

Opportunistic Political Budget Cycle and Re-Election Incumbent

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Abstract:- This study aims to prove the existence of an opportunistic political budget cycle that is influenced by Regional Original Revenue (ROR), General Allocation Funds (GAF), and Remaining More Budget Calculation (RMBC) in regional heads election in Indonesia and checked whether regional heads who adopt the policy had a high opportunity of being re-elected or not. The research used data during two years namely 2016 and 2017 elections of 171 provinces/regencies/cities regional governments in Indonesia who participated in the regional heads election simultaneously in 2018. Data analysis used multiple linear regressions for direct relationships among variables. The Opportunistic Political Budget Cycle (OPBC) influenced the results of the re-election while OPBC influenced by GAF and RMBC positively and significantly but the ROR did not have a significant effect. It indicated that changed the number of ROR, GAF, and RMBC affected the determination of education budget, health, infrastructure, social assistance, and grant spending. This article is important because it is the first research that discussed the relevance of the cycle of the political budget to election by considering regional revenues. The results of the study can be input in determining policy and supervision of allocation of expenditure, besides that it can be used as a basis for consideration for voters before deciding whether to give a second chance to Incumbent or not.

Keywords:- *Opportunistic Political Budget Cycle, Incumbent, Re-Election, ROR, GAF, RMBC.*

I. INTRODUCTION

Policies on the preparation of regional income and expenditure budgets are the main factors that must be considered by local governments because it will be a reference for determining people's welfare because the budget serves as a tool of accountability (financial accountability) and economic policy. The budget serves to realize economic growth, stability and equal distribution of people's income but this function will change when the regional heads will follow the fight in the second-period election.

The involvement of regional heads in the implementation of the budget strengthens at the time of the regional head elections of Harsasto (2014). It can be seen from the many phenomenons of money politics that occur in owners (Ritonga and Alam, 2010) and the alleged deviation of the Regional Budget will increase when the

regional head will re-nominate for the second period. The incumbent candidates will maximize their efforts to bounce the votes from the reins of power and leadership. The heads of the incumbent area tend to politicize the budget that we are familiar with the term "Political Budget Cycle"

The Political Budget Cycle (PBC) model is an economic cycle caused by political motivation, it occurs because the existence of temporary information asymmetry related to the competency level of politicians in explaining the electoral cycle in fiscal policy (Klein, 2010). The signaling model is the driving force behind Political Budget Cycle as has been investigated by Rogoff and Sibert (1988); Persson and Tabellini (2002); Shi and Vensson (2006).

This article focuses on the phenomenon of the presence of opportunistic political budget cycles through fiscal policies related to ROR, GAF, and RMBC that determined by local governments (executive and legislative) before the general election and examines whether the existence of the political budget cycle provides greater opportunities for the incumbent to be re-elected in the second period or not.

Political budget cycles are generally understood to be economic cycles caused by political motivation, and come in various forms: through increased public spending, increased employment, tax reduction, or even through spending moving from less visible public services to more visible ones (Drazen and Eslava, 2010; Eslava, 2005). Opportunistic Political Budget Cycle is significantly stronger if the incumbents follow the general elections again (Aidt et al. 2011).

The heads of incumbent region certainly have opportunity to make a political budget cycle by utilizing various expenditure posts on APBD for personal gain; they will try to promote greater economical expansion ahead of the election to increase the chances of re-election. Utilizing abuse of authority for political purposes related to the preparation of the composition of the public budget (Hessami, 2014).

The behavior of budgeting that is linked to regional heads election is interesting to study or to investigate because of this process; there are still many irregularities that occur. Such as proposing a budget for the benefit of politicians, including the budget so that the project fee is rewarded (Jumaidi, 2014). This is an arena for politics to commit corruption (political corruption) due to misuse of

funds for personal and group interests (Martinez et al., 2004). There were 28 cases of arrest cases carried out by Corruption Eradication Commission (Indonesian abbreviation KPK) involving regional heads; there were 29 active regional heads and 2 formers in 2018. (www.kpk.go.id, 2018).

This action is related to the presence of moral hazard in political competition (Shi and Svensson, 2006). Politicians can behave opportunistically in determining the amount of budget proposed in Regional Expenditure Budget (Indonesian abbreviation APBD) and fiscal policy. Generally, politicians will use the fiscal policies that they have to encourage re-election in the election (Aidt & Mooney, 2014) through political budget cycle policies. The results of Drazen and Eslava study (2006, 2010) which examined the relationship between the opportunistic expenditure of local governments and election results were found by empirical evidence that the incumbent used public expenditure to attract votes. Whereas the results of the study by Syahrir et al. (2013) found that PBC significantly affected districts in Indonesia when direct elections were held, while through cases were no effect.

The existence of information asymmetry between the executive and the legislature causes a gap in behavioral deviations that violate the rules and regulations. The implementation of deserialization was made by regional autonomy autonomously regulating its finances by maximizing and exploring its own financial potential with two main components, namely Local Revenue (ROR) and Balancing Funds. Regional original income is a source of income derived from the economical activities of the region itself, for example from local taxes, regional levies, and other legitimate income. ROR is one of the pillars to measure the extent of independence of a region. Therefore, when determining the legislative ROR target, it will encourage the executive to always raise the target in order to increase the allocation of programs to support their interests. Whereas the prospective of heads of the incumbent area carries out opportunistic behavior in determining the income budget target in order to allocate the budget for their interests.

To compensate for the inequality of acceptance of the ROR optimizes the central government who made a policy to allocate GAF and Special Allocation Funds to be transferred to the regions. At the time other problems existed the determination of APBD Amendment did not consider the time and the maturity of implementation of the activities. It will make the budget to be ineffective or even unrealized that will result in a lot of More Budget Calculation (RMBC). Even though the budgeted funds should have been used to improve the welfare of the community, as a result of the large number of RMBC, it will affect the budget allocation for the next period, because the RMBC will be used to balance the budget to cover financing expenses.

Previous research was conducted by Parwati, et Al. (2015) examined the opportunistic behavior of budgeting for 9 regencies and cities in Bali Province. The results prove that ROR, GAF, and RMBC have a significant effect on opportunistic behavior in APBD compilation. Chortareas, et al., (2016) examined the possibility of the presence of opportunistic political budget cycles due to the existence of Greek city fiscal policy and examined how politicians motivate voters through budget policies to influence the prospect of the re-election of the mayor. The use of a dataset of 109 cities from 1985 to 2004. The results of the study prove that opportunistic policies influence the prospect of incumbent re-election.

In contrast to previous studies, we used a two-year dataset before 2016 and 2017 elections, of 171 regions in Indonesia that took part in 2018 general election, but only 129 regions met the criteria. This study consisted of three stages, the first to determine the opportunistic political budget cycle by calculating APBD spread one year earlier minus APBD two years earlier (APBD_{t-1} – APBD_{t-2}) in education, health, public works (infrastructure), social assistance, and grants. The second, to look for the effect of ROR, GAF, and RMBC acceptance on PBCO. The third, to look for the influence of PBCO on the probability of incumbent re-election. The results of the study were expected to be input in determining policies and supervisions of the allocation of APBD, as well as being a basis for consideration for voters before deciding whether to give a second chance to the incumbent or not.

II. LITERATURE REVIEW

A. Opportunistic Political Budget Cycle

The Political Budget Cycle arises because the incumbents are opportunistically motivated, they try to improve the economical welfare of voters before the election (Franzese and Jusko, 2006) this is evidence that shows that economic condition influence support for local governments. Opportunistic behavior is the act of someone who deviates from existing regulations to fulfill all his desires (Havid, 2014 in Megasari, 2015) The political budget cycle model is theoretically a container that can be used by incumbent regional governments to smooth opportunistic intentions to secure re-election by maximizing the expected votes in the next election (Nordhaus 1975). The incumbent regional governments, regardless of ideological orientation, adopted expansive fiscal policies at the end of their tenure to stimulate economic activity (Potrafke 2012)).

According to Alesina and Roubini (1992), the political budget cycle is divided into three categories, they are:

- a). The Opportunistic Model (Election), this model of politicians strives to maximize popularity and opportunity to be re-elected through expansionary policies during the election period and usually will be followed by contraction policies after elections (Nordhaus, 1975; Lindback, 1976).
- b). The Partisan Model, this model of the presence of preferences causes different policies to be made by the

preferences of voters, the existence (right to) takes precedence and it is over than others. It motivates the emergence of various parties that represent certain preferences during elections (Hibbs, 1997).

c). The Rational Model, this model is a combination of the concept of rational expectations both opportunistic and partisan models, where voters can learn from previous elections and observe the performance of the government, then renew their beliefs about incumbent capability in the next period (Aidt, Vega, and Vega, 2011; Rogoff, 1990; Alesina, 1987).

B. Regional Revenue and Expenditure Budget.

The law No. 17 of 2013 on concerning to State Finance in article (1) point 8 states that the Regional Budget is an annual financial plan of the regional governments that must be approved by the Regional People Representative Assembly (DPRD) which is broken down based on organizational units, functions, programs, and types of expenditure. It becomes the basis of regional financial management for one fiscal year (January 1, December 31 of the current year). The APBD contains all the revenue and expenditure plans that will be implemented by the regional governments in implementing fiscal decentralization.

III. DEVELOPMENT OF HYPOTHESES

A. Regional Original Revenue

Regional Original Revenue (ROR) is a source of regional revenue that must always be explored to fund the implementation of regional autonomy activities; the regional governments are given the authority to explore the potential of the regions. Previous researches have been carried out by Abdullah (2012); Maryono (2013); Sulastro, et al (2014) prove that income changes affect the opportunistic behavior of budget compilers. Research conducted by Aidt and Mooney (2014) research objects distinguish voters from taxpayer groups and the general public, the results prove that the political budget cycle appears as a reduction in current income and in increasing income in the election year in taxpayers while the general public income side, there is no evidence of a political budget cycle.

H1: There is significant influence between the ROR and the opportunistic political budget cycle

H2: There is significant influence between ROR and re-election through the opportunistic political budget cycle variable

B. General Allocation Fund

The General Allocation Fund (GAF) is another funding source obtained by the regional governments through transfer from the central government to overcome economic inequality because the regional governments have a low ROR. It uses quite flexible and not tied to a particular program (Maryono, 2013) so that local governments are free to determine what type of shopping

they want. Of course, this will provide a great opportunity for local governments to carry out an opportunistic political budget cycle, especially ahead of the second-period general elections.

H3: There is a significant influence between GAF and the opportunistic political budget cycle.

H4: There is significant influence between GAF and re-election through the opportunistic political budget cycle variable

C. Remaining More Budget Calculation

RMBC is the difference between the realization of budget revenues and expenditures for one period. Include all financial transaction activities in the form of receipts, financings, expenses and remaining funds for activities that have been realized. The budget deficit reduces the chances of the incumbent being re-elected because voters punish politicians who create deficits (Brender and Drazen, 2008; Drazen and Eslava, 2010). This happens because regional revenues are used to finance all of their obligations in running the governments, including being used to improve regional infrastructure because direct results can be seen by the public as voters.

H5: There is significant influence between RMBC and the opportunistic political budget cycle.

H6: There is significant influence between RMBC and re-election through the opportunistic political budget cycle variable

D. Political Budget Cycle and Prospect of Re-election

Opportunistic PBC / election can influence budget policies at the local governments' level, especially higher pre-election expenditures. The results of the study of Chortareas, et al (2016) show empirical evidence in municipalities in Greece regarding the pattern of OPBC on budget balances, total expenditure, investment, and loan receipts. This OPBC pattern appears regardless of whether the mayor is running for re-election or not.

Balaguer-Coll et al. (2015), using the Bayesian Technique in Spain proves that increasing public expenditure positively influences the probability of the inclusion of incumbents. Whereas Aidt et al. (2011) in the Portuguese city saw the linkage between incumbent margins and opportunistic distortion in financial management before the election, there was greater fiscal manipulation before the election when incumbents faced stiff competition and increased expenditure during elections positively affected the incumbent margin of victory. Results of Drazen and Eslava research (2010) in Colombian municipalities show that high deficits negatively affect the share of votes received by incumbents, but an increase in capital expenditure has a positive effect.

H7: There is significant influence between the Opportunistic political budget cycle and re-election

IV. RESEARCH METHODS

This study used a quantitative approach to the nature of correlational research. It aimed to determine the influence of ROR, GAF, and RMBC on re-election through various opportunistic political budget cycles. Testing the direct relationship using multiple linear regression analysis and indirect relationships used the path analysis model.

The analysis unit used the local governments. The numbers of population were all regional governments in Indonesia. The numbers of sample collection based on criteria (purposive sampling), namely the regional governments that conducted the election in 2018, issued financial statements for 2016-2017 and had all the data needed and it was a cross-section data.

Testing the hypothesis used regression analysis that done in three stages. The first stage determined the distribution of OPBC, the second stage tested the relationship between independent variables to intervening variables with multiple regression. The third stage examined the relationship of the intervening variable to the dependent variable. The models developed for this analysis are as follows.

The first stage

In this stage determined the cycle of opportunistic political budgeting, developed from the research of Parwati et al (2015), calculating the distribution of budget allocations available in APBD two years before the election. The fields observed were spending on education, health, public works (infrastructure), social assistance, and grants. The opportunistic behavior could be observed by decreasing the allocation of education, health, increasing infrastructure, grants, and spending on social assistance (Abdullah, 2012 and Parwati et. Al. 2015).

$$OPBC = \Delta Edu + \Delta Health + \Delta Infrastr + \Delta SA + \Delta Grant \dots(1)$$

Explanation:

- OPBC : opportunistic Political Budget Cycle
- $\Delta Education$: $Edu_{t-2} - Edu_{t-1}$

- $\Delta Health$: $Health_{t-2} - Health_{t-1}$
- $\Delta Infrac$: $Infrac_{t-2} - Infrac_{t-1}$
- ΔSA : $Social Assistance_{t-2} - Social Assistance_{t-1}$
- $\Delta Grant$: $Grant_{t-2} - Grant_{t-1}$

The second stage

$$Y_1 = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + e \dots(2)$$

Explanation:

- Y_1 : opportunistic Political Budget Cycle
- α_0 : Konstanta
- $\alpha_1 - \alpha_3$: Koefisien arah regresi
- X_1 : ROR
- X_2 : GAF
- X_3 : RMBC
- e : confounding variable (error)

The third stage

$$Y_2 = \beta_0 + \beta_1 Y_1 + e \dots(3)$$

Explanation:

- Y_2 : Re-election
- β_0 : Konstanta
- β_1 : Koefisien arah regresi
- Y_1 : Opportunistic Political Budget Cycle
- e : conpounding variable (error)

The population was a collection of objects studied; the object of this research is the financial statements of local governments. The population in this study was the provincial, regency and municipal regional governments that take part in the 2018 election:

No.	Category	Amount
1.	Province	17
2.	District	116
3.	City	38
Amount		171

Table 1:- Total population

Source: kpu.go.id

The conceptual variables studied are as follows:

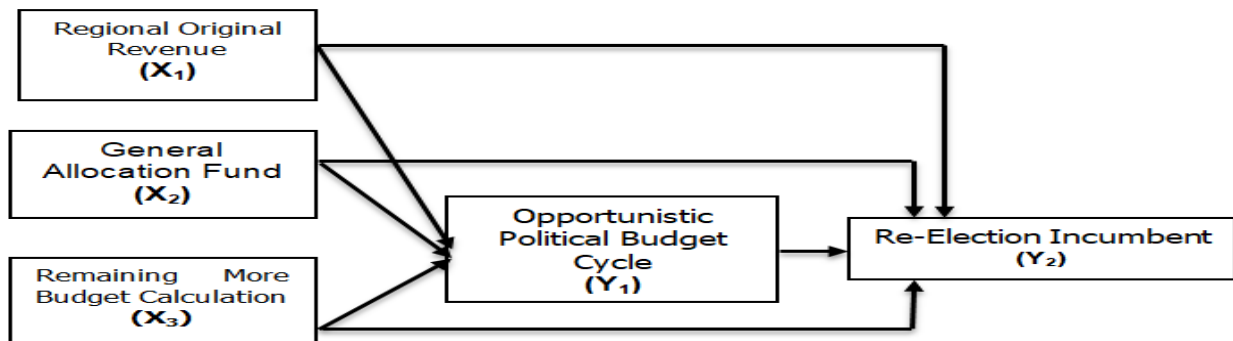


Fig 1:- Conceptual Model Design

V. RESULTS ANALYSIS OF RELATIONSHIPS BETWEEN VARIABLES

A. Effect of ROR (X1), GAF (X2), and RMBC (X3) On PBCO (Y1)

Independent Variables	Coefficient	t	Sig.	Information
Konstanta	-3.744E+10			
ROR (X1)	0.202	0.810	0.420	Not significant
GAF (X2)	0.414	3.795	0.000	Significant
RMBC (X3)	0.463	3.025	0.003	Significant
$\alpha = 5\% = 0,05$ R square = 0,225				

Table 2:- Testing of ROR, GAF, and RMBC on PBCO

Source: Processed Primary Data

Table- 2 Showing the determination coefficient value of R square in the results of the above test showed a value of 0.225 or 22.5%. These results indicated that the PBCO variable was influenced by 22.5% by ROR (X1), GAF (X2), and RMBC (X3). The remaining 77.5% was influenced by other variables outside the independent variables examined in this study.

The results of the regression analysis for (Hypothesis 1) the relationship between ROR (X1) and OPBC had a probability value of 0.420 (> 0.05). This value indicated that the relationship between ROR (X1) and the political budget cycle had no significant effect.

The results of the regression analysis for (Hypothesis 3) the relationship between GAF and OPBC had a probability value of 0,000 (<0.05). This value indicated the relationship between GAF and OPBC had a significant effect. In addition, the coefficient for the GAF variable was 0.414, which indicated that the direction of the relationship between GAF

and OPBC was positive. The coefficient value that was positive indicated the direction of the relationship. It means that the higher the GAF results in higher OPBC.

The results of the regression analysis for (Hypothesis 5) the relationship between RMBC and OPBC had a probability value of 0.003 (<0.05). This value indicated that the relationship between RMBC and OPBC had a significant effect. In addition, the coefficient for the RMBC variable was 0.463 which indicated that the direction of the relationship between RMBC and OPBC was positive. The coefficient value that was positive indicated the direction of the relationship. It means that the higher the RMBC the higher than OPBC.

B. The Effect of ROR (X1) Against Re-election (Y2) Through OPBC (Y1)

For testing (Hypothesis 2), the influence of ROR on Re-election through OPBC can be calculated by using the Sobel test, as follows.

Code	Variable		Variable	Direct Effect			
				Coefficient	S.E	Sig	Info.
H1	Opportunistic Political Budget Cycle	←	LGR	0.202	0.027	0.420	Not Sig.
H2	Re-election	←	Opportunistic Political Budget Cycle	0.177	0.000	0,045	Sig.

Table 3:- Testing of ROR TO Re-election Interaction through OPBC

Source: Processed Primary Data

Table- 3 showed that the information of the calculation of the single test using data in the table above, the results showed that the calculated T value of 7.481 was greater than the T table of 1.979 indicating that ROR had a positive and

significant effect on Re-election through OPBC. The details of the Sobel calculation for this research are as follows.

$$S_{ab} = \sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}$$

$$S_{ab} = \sqrt{0.000023}$$

$$S_{ab} = 0.004779$$

$$T_{count} = \frac{a \times b}{S_{ab}}$$

$$T_{count} = \frac{0.202 \times 0.177}{0.004779}$$

$$T_{count} = \frac{0.035754}{0.004779}$$

$$T_{hitung} = 7.481481$$

C. Effect of GAF (X2) on Re-election (Y2) through OPBC (Y1)

For testing (Hypothesis 4), the effect of GAF on re-election through OPBC can be calculated by using the Sobel test, as follows.

Code	Variable		Variable	Direct Effect			
				Coefficient	S.E	Sig	Info.
H3	Opportunistic Political Budget Cycle	←	GAF	0.414	0.045	0.000	Sig
H4	Re-election	←	Opportunistic Political Budget Cycle	0.177	0.000	0,045	Sig

Table 4:- Testing of GAF to re-election interactions through OPBC
Source: Processed Primary Data

Table 4 showed the single test calculation using the data in the table above, the results obtained that the T-count of 4.489 was greater than the T-table of 1979 shows that GAF has a positive and significant effect on re-election through OPBC. The details of the Sobel calculation for this research are as follows:

$$T_{hitung} = \frac{0.414 \times 0.177}{\frac{0.007965}{0.035754}}$$

$$T_{hitung} = \frac{0.007965}{0.007965}$$

$$T_{hitung} = 4.488889$$

$$T_{hitung} = 4.489$$

D. Effect of RMBC (X3) Against Re-election (Y2) Through PBCO (Y1)

For testing (Hypothesis 6), the influence of the RMBC on the election through PBCO can be calculated by using the Sobel test, as follows.

$$S_{ab} = \sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}$$

$$S_{ab} = \sqrt{0.000063}$$

$$S_{ab} = 0.007965$$

$$T_{hitung} = \frac{a \times b}{S_{ab}}$$

Code	Variable		Variable	Direct Effect			
				Coefficient	S.E	Sig	Info.
H5	Opportunistic Political Budget Cycle	←	RMBC	0.463	0.031	0.003	Sig
H6	Reelection	←	Opportunistic Political Budget Cycle	0.177	0.000	0,045	Sig

Table 5:- RMBC Interaction Testing of Re-election through OPBC

Table 5 showed that the calculation of the single test used data in the table above, the results obtained that the value of T-count was 14,935 greater than the T-table of 1979 showed that RMBC had a positive and significant effect on re-election through OPBC. The details of the Sobel calculation for this research are as follows.

$$S_{ab} = 0.005487$$

$$T_{count} = \frac{a \times b}{S_{ab}}$$

$$T_{count} = \frac{0.463 \times 0.177}{0.005487}$$

$$T_{count} = \frac{0.081951}{0.005487}$$

$$T_{count} = 14.935484$$

$$T_{count} = 14.935$$

$$S_{ab} = \sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}$$

$$S_{ab} = \sqrt{0.000030}$$

E. Effect of Opportunistic Political Budget Cycle (Y1) on Re-election (Y2)

Independent Variables	Coefficient	t	Sig.	Information
Konstanta	45.858			
Opportunistic Political Budget Cycle (Y1)	0.177	2.025	0.045	Significant
$\alpha = 5\% = 0,05$ R square = 0,031				

Table 6:- Testing of OPBC relations Re-election

Source: Processed Primary Data

Table- 6 shows the determination coefficient value of R square in the results of the above test showed a value of 0.031 or 3.1%. This result indicated that the election variable was affected by 3.1% by the political budget cycle. The remaining 96.9% was influenced by other variables outside the independent variables examined in this study.

The results of the regression analysis for (Hypothesis 7) the relationship between the political budget cycle and re-election had probability value of 0.045 (<0.05). This value indicated that the relationship between PBCO and re-election had a significant effect. In addition, the coefficient for the PBCO variable of 0.177 showed that the direction of a positive relationship. The coefficient value that was positive indicated the direction of the relationship. It meant that the higher of PBCO results in the higher re-election.

VI. CONCLUSION

With reference to the results and discussion of the previous chapters, it can furthermore be concluded as follows:

1. Re-election is influenced by political opportunistic budget cycles.
2. The political budget cycle is positively and significantly influenced by GAF and RMBC, but the ROR has no significant effect.
3. The influence of ROR, GAF and RMBC has a significant effect through the opportunistic political budget cycle. It indicates that changes in the number of ROR, GAF, and RMBC will affect the determination of education, health, infrastructure, social assistance, and grant spending. The implementation of policies carried out by incumbents when determining the budget before the election provides a great opportunity for incumbents to be re-elected.

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