Seminario de Economía Regional y Políticas Públicas - Economic and Political Effects of Fiscal Rules: Evidence from a Natural Experiment in Colombia

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Resumen del documento: Fiscal rules are a promising policy tool to address fiscal indiscipline, but their effectiveness and political feasibility remain unclear, particularly in weakly institutionalized settings. To answer this question, we leverage exogenous variation across Colombian municipalities in exposure to a subnational fiscal rule that set a cap on operating expenses as a share of current revenues. We show that the fiscal rule was highly effective at reducing operating costs and the probability of a current deficit, with no changes in capital spending (i.e., no creative accounting). This large reduction in operating expenses came at no meaningful cost in terms of local public goods and living standards, as proxied by education and health indicators, nighttime lights, and sanctions for corruption. Adoption of the rule increased electoral support for the party of the incumbent mayor and weakly reduced protests against the municipal government. This suggests that fiscal rules can improve political agency in settings, like Colombia, with weak political parties and limited career concerns for local politicians.

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