

# Buying Influence? Public Transfers to Non-Profits and Local Elections

While a large body of literature investigating the role of special interests in policy making has focused on their monetary contributions to candidates, politicians also give substantial amounts of money, whether private or public, to civil society organizations. For instance, Michael Bloomberg's philanthropic spending far outweighs his political spending. This paper seeks to understand whether politicians seek to advance their electoral interests when granting money to non-profits. I study governmental transfers to local non-profits in France from 2005 to 2016 and test whether the political affiliation of the mayor influences the amount received by local organizations. Using close elections in a regression discontinuity setting, I provide causal evidence that organizations in districts headed by political allies receive 40% more money, suggesting transfers are a political resource for politicians. Second, such transfers are not rewards for past financial support, as by law, non-profits cannot make campaign contributions. Instead, politicians target influential organizations, as proxied by their age, size and revenues, suggesting they value the organizations' ability to pledge voters' support. Third, these transfers seem aimed at containing political competition as distortions are largest among municipalities where several candidates from the ruling party compete in elections.

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## Research interests

Political economics, public economics, public policy.

I study the inequalities in the representation of voters' interests as well as the distributive consequences of public policies.

## Other work

C. Carbonnier, C. Malgouyres, L. Py, C. Urvoy. 2020. Who benefits from tax incentives? The heterogeneous wage incidence of a tax credit, *R&R Journal of Public Economics*.

About Michael Bloomberg:

"His domestic philanthropy has also overlapped with his political agenda, tying him closely to powerful progressive interest groups and amassing reservoirs of gratitude, admiration and influence across the country."

in *Bloomberg's Billions: How the Candidate Built an Empire of Influence*, NY Times, 2/15/2020

About Jacques Chirac, when mayor of Paris:

"Such transfers contribute to the reputation of the mayor of Paris with a multitude of social, professional, cultural or sport groups; he never forgets to attend major events."

in *Political Clienteles in France*, Pierre Tafani, 2003

## Empirical strategy

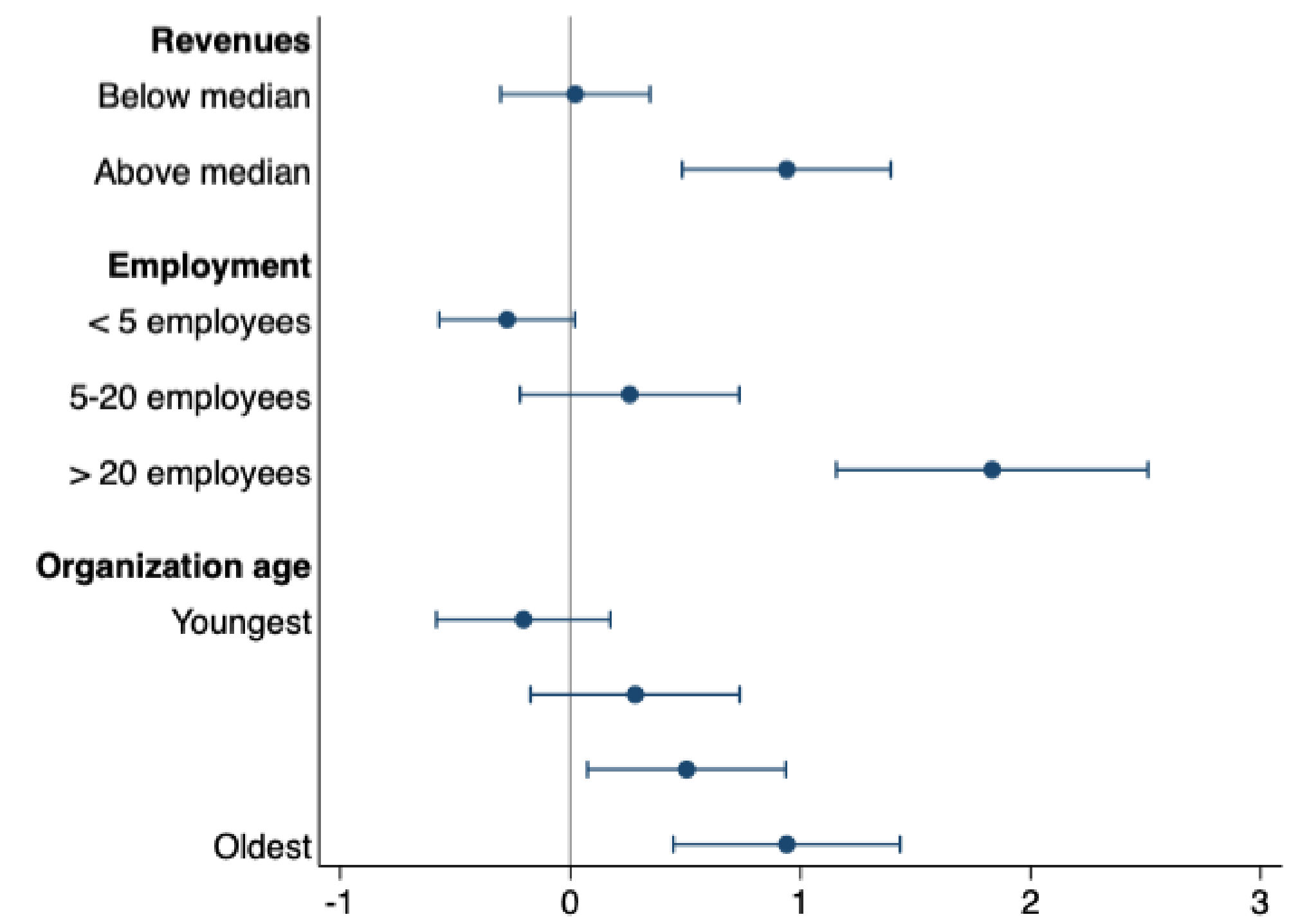
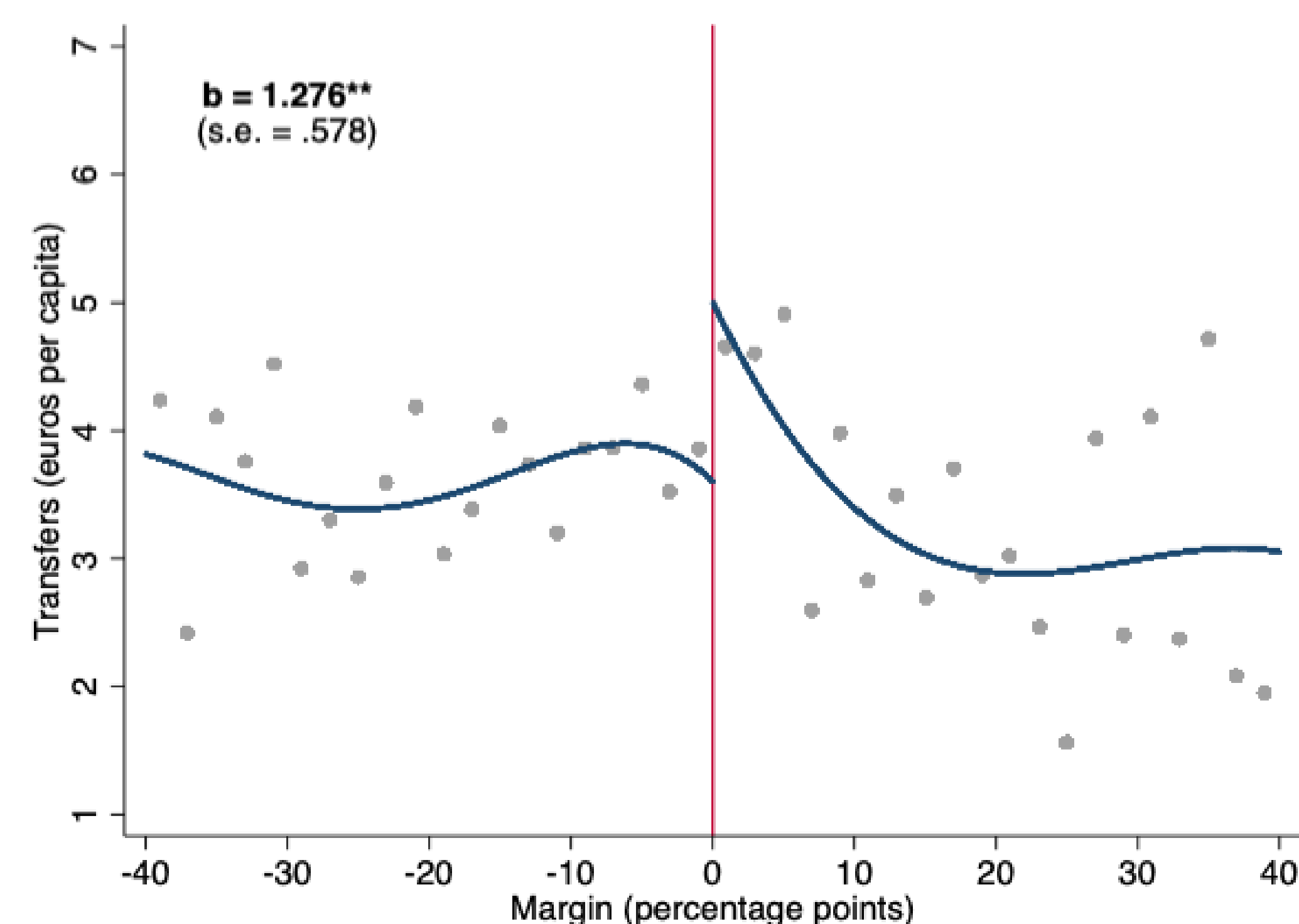
To test whether transfers to non-profits serve electoral motives, I study how the central government allocates transfers to local non-profits based on whether the local mayor is from the same party as the government's. Organizations apply to governments funding, the central government then decides whether to grant a subsidy to this organizations. Mayors play no official role in the decision-making process, and their political affiliation should not matter. Yet, in practice, they can intervene when meeting with national-level politicians, sometimes mentioning they greatly insisted and that the amount received by a non-profit was the maximum it could possibly get.

I use close mayoral elections in a regression discontinuity design to randomize the political affiliation of the mayor, i.e. whether she belongs to the ruling party, while holding constant the characteristics of the municipality and organizations in the district. I interpret any significant jump at the cutoff as a sign that the allocation of transfers to organizations is distorted for electoral motives.

## Results

Organizations in municipalities where the mayors belongs to the ruling party receive 1.3 extra euros per inhabitants each year, that is 40% more than municipalities headed by an opposition party mayor. Figure 2 depicts the binned amount of transfers per capita against the win margin of the ruling party candidate in past municipal elections.

This effect is local, i.e. observed only in municipalities where elections were decided by a small margin, which supports that transfers are allocated strategically where the incumbent will be most likely defeated. The magnitude of this effect is politically meaningful, as a candidate running in municipal elections spends 1.16 euros per voter on average.



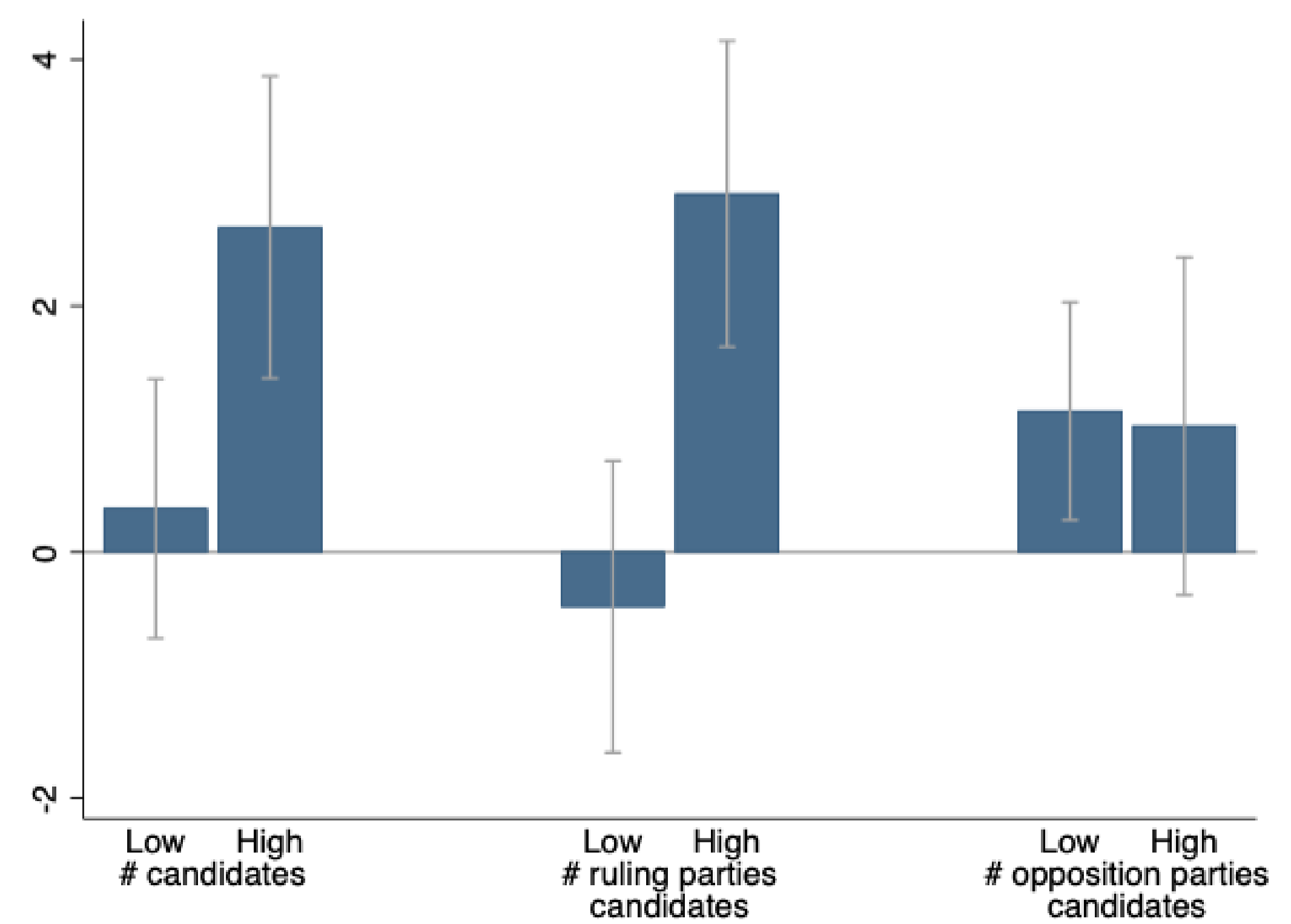
These transfers are not rewards for past campaign contributions by non-profits as they are forbidden by law. Instead, politicians seem to value the ability of organizations to pledge voters' support as they target influential organizations (proxied by their revenues, age and size).

## Mechanisms

I do not find evidence that these transfers are meant to increase turnout in elections since distortions are larger in municipalities where abstention is lower.

Instead, distortions are larger in municipalities where ruling party candidates totaled a large share of votes, but where there are several of them competing in the same elections. Figure 3 plots the size of distortions in several subsample of municipalities.

Exploiting local public finance data, I document that an increase in subsidies to non-profits is associated with a smaller number of candidates running, a higher probability that candidates running on a former opponent's list join the incumbent's list, and a higher probability that the incumbent is reelected. Transfers to local organizations seem to help build a coalition around the incumbent and deter challengers from the same coalition to run against her.



## Conclusion

This paper helps understanding the role played by interest groups in elections. In particular, I show that a sizable share of public money granted to organizations serves the electoral goals of politicians. These transfers help build a coalition around the incumbent, and are associated with a milder political competition, and a lower number of candidates. My results can help understand the mechanisms underlying the incumbency advantage.