increasing irrigation road capital and network spending

3 Materials and Methods

We apply regression model as follows:

$$BV_{it} = \beta_0 + \beta_1 BV_{-1} + \beta_2 LE_{it} + \beta_3 Inc_{it} + \beta_4 Elect * Inc + \beta_5 Spending_{it} + \beta_6 LG_{it} + \beta_7 Isl_{it} + \varepsilon$$

Where:

BV_{it}: The budget variables are Social Assistance Spending (SAS), Equipment and Machinery Spending (EMS), Building and Construction Spending (BCS), Road, Irrigation and Network Spending (RINS) in the local election year, measured by the percentage increase in spending in year y and year y-1.

BV_{it-1}: The budget variables are Social Assistance Spending (SAS), Equipment and Machinery Spending (EMS), Building and Construction Spending (BCS), Road, Irrigation and Network Spending (RINS) in the local election year, measured by the percentage increase in spending in year y-1 and year y-2.

LE_{it}: Local elections in year y, measured with (dummy variable), 1 if there is a local election in district/city and 0 if not, there is an election.

Inc_{it}: The local election that the incumbent regional head's participation. It is measured by

(dummy variable), 1 if the incumbent regional head participated in the district/city election and 0 if not.

Spendingit: Local government spending, to proxy of government size area, measured by the logarithm of total local government spending.

LGsit: Different types of local government, measured by (dummy variable), 1 for district government and 0 for city government

Islit: Differences in geographic areas, areas outside Java and Bali in Indonesia score 1 and local governments in the Java and Bali islands are given a score of 0.

Ha is accepted if the test result is significant < 0.05 level of significance. If probability > 0.05 then Ho is accepted. If probability < 0.05 then Ho is rejected.

4 Results

4.1 Sample Selection

This study examines the utilization of local government spending during local elections and emphasizes the election of the incumbent regional head's successor. The regional elections under consideration are the 2017-2018 simultaneous regional elections. For the same level of study, district and municipal governments throughout Indonesia were employed as the sample in 2017-2018. The data on local government spending comes (LKPD), which the BPK has audited. In contrast, the data on local elections comes from the General Election Commission (KPU).

According to BPK data, 542 local governments were audited in 2017-2018. There are 508 district and city governments after 34 provinces are eliminated. Three district and city governments had insufficient data and thus must be eliminated from the sample, leaving a total of 505 district and city governments. During the two-year observation period of 2017-2018, 1010 observations were made. The following Table 1 details the sample selection technique.

4.2 Descriptive Statistics

Table 2 summarizes descriptive statistics; in total, 504 city districts were sampled in 2017 and 2018, resulting in 1008 observations. Seven hundred sixty-seven were drawn from city districts that did not

hold simultaneous elections in 2017-2018. One hundred two regencies/cities held local elections without the incumbent regional leaders present, while 138 regencies/cities held local elections with the incumbent regional heads present.

The mean value of total sample social assistance spending in the year of the local election (SAS-y) is 1.449. it is a 144.9 percent increase in social assistance spending over the previous year. For local governments that hold non-incumbent local elections, the average rise in SAS-y is 1,407, or a 140 percent increase over the previous year. Local governments that conduct local elections followed by an incumbent have the most significant gain, who average 1.690, a 169 percent increase. This average confirms that social assistance spending will grow in local elections won by incumbents.

On average, equipment, and machinery spending (EMS) is 0.088 for the total sample in the local election year. The mean value of EMS-y for incumbent local governments running in local elections is 0.167, up 16 percent from the previous year. More than the local government, which held local elections but did not have any incumbents, which increased by only 0.11 percent.

The mean value for roads, irrigation, and networks spending (RINS) fell in election years, to -0.032 for the overall sample and -0.134 for incumbent local governments that did not participate in local elections. Meanwhile, the average figure for local governments conducting elections and the incumbent voting is -0.1. The average RINS for local governments that have an incumbent running in the general election is higher than the average RINS for local governments that do not have an incumbent running. Prior to the local elections, road, network, and infrastructure spending grew by about 0.1291 percent (12%) for local governments that held local elections with the incumbent as a participant.

For all samples, the mean value of Building and Constructions spending (BCS-y) in the local election year is 0.158. It indicates that during 2017 and 2018, district and municipal governments in Indonesia raised building and construction spending by an average of 15%. However, the mean value of districts and cities where the incumbent was rerun for the election was -0.046, a decline of 4%.

Table 1. Sample Selection Procedure

Description	Year		Total
	2017	2018	
Local government in Indonesia	542	542	1.084
<i>Minus</i>			
Provincial government	34	34	68
District & cities	508	508	1016
<i>Minus</i>			
Incomplete data of District & cities	4	4	8
Total samples processed	504	504	1.008

Table 2. Descriptive Statistics

	SAS-y-1	SAS-y	EMSy -1	EMSy	RINS-y-1	RINSy	LGSy-1	LGSy	BCS-y-1	BCSy	N stat
Mean	1,140	1,449	0,146	0,088	0,172	-0,032	12,063	12,054	0,127	0,158	1008
Mean A	1,113	1,410	0,162	0,070	0,204	-0,005	12,061	12,052	0,139	0,223	768
Mean B	1,102	1,407	0,127	0,110	-0,006	-0,134	12,040	12,029	0,005	-0,052	102
Mean C	1,317	1,690	0,071	0,167	0,1291	-0,100	12,092	12,083	0,151	-0,046	138
Min	-1	-1	-1	-0,998	-0,991	-1	11,603	9,346	-0,969	-1	1008
Min A	-1,00	-1,000	-0,923	-1,000	-0,962	-1,000	11,630	9,346	-0,969	-1,000	768
Min B	-1,00	-1,000	-0,705	-0,736	-0,852	-0,752	11,654	11,662	-0,771	-0,774	102
Min C	-1,00	-1,000	-0,998	-0,711	-0,991	-0,772	11,603	11,656	-0,878	-0,889	138
Max	29,28	27,754	9,826	18,624	10,176	20,491	12,898	12,912	17,401	17,996	1008
Max A	29,28	27,754	9,826	7,558	10,176	20,492	12,898	12,912	17,401	17,996	768
Max B	24,42	22,714	4,115	3,250	1,609	3,952	12,828	12,806	2,510	1,106	102
Max C	24,78 2	26,376	1,811	18,624	4,577	4,707	12,743	12,786	4,726	2,495	138
Std. Dev.	3,833	4,090	0,669	0,832	0,758	1,044	0,212	0,241	1,023	0,927	1008
Std. Dev A	3,807	4,005	0,698	0,600	0,809	1,158	0,212	0,248	1,100	1,024	768
Std. Dev B	3,988	3,851	0,675	0,541	0,414	0,508	0,198	0,202	0,541	0,451	102
Std. Dev C	3,882	4,703	0,463	1,683	0,634	0,558	0,219	0,228	0,832	0,446	138
Skewness	4,113	3,505	4,875	12,304	5,791	14,917	0,734	-1	10,310	9,979	1008
Skewness A	4,220	3,570	5,228	4,097	5,932	14,200	0,717	-1,757	10,610	9,558	768
Skewness B	4,231	3,380	2,815	2,470	1,266	5,352	0,868	0,922	2,042	0,747	102
Skewness C	3,596	3,283	0,896	9,796	2,845	5,414	0,739	0,843	3,300	1,805	138

Description:

A: local government without local election

B: local government conduct local election without incumbent

C: local government conduct local election with incumbent

SAS = Social Assistance Spending

EMS = Equipment and machinery spending

BCS = Building and Constructions spending

RINS = Roads, irrigation, and networks spending

LGS = Local Government spending

4.3 Discussion

Table 3 shows the results of panel data regression. The dependent variables are social assistance spending (SAS-y), equipment and machinery spending (EMS-y), Building and Constructions spending (BCS-y), Roads, irrigation, and networks spending (RINS-y). Discretionary spending in the

year of the local election occurs if the interaction between the local general election and the participation of the incumbent (LE*inc) has a significant effect. The panel data regression results show that the election followed by the incumbent regional head affects increasing local government social assistance spending. So H1 is supported.

The results in Table 3 indicates that when an incumbent re-run an election, equipment and machinery spending (EMS), Roads, irrigation, and networks spending (RINS-y) increases. However, building and construction spending negatively affects during an election year. As a result, H2 and H4 are supported, but H3 is not.

Social assistance spending increases during municipal election years when the incumbent participates. In Indonesia, social assistance spending refers to the gratuitous distribution of goods or money to the community. Social assistance spending is one of the most straightforward budget instruments that regional leaders can utilize to win the election.

Equipment and machinery expenditure has also increased. This expense is mainly utilized by local government personnel to enhance community services. This surge in spending during the election season demonstrates the regional chiefs' alignment with government servants. Because they are intimately connected to the people during the government process, bureaucracy becomes a powerful political machine for regional chiefs during elections besides the political party.

Roads, irrigation, and networks spending also increase during municipal election years. This capital investment is inextricably linked to the public's needs. People in cities and villages alike require roads and supporting infrastructure to be in good shape to conduct their different activities. The rural community also requires irrigation facilities for agricultural uses. Regional chiefs running for a second term boost this expenditure to demonstrate to the public that they can lead and develop the region effectively. In the view of the community, damaged roads will produce a negative perception of regional leaders. In cities and regencies with inadequate road infrastructure, non-incumbent politicians can easily accuse the incumbent of being incapable of leading and showing a lack of concern for the people.

Local election years typically see a fall in building and construction spending. It is because buildings and construction are inextricably linked to the community's interests, as are the advantages that accrue in the year after completion. Hence, regional leaders do not exploit this expenditure instrument to advance their electoral political objectives.

Table 3. Analysis of Regression

Variable	Hi	SAS y.		EMSy		BSC y		RINS	
		Coeff	Prob.	Coeff	Prob.	coeff	Prob.	coeff	Prob.
C		-2,2838	0.5750	-0.8927	0.0426	0.33709	0.1241	-1.316	0.0000
SAS y-1		-0.0959	0.0000						
EMS y-1				-0.2881	0.0000				
BCS y-1						-0.1094	0.0000		
RINS y-1								-0.0237	0.0000
LE		-0.0026	0.9961	0.0514	0.0022	-0.29321	0.0000	-0.1133	0.0000
INC		-1,4787	0.0000	-0.2762	0.0000	0.52868	0.0000	-0.06930	0.0000
LE*INC	H	1,7738	0.0000	0.2692	0.0000	-0.50846	0.0000	0.08623	0.0000
LGS		0.2718	0.4386	0.0912	0.0135	-0.01229	0.5106	0.10865	0.0000
LG		-0.2155	0.0000	-0.0759	0.0000	0.00836	0.0002	0.01225	0.1647
Is		0.9250	0.0000	-0.0778	0.0000	0.01772	0.0000	-0.06438	0.0014
R-squared		0.0161		0.4156		0.33886		0.15916	
Adjusted r-squared		0.0092		0.4115		0.33423		0.15327	
S.E. of regression		4,071		0,793		0,9032		1,003	
F-statistic		2.341		1.016		7.322		2.704	
Prob(f-statistic)		0.02250		0.0000		0.00000		0.000000	
Description: SAS= Social Assistance Spending EMS = Equipment and machinery spending BCS= Building and Constructions spending RINS= Roads, irrigation and networks spending LE = Local Election Inc = Incumbent LGS= Local Government spending LG =Local Government Is: Islands									

These findings demonstrate that local Indonesian administrations' discretionary expenditure on local elections. The research's findings corroborate, [1], [8], [2], [7], [9]. During an election year, the incumbent regional head demonstrates to voters that he can lead and deserve re-election by raising capital and social spending.

The research's findings corroborate the agency theory, indicating that the regional head, acting as an agent, will maximize his utility to win re-election by raising regional spending that elicits public sympathy. During an election year, the rise in spending demonstrates the regional heads' political motivations for re-election. In Indonesia, regional leaders employ short-term tactics such as increased expenditure to win the election.

To mitigate regional heads' opportunistic behaviour during election years, the central government must control local government budget planning to ensure that it remains focused on the community's long-term objectives. The local government's annual budget must be based on medium and long-term planning; no annual budget should be devoid of a medium-term plan. Regional medium-term plans must be based on regional needs and compatible with the central governments. Thus, it is hoped that social and capital expenditure will not increase in specific years, particularly election years.

5 Conclusion

The study found that the phenomenon of discretionary budget for regional head elections occurred in Indonesia. These results are consistent with the research of, [1], [8], [2], [20]. Regional leaders exercise fiscal authority to advance their electoral political interests. These indicate that the regional head performs opportunistic actions that benefit him as an agent.

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Contribution of Individual Authors to the Creation of a Scientific Article (Ghostwriting Policy)

The author contributed in the present research, at all stages from the formulation of the problem to the final findings and solution.

Sources of Funding for Research Presented in a Scientific Article or Scientific Article Itself

No funding was received for conducting this study.

Conflict of Interest

The authors have no conflict of interest to declare.

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