Chapter 13

Determinants of Public Spending Composition in OECD and MENA Countries: A Political Economy Approach

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ABSTRACT

This paper examines the determinants of different public spending components in the OECD and MENA countries from a political economy perspective. The authors primarily concentrate on partisan motivation approach. Yet, they control for macroeconomic and institutional variables besides the political economy variables in the estimations. They use panel data estimation with country and year fixed effects (two-way fixed effects model) covering the period of 1980 and 2008. Regarding the estimation results of the OECD countries sample, compared to a presidential system, in assembly – elected president and parliamentary systems expansions in public agriculture, education, health, defense, and social protection spending are supported more. Among the macroeconomic variables, current account balance and GDP per capita turn out to be statistically significant. Regarding the estimation results of the MENA countries sample, it is found that right – wing ruling parties support higher levels of public spending in various areas.

INTRODUCTION

This chapter examines the effects of economic, political economy and institutional factors on different public spending components for OECD (Organization of Economic Cooperation and Development) and MENA (Middle East and North Africa) countries during the period 1980-2008. The authors concentrate on six public spending components: agriculture, education, health, defense, social protection, and transportation – communication. The authors argue that the political decision making process about the public spending levels and composition are affected by not only macroeconomic factors but also by political and institutional factors. Two streams of political viewpoint are usually focused in the related literature.

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According to the opportunistic approach, in order to attract more electorate votes, win the elections, and be reelected into office the incumbent government’s members can engage into expansionary fiscal policy and increase public spending levels especially on more visible public spending components. On the other hand, if the incumbent government’s policy makers expect to lose the next elections and be replaced by a rival political party, then they may still pursue expansionary fiscal policy designs, this time to increase the public debt burden on their rival political party in the next term.

In this chapter the authors mainly concentrate on the partisan theory and partisan motivation approach. According to partisan theory welfare state and redistributive public finance management can be explained by partisan factors. Partisan theory is usually broken down into two research streams: Power resources theory and party difference theory. Power resources theory argues that the major responsibility of political parties is to reflect different socio-economic classes’ interests in their policy implementations and act upon those groups’ behalf (Guleryuz, 2013, Bradley et al., 2003, Hicks, 1999, Huber and Stephens, 2001, and Esping-Andersen and Korpi, 1985).

Party difference theory argues that political parties forming the government can affect public policy outcomes, so public policies are not determined by macroeconomic and institutional (exogenous) factors. Furthermore, left-wing and right-wing government parties follow different agendas, and so they pursue different policy objectives. The reasoning behind this statement is that political parties form their policy choices and strategies based on their social class-based constituencies’ objective economic interests. In this way they can actively use the public policy outcomes which they achieve for the appeal and consolidation of their core electoral base (Hibbs, 1977 and 1987, Schmidt, 1996, Castles, 1982, and Busemeyer, 2009). Therefore, different political parties have conflicts over distribution of economic resources, aggregate income and welfare. Related studies state that since right-wing parties represent capital owners and upper income groups they don’t support expansionary fiscal policies. Contrary to this, left-wing parties are supported by low income groups, so they pursue more redistributive public policy preferences (Huber and Stephens, 2001). This can also be exemplified in public education sector. Social democratic parties that are left-wing prefer to invest more in public education (human capital accumulation) to purposefully direct aggregate wealth towards less privileged groups and achieve a more egalitarian society. On the other hand, right-wing parties such as conservative parties prefer policies that will lead to free market outcomes and private sector solutions, and decrease the tax burden of their upper income class electoral base rather than pursuing higher public education spending which favor low income groups (Boix, 1998).

Some recent studies propose ‘the new partisan politics of public investment’ (Busemeyer, 2009, Iversen 2006a and 2006b). According to this view, political parties observe opinions and preferences of various socio-economic classes in different areas. Then, they essentially utilize public policies to attract and appeal to new voter groups, while simultaneously consolidating their core electoral base constituencies.

The authors are interested to evaluate if the officers of the political party in power are interested to implement policy measures to please their constituents. The variables related to political regimes are also controlled in the estimation. These variables are usually used to measure political fragmentation. Moreover, the authors will control variables about institutional quality and political party affiliation/orientation. The authors adopt a fixed effects model and a panel data estimation. The primary reasons of using fixed effects model and panel data estimation are that compared to cross-country estimation this model provides less collinearity, more variation, and it better examines the dynamics of change (Guleryuz, 2015). For the empirical analysis, partisan motivation is the primarily used political economy approach. Furthermore, the authors examine the impact of the political regime on fiscal policy and public