Administrative Delegation of Budgetary Powers and Fiscal Performance[*]

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Abstract

Does delegation of the budget preparation process to top civil servants improve or worsen fiscal performance? We address this question by analyzing high-quality data on budgetary procedures and fiscal performance over a 25-year period in Norwegian local governments. This long time period allows exploiting substantial variation in budgetary procedures across time and space. The results show that administrative delegation *decreases* fiscal deficits as a share of current revenues. Compared to procedures relying on political coordination or the traditional 'bottom-up' procedure, deficits are approximately 0.3 percentage points lower on average under administrative delegation. Still, this effect is conditional upon the presence of minority governments, and fails to materialize when the mayor enjoys majority support in the local council. Our results thus indicate that administrative delegation in budgetary processes may constitute an important tool to alleviate poor fiscal performance arising due to political coordination failures and weak political decision-making.

Key words: Budget process, delegation, fiscal performance, government weakness, local government, Norway.

JEL codes : H72, H74, H68, D72.

1. Introduction

The impact of budgetary processes and institutions on fiscal performance – usually defined in terms of budget deficits and debt levels – is a question of fundamental importance for public policy. As such, it has received substantial attention in academic research (for reviews, see von Hagen 2008; Eslava 2011). Most contributions to this long-standing debate focus on budgetary transparency (Alt & Lassen 2006), the 'quality' of fiscal institutions (Fabrizio et al. 2006), soft budget constraints (Kornai 1986; Fink & Stratmann 2011), or specific budgeting rules (Perotti & Kontopoulos 2002; Hou & Smith 2010; Vlaicu et al. 2014; Grembi et al. 2016; Asatryan et al. 2018). Several scholars also point out that awarding finance ministers a central role in budget preparations can improve fiscal performance (von Hagen & Harden 1995; Alesina & Perotti 1996; Hallerberg et al. 2007; De Haan et al. 2013; Vlaicu et al. 2014). Yet, few studies thus far examine the potential impact of *administrative* delegation in budgetary processes (Hagen & Vabo 2005; Jimenez 2019). This is the main contribution of our analysis. More specifically, we ask whether and to what extent delegation of the budget preparation process to top civil servants improves or worsens fiscal performance.

From a political economics perspective, several arguments suggest that politics can become a source of poor fiscal performance. For instance, politicians in fear of their position have an incentive to increase deficits and debt to tie the hands of future governments (Persson & Svensson 1989). Moreover, different spending ministers might exclusively focus on their own portfolio and be unwilling or unable to coordinate budgetary decisions. This triggers a common pool problem leading to higher deficits and debt levels (von Hagen & Harden 1995; Perotti & Kontopoulos 2002). Finally, diverging partisan preferences about budgetary adjustments may trigger a war-of-attrition that delays necessary fiscal consolidation (Alesina & Drazen 1991; Tsebelis 2002). Although not an exhaustive list, in all these cases political mechanisms undermine fiscal performance and yield potentially substantial deficits.

The question then becomes whether awarding a central role in the budget preparation process to top civil servants helps address such political predispositions towards fiscal deficits – or rather makes things worse. To fix ideas, we consider an institutional setting where an appointed civil servant controls the budget process up to the point where a complete draft budget is submitted for discussion and approval to an elected political body. This is arguably a minimal intervention since the bureaucrat does *not* control the final budget. Nonetheless, as discussed

in section 2, this procedure deviates fundamentally from the traditional bottom-up budgeting process (where committees and agencies submit their spending requests) and from procedures where elected politicians manage all phases of budget process.

Our null hypothesis is that administrative delegation as defined above will *not* influence fiscal performance. One reason is that it does not include formal agenda-setting powers. That is, elected politicians remain free to amend the budget proposal and public administrators cannot force through their budget proposal. Moreover, elected politicians may always renege on their delegation decision and revert to the bottom-up or politically centralized procedures. Therefore, politicians' budgetary preferences may override self-imposed institutional constraints, which would nullify any effects of administrative delegation. Both elements are present in our empirical setting. This stacks the deck in favor of the null hypothesis, and provides a strong testing ground for any effects of administrative delegation.

Our first alternative hypothesis is that administrative delegation *improves* fiscal performance. This builds on three arguments involving the premise that the administrator seeks to maintain fiscal discipline, which is particularly likely in settings where she is held directly accountable for fiscal performance (as in Norway). First, delegation to one public administrator might weaken the many voices speaking in favor of increased spending (Jimenez 2019). Second, the public administrator's budget proposal may "anchor" the subsequent political debate and introduce stricter control over budgetary decisions. This would be reminiscent of the benefits of central bank independence, where delegation is used to sustain credible monetary policies (Fischer 1995; Alesina & Perotti 1996; Farvaque et al. 2014). [1] Finally, administrative delegation allows the civil servant to control the type and nature of information reaching elected politicians and the public. She can exploit this informational advantage to achieve better fiscal outcomes. Overall, these arguments suggest that administrative delegation may improve fiscal performance.

Our second alternative hypothesis is that administrative delegation *deteriorates* fiscal performance. This builds on the classic literature regarding budget-maximizing bureaucrats

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[1] Political centralization of the budgetary process (e.g. in the hands of a finance minister) might likewise increase coordination and control. Yet, a crucial difference exists between administrative and political centralization. Keeping public administrator(s) directly accountable for fiscal performance guarantees prioritization of sustainable fiscal outcomes. Politicians' re-election concerns mean that the same need not hold under political centralization.

(Niskanen 1968, 1975; Blais & Dion 1991; Jimenez 2019). Niskanen's model of bureaucracy maintains that bureaucrats have an incentive to maximize the size of the bureaucracy. The reason is that budget size relates positively to bureaucrats' status, prestige, discretion and survival. Administrative delegation in budget processes may then weaken opposition to such self-serving spending demands. This may undermine sound fiscal policies and lead to weaker fiscal performance.

Whatever the effects of administrative delegation on fiscal performance, it can be expected that its benefits will be larger when political factors impose greater fiscal inefficiencies. From that perspective, it has been argued that fiscal performance is particularly undermined in political settings with sharp ideological divisions and/or 'weakness' in political decision-making (the 'Weak Government Hypothesis'; Roubini & Sachs 1989; Edin & Ohlsson 1991; Ashworth et al. 2005; Baskaran 2013; Artés & Jurado 2018). Such situations – including coalition and minority governments – may thus also prompt the largest improvements in fiscal performance with administrative delegation in budgetary procedures.

In our empirical analysis of these theoretical propositions, we trace the budgetary procedures and fiscal performance for a large panel of Norwegian local governments over the period 1991-2016. Municipalities in Norway employ one of three budgetary procedures: i.e. coordination by the political leadership, delegation to the senior civil servant, and the traditional 'bottom-up' procedure. The use of those procedures displays substantial variation across time and space, which provides a unique opportunity to assess their effects using a research design exploiting *within-municipality* changes. Clearly, however, budget processes adopted at the local level could be endogenous. For example, introducing administratively centralized budgetary processes could be triggered by historical fiscal performance, creating a reverse-causality concern. We will present a number of robustness tests to lessen this and other methodological concerns, but return to potential caveats underlying our analysis in our results discussion.

Our main findings indicate that administrative delegation in the budget preparation process *improves* fiscal performance. The budget surplus as a share of current revenues increases 0.3 percentage points on average after reforms giving the senior local civil servant a central role. As the Norwegian central government has recommended a long-term fiscal surplus of three percent, administrative delegation has an effect equivalent to roughly ten percent of this benchmark. Further examination indicates that this result does not appear to increase/decrease

over time. It is, however, conditional on political circumstances. Specifically, the fiscal effect of administrative delegation is nearly twice as large when the mayor lacks majority support in the local council, while it is non-existent when (s)he enjoys such majority support. When looking at the underlying mechanisms, we find that the majority of administrative delegation's improvement in fiscal performance is due to keeping spending under control. This is consistent with previous work highlighting that the expenditure side of the budget causes inferior fiscal performance under settings with weak political decision-making (Kontopoulos & Perotti 1998, 1999; Ashworth et al. 2005). Overall, these finding indicate that even a limited degree of administrative control over budgetary processes may help to alleviate poor fiscal performance arising due to political coordination failures.
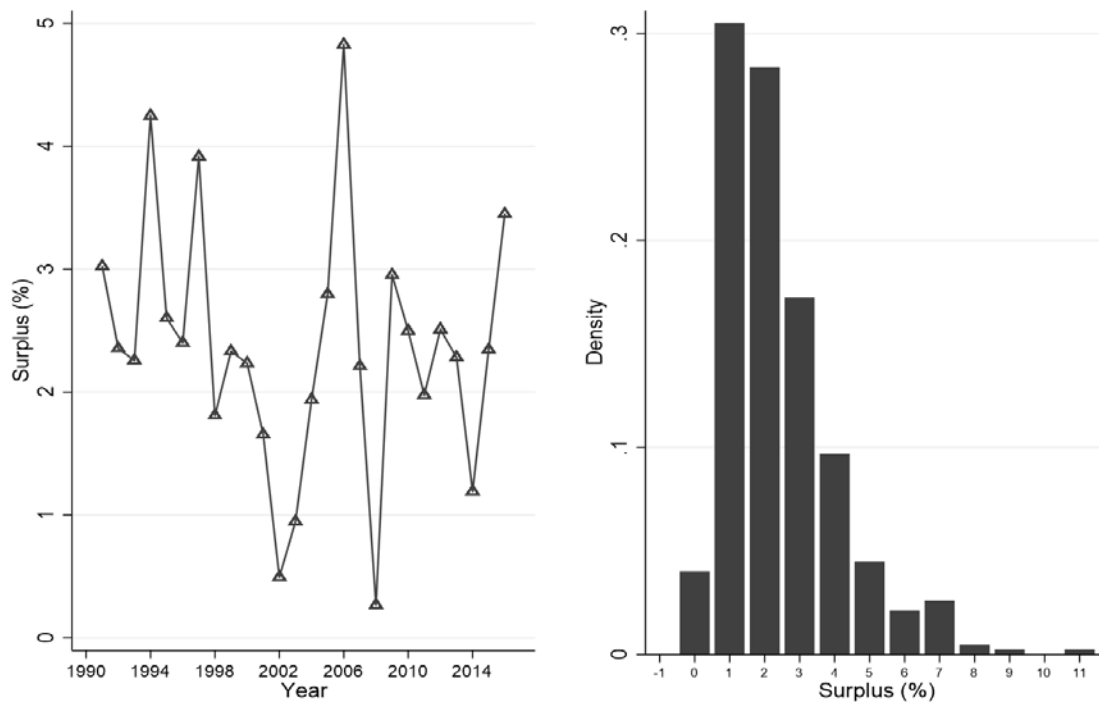
2.   Institutional setting and data

The Norwegian local system of government consists of 19 counties and just over 400 municipalities in our period of observation. Municipalities play an important economic role through their responsibility for implementing national welfare policies. In 2016, total local government revenues and expenditures accounted for about 18 percent of GDP, and about 16 percent of total employment (measured by working hours). Much of this spending is subject to central government regulatory constraints. Even so, Norwegian municipalities retain considerable discretion when it comes to the allocation of current operating spending as well as investments. They also have substantial fiscal autonomy, particularly with respect to property taxation as well as user charges.

Important for our empirical analysis, fiscal performance is a major concern for Norwegian local governments. Section 45 of the Local Government Act specifies that municipalities must propose revenue and spending plans within a complete, realistic and balanced budget. The net current surplus thereby acts as the key indicator of fiscal performance (henceforth 'net surplus'). It is defined as net operating revenue minus net operating expenses, net interest expenses, and net repayments on debt.[2] A negative net surplus implies that the local authority would have to take resources from its equity, which is illegal. The county governors oversee local authorities' compliance with these fiscal rules. Failure to comply may trigger the appointment of a special

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[2] Local governments are allowed to take up loans for financing investments in the welfare sector (e.g., schools, social institutions) as well as for infrastructure (e.g., water, sewage, waste collection and treatment). Such loans can only be used to finance investment outlays via the capital account. Still, interest and amortization payments for these loans count as operating expenditures, and thus affect the current account and its balance.

commission by the central government that takes over managerial responsibilities (including major fiscal decisions such as debt, financial leasing and long-term contracts). Given its central importance as the key budgetary target in local governments' fiscal framework, the net surplus will be the main dependent variable in our empirical analysis.[3]

Figure 1. Fiscal performance in Norwegian municipalities, as measured by the net surplus

Note: The graph on the left displays average levels of municipalities' net surplus for the years 1991-2016. The diagram on the right shows the frequency distribution of the net surplus using municipality-level data averaged over time (which highlights its cross-sectional variation).

In Figure 1, we display on the left-hand side the average net surplus measured as percentage of current revenues over the period 1991–2016. The early 1990s saw net surpluses fluctuate around the recommended three percent threshold. Economic crises induced weaker fiscal performance in the periods 1998-2003 and 2007-2008, but average fiscal performance normalized again from 2009 onwards. We also display on the right-hand side of Figure 1 the overall frequency distribution of the net surplus averaged over time within municipalities. This

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[3] The Committee for county and municipal government finance ("Teknisk beregningsutvalg for kommunal og fylkeskommunal økonomi", administered by the Ministry of Local Government and Modernization) recommended a *long-term* surplus of three percent up to 2014. Due to changes in the system of VAT compensation, the recommended level was reduced to two percent since 2014 (TBU 2014). Naturally, a very large budget surplus may not reflect good fiscal performance. Still, Figure 1 illustrates that surpluses in excess of seven percent of current revenues are rare occurrences. Excluding observations with fiscal surpluses above seven, six or even five percent does not affect our analysis below.

reveals considerable dispersion in fiscal performance across municipalities (the between-unit standard deviation is 1.91%). Clearly, there are also very substantial disparities in fiscal performance within municipalities over time. These are in effect even stronger than the cross-sectional variation (the within-unit standard deviation is 2.96%). These variations across time and space are key to our empirical analysis.

Budgetary procedures

In Norwegian local governments, the traditional budgetary approach starts at the lower echelons of the political jurisdiction. It allows the various government agencies and standing committees to articulate their preferred spending needs for the upcoming budgetary term. These requests are assessed and processed at higher administrative and political levels, before being submitted for final approval by an elected assembly. We henceforth refer to this traditional, decentralized approach as the 'bottom-up' procedure. This is also the traditional budgetary procedure at other levels of government in Norway, as well as in numerous other countries.

Norwegian local governments can also employ two alternative budget preparation procedures. The first of these assigns responsibility for preparing a coherent budget proposal to a "finance minister". The key difference between this 'centralized' procedure and the bottom-up approach lies in the sequence of events. That is, the bottom-up procedure allows the standing committees to propose allocations for spending programs, and overall spending is decided afterwards. The 'centralized' approach instead has key elected politicians fixing the spending framework first, and program allocations are decided afterwards.

The second alternative procedure relies on administrative (rather than political) coordination. In practice, this is implemented by granting full budgetary initiative to the top administrative position in Norwegian municipalities (i.e. the *rådman*; henceforth Chief Municipal Officer, or CMO). She presents a draft budget with sectoral spending limits to the local council committees, who can make additional recommendations. The CMO's draft budget and the committees' recommendations then form the basis for the final budget proposal, which is submitted for approval to the municipal council. While the CMO plays a key role in the early stages of the budget process, politicians retain leeway to make changes afterwards.

Although these three budget preparation models are *not* formally described in legislation, they reflect distinct traditions and approaches employed in practice. Annual data on the budgetary procedures employed by all Norwegian local governments are collected using a survey questionnaire and are included in a national database (the "Local Government Organizational Database"). Specifically, local government officials are presented the following description of the threefold typology of budgetary procedures outlined above:

> In the final stage of the budgeting process, the executive board submits a proposal to the local council. The council subsequently makes the final decisions. The preceding budget preparations can be organized in three ways:
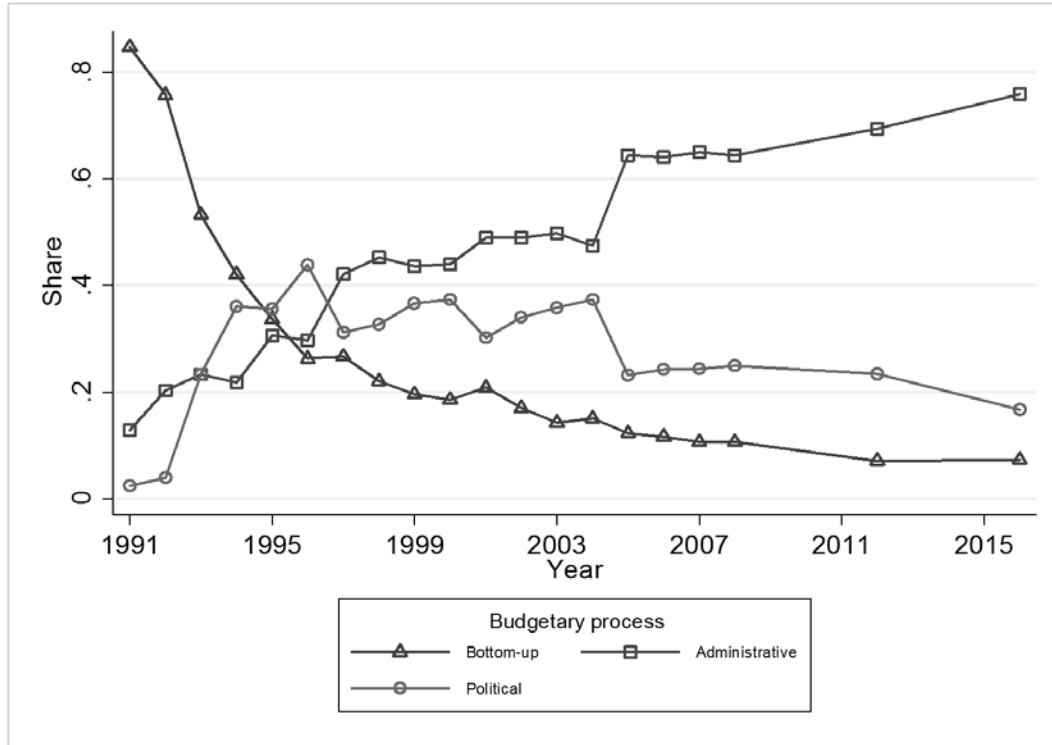>
> *A: The bottom-up process: The administrative agencies and standing political committees draft budget proposals, which are subsequently processed by the CMO. The CMO submits the budget proposal to the executive board.*
>
> *B: The centralized administrative process: The CMO presents a coherent budget proposal for processing in the standing committees. The executive board prepares its budget proposal on the basis of CMO and committee proposals.*
>
> *C: The centralized political process: The executive board initiates and controls the budgetary process, collecting information from the standing committees and the CMO. Using this information, the executive board submits its proposal to the local council.*

Following this description, respondents are asked to indicate which procedure best fits that employed by their municipality.[4] Figure 2 presents the resulting data in terms of the share of municipalities using each budgetary procedure. It is clear that the bottom-up procedure (A) was dominant at the start of the sample period in 1991. More than 80 percent of local governments relied on this method. In subsequent decades, this procedure was gradually replaced with the politically centralized approach (C) and the administrative delegation approach (B). Administrative delegation has currently acquired a dominant position, with nearly 80 percent of municipalities employing this procedure in 2016. The CMO thus has become a key player in local government budget preparations across Norway. Over the entire period, administrative

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delegation was employed in nearly 50 percent of the municipality-years in our sample (see Figure A2 in the Online Appendix).

Figure 2. Budgetary procedures 1991-2016

Note: The figure presents share of municipalities using each of the three budgetary procedures over
    the period 1991-2016. Data are obtained from the "Local Government Organizational Database"
    and are based on annual surveys among local government officials.

The data in Figure 2 reflect our main independent variable in the analysis below. Although response rates to the underlying surveys consistently hover around 80 percent (see Figure A1 in the Online Appendix), the final dataset covers the entire universe of Norwegian municipalities. That is, not all municipalities are covered in each year of the analysis, but every Norwegian municipality is represented for at least some years (i.e. an unbalanced panel). We should also note that the surveys were not fielded during the years 2009–2011 and 2013–2015, which explains the missing observations for these years in Figure 2. Throughout our analysis, we employ only the data actually collected (i.e. no interpolation of missing data).

3.   Estimating the causal effect of budgeting procedures

3.1 Model specification and identification

To estimate the causal effect of distinct budgetary procedures on local governments' fiscal performance – operationalized by their net current budget surplus – our baseline difference-in-differences regression model takes the following form:

$$Surplus_{it} = \beta_1 Political\ Centralization_{it} + \beta_2 Traditional\ Bottom\ Up_{it} + Controls + \theta_i + \vartheta_t + \varepsilon_{it}$$

Our dependent variable $Surplus_{it}$ equals the net surplus in municipality *i* in year *t* (as defined in the previous section). $Political\ Centralization_{it}$ and $Traditional\ Bottom\ Up_{it}$ are two indicator variables taking value 1 in years where local government *i* employs a politically centralized or bottom-up procedure, respectively, and 0 otherwise. In years where both indicators are 0, the local government applies the administratively centralized budgetary procedure. Coefficients β_1 and β_2 thus reveal the difference in fiscal performance between administrative delegation and the other two budgetary approaches. The model includes a full set of municipality fixed effects (θ_i) and year fixed effects (ϑ_t) to account for (un)observed sources of heterogeneity that are specific to particular municipalities or years, respectively. This implies that we focus on within-municipality variation across time to derive our inferences. We also add a vector of *Controls*, which includes central government grants per capita, exogenous tax revenues per capita, levels of hydropower production (which generate local revenues via fees and commercial property taxes; Andersen et al. 2014; Borge et al. 2015; Geys & Sørensen 2016), and a set of demographic indicators related to municipalities' main social welfare expenditure components (i.e. child care, education, old-age care, and health services). Such covariates reflect exogenous factors that influence local government revenues and/or expenditures, thereby affecting (temporal trends in) fiscal performance. Finally, ε_{it} is an idiosyncratic error term.

The key identifying assumption underlying our empirical specification is the 'common trends' assumption. It holds that municipalities introducing administrative delegation (the 'treatment' of interest) would have seen a similar trend in fiscal performance as all other municipalities *if they had not switched to the delegated procedure*. We invoke this assumption *conditional on* the set of time-varying controls included in our model. Since the counterfactual is effectively

unobserved, the identifying assumption cannot be tested directly. Nonetheless, we perform several tests that strongly suggest its validity in our setting. First, we estimate specifications that extend our baseline model with linear, municipality-specific time-trends. These account for possibly distinct municipality-specific time trends due to rising or declining debts, in- or outmigration, or changing political preferences in the electorate as well as the elected council.

Second, since most local governments introduced administrative delegation in the 2000s, we identify three sets of authorities: i) those shifting permanently to the administrative procedure after 2000, ii) those that shifted for parts of this period, and iii) those that never shifted. The common trend assumption would imply that all three groups witness similar temporal developments in net surplus *prior to* the introduction of administrative delegation (i.e. prior to the year 2000). Figure A3 in the Online Appendix presents suggestive evidence indicating that *pre-reform* trends in the net surplus of all three groups indeed follow parallel paths.

Before turning to the results, one might argue that fiscal performance as well as decisions about administrative delegation could depend on the unobserved 'qualities' of the person holding the municipality's top administrative position. A better (worse) CMO – in terms of professional competence or experience – might obtain better (worse) fiscal performance and be awarded more (less) budgetary authority. To address this, we extend our empirical model in some specifications with CMO fixed effects. This effectively relies on variation *within CMOs* over time (as well as within municipalities; see above), and provides a very demanding empirical test of our theoretical propositions. Table A.1 in the Online Appendix provides summary statistics for all variables included in the model.

3.2 Main findings

Table 1 presents our main results. Column (1) includes municipality and year fixed effects, time-varying covariates as well as municipality-specific time trends. Column (2) instead adds municipality and year fixed effects, time-varying covariates and a full set of CMO fixed effects. Throughout all estimations, we cluster standard errors at the level of the municipality.

All coefficient estimates in Table 1 are negative. This indicates that the bottom-up and politically centralized budgeting procedures on average yield *lower* net current budget surpluses than the administrative delegation procedure. In other words, administrative

delegation appears associated with improved fiscal performance. The point estimates in column (1) indicate that administrative delegation on average increases the fiscal surplus as a share of current revenues with approximately 0.3 percentage points.[5] Column (2) confirms that administrative delegation improves fiscal performance also focusing on variation in fiscal performance *within* CMOs over time – at least relative to political centralization. The estimated effect size in this specification remains qualitatively similar.

Table 1. Budgetary procedures and fiscal performance

	(1)	(2)
Administrative Delegation with CMO	-	-
Political Centralization	-0.308**	-0.271*
	(0.140)	(0.160)
Traditional Bottom Up	-0.281*	-0.0795
	(0.164)	(0.182)
Observations	6,353	6,166
R-squared	0.258	0.395
Number of municipalities	438	438
Year fixed effects	Yes	Yes
Municipality fixed effects	Yes	Yes
Covariates	Yes	Yes
Municipality specific trends	Yes	No
CMO fixed effects	No	Yes

Notes. The table displays regression estimates using the net current budget surplus as dependent variable. All models include municipality and year fixed effects. Model (1) includes time-varying covariates and linear municipality-specific time trends, and model (2) comprises time-varying covariates and CMO fixed effects. The time-varying covariates are: Block grants, exogenous tax revenues, hydropower electricity production (measured per capita), population size, share aged 0–5, 6–16, 67 and over, share of women, and the unemployment rate. The standard errors (in parentheses) are clustered at the municipality level. Significance levels: *** $p<0.01$, ** $p<0.05$, * $p<0.1$

The observed improvement in fiscal performance under administrative delegation to the CMO is consistent with the characteristics of Norwegian local governments' (publicly available) leadership contracts with their CMOs. Most municipalities include fiscal and economic performance as a major evaluation criterion in these contracts, and empirical evidence suggests that they reward CMOs financially for good fiscal performance (Geys et al. 2017). Naturally, good fiscal performance also brings additional benefits such as reduced borrowing costs, maintaining municipalities' fiscal independence and CMOs' personal reputation. These may further incentivize CMOs' fiscal performance beyond their personal remuneration. Our results
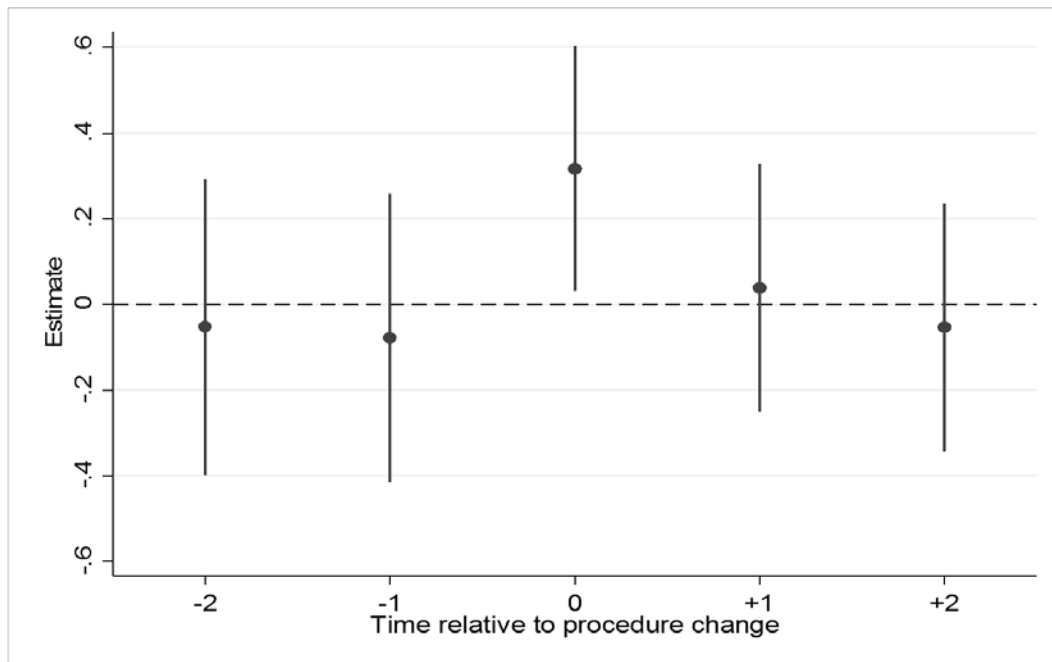
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[5] In the traditional bottom-up procedure, it is very common for government agencies and standing committees to inflate or exaggerate their spending needs. Although this allows for some bargaining leeway, it may also reflect one key reason why this procedure performs poorly in terms of fiscal performance. We are grateful to an anonymous referee for pointing this out.

also provide backing to existing anecdotal evidence. A study by the consultancy firm Econ (2006), for instance, interviewed 25 leaders in 20 municipalities with a history of major budget deficits. A key finding was that the CMO played a critical role in restoring the budgetary balance: "In all 20 municipalities, the CMO appears to have played a very active role in achieving a balanced budget. Without the contribution of the CMO, most informants (…) say that it would have been very difficult to implement the required processes" (Econ 2006: 2).

As fiscal performance is a dynamic phenomenon, it is important to assess its temporal development in more detail. Does administrative delegation induce an instantaneous and permanent shift in fiscal performance, or is there only a temporary improvement? An alternative scenario might also involve fiscal performance plunging prior to the introduction of administrative delegation (similar to 'Ashenfelter's dip' in studies of job training programs) and recovering afterwards. Accounting for such a potential drop is important for two reasons. One is that it may signal reverse causation whereby poor fiscal performance triggers the introduction of administrative delegation. The second is that there may be mean-reversion effects whereby fiscal performance is more likely to increase following a period with low or even negative surpluses.

Figure 3 traces the dynamic effects of administrative delegation relative to the other two budgeting procedures. It presents the results from an extended regression model including both lead- and lag-effects of our main variable *Administrative Delegation with CMO*. Naturally, future changes in budgetary procedures cannot causally determine current fiscal performance, although current fiscal performance might correlate with future changes in budgetary procedures (i.e. under the presence of reverse causation). Credible causal estimates thus require the lead estimates in Figure 3 to be zero. This turns out to be the case. Such absence of statistically significant coefficients *prior to* the shift towards administrative delegation mitigates concerns about reverse causation. Figure 3 furthermore reveals a positive and statistically significant contemporaneous effect without significant *additional* effects in subsequent years. This implies that the instantaneous increase in the net current budget surplus from introducing the administrative procedure largely persists during at least the next two fiscal years. Although we lose more observations when adding additional leads and lags, similar results are obtained when including three or four leads and lags.

Figure 3. The effect of administrative delegation before and after procedure implementation

Note: The diagram shows results from a regression with fiscal performance as response variable, and which includes the same fixed effects and covariates as in Table 1. The diagram displays point estimates and 95% confidence intervals for the *Administrative Delegation with CMO* dummy, which should be interpreted relative to the reference category (consisting of political coordination or the traditional 'bottom-up' procedure). The standard errors (confidence intervals) are clustered at municipalities. The indicator for Administrative Delegation with CMO is entered simultaneously two (-2) and one years (-1) before the procedure was implemented, at the time of implementation (0), and one and two years after implementation.

3.3 The mediating role of incumbent political support

In this section, we investigate the mediating role of incumbent political support on the fiscal benefits of administrative delegation observed in Table 1 and Figure 3. Theoretically, we build on a substantial literature arguing that 'weak' governments tend to document worse fiscal performance (e.g., Roubini & Sachs 1989; Edin & Ohlsson 1991; Perotti & Kontopoulos 2002; Ashworth et al. 2005; Baskaran 2013; Artés & Jurado 2018). Edin and Ohlsson (1991: 1601) show that such effects are "entirely due to minority governments" (see also Kontopoulos & Perotti 2002). The reason is that a minority government generally is characterised by a "lack of political support", which results in "its inability to raise taxes" (Kontopoulos & Perotti 2002: 207). A key implication of this Weak Government Hypothesis is that administrative delegation would be expected to improve fiscal performance particularly when the executive is in a weak (i.e. minority) position. It would have less influence when a majority in the local council supports the mayor.

To test this prediction, we define *Incumbent Majority Support* as the seat share in the local council for the party or parties supporting the mayor. As Norway has a multiparty system with

effectively two political blocs – a left-leaning socialist bloc and a right-leaning conservative camp (Fiva et al. 2018) – we sum the seat shares of all parties in the left-wing (right-wing) bloc if the mayor comes from a left-wing (right-wing or independent) party. Naturally, higher values on this variable imply higher incumbent support and a 'stronger' local government. We center *Incumbent Majority Support* at 0.5 to reflect the natural distinction between majority and minority governments. This implies the following model specification:

$$S_{it} = \alpha_1 Administrative\ Delegation\ with\ CMO_{it} + \alpha_2 Administrative\ Delegation\ with\ CMO_{it}$$
$$\cdot\ Incumbent\ Majority\ Support_{it} + \alpha_3 Incumbent\ Majority\ Support_{it} + Controls$$
$$+ \gamma_i + \delta_t + \epsilon_{it}$$

The estimated coefficient of *Administrative Delegation with CMO* (α_1) reflects the effect of administrative delegation on fiscal performance when the mayor barely enjoys a majority. This is where we expect administrative delegation to be beneficial to fiscal performance (i.e. $\alpha_1 > 0$). Coefficient α_2 indicates how deviation from such a bare majority influences the effect of administrative delegation on fiscal performance. Given our theoretical argumentation, we expect a smaller (larger) impact when the mayor is in a majority (minority) position (i.e. $\alpha_2 < 0$). The results are presented in Table 2. Model (1) includes the direct as well as the multiplicative effects of the two interaction variables (Brambor et al. 2006).[6] In Model (2), we estimate the same model, but use an indicator variable for incumbent majority support. Finally, Model (3) defines incumbent majority support based on the *average* seat share of parties supporting the mayor across the entire period of observation in a given municipality (we return to the reason below). As this is constant over time and thus perfectly collinear with our municipality fixed effects, this variable drops out of the estimation model and only its interaction with our indicator for administrative delegation remains.

A first observation from the top row of Column (1) in Table 2 is that transition to administrative delegation increases municipal fiscal performance with about 0.3 percent, conditional on incumbent support being exactly 50% of council seats. The interaction term in Column (1), however, is negative and statistically significant. This indicates that shifting to administrative delegation has a smaller effect when incumbent support is large – and, reversely, a larger effect when incumbent support is small. In terms of effect size, a shift towards administrative

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[6] Figure A4 in the Online Appendix displays the distribution of incumbent support for the mayor, conditional on administrative delegation. The diagram shows that we have a substantial number of municipality-years that allow us to estimate the interaction effect.

delegation yields a one-percentage point increase in fiscal performance when incumbent support is non-existing, and a decrease of 0.53 percentage points when the mayor has support from all councilors. Figure A5 in the Online Appendix presents the marginal effect of administrative delegation conditional on incumbent mayor support. This highlights that the effect of administrative delegation is positive and significant where the mayor has minority support, but is no longer significantly different from zero in situations with majority support. Columns (2) and (3) in Table 2 confirm this by showing that the average effect under minority support (α_1) is positive and statistically significant. Instead, the average effect under majority support ($\alpha_1 + \alpha_2$) is not significantly different from zero.

Table 2. Budgetary process, incumbent support, and fiscal performance
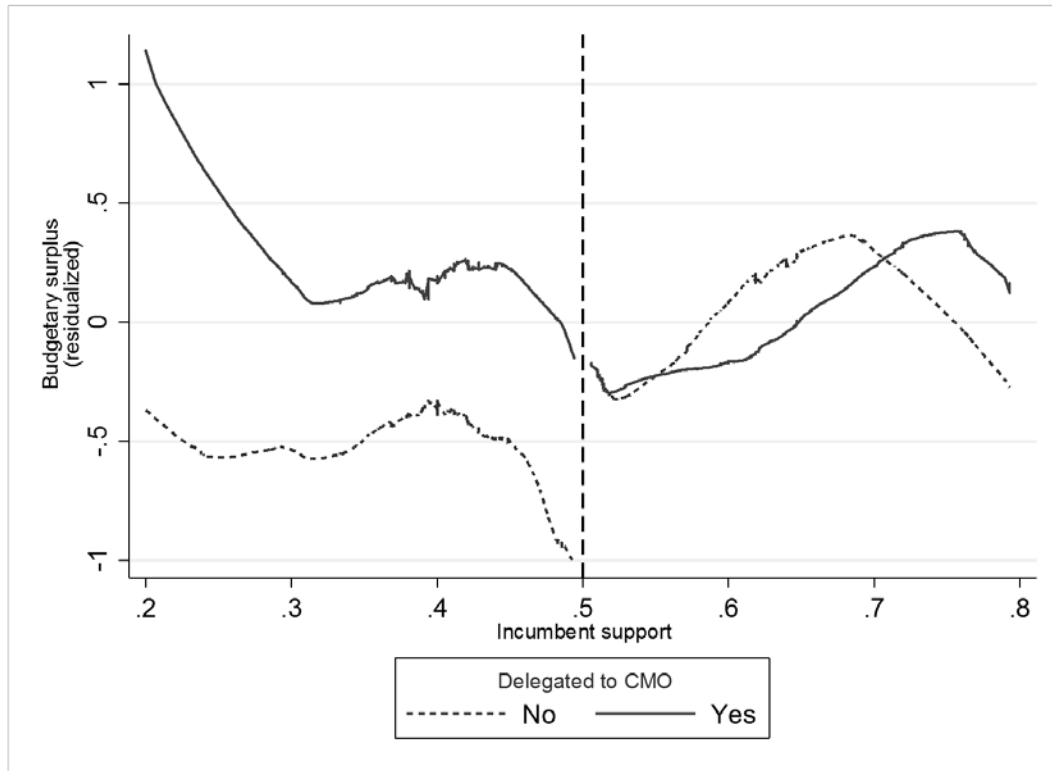
	(1)	(2)	(3)
Administrative Delegation with CMO	0.263**	0.537***	0.727**
	(0.122)	(0.184)	(0.349)
Administrative Delegation with CMO ·	-1.505**		
Incumbent Majority Support	(0.711)		
Incumbent Majority Support	0.450		
	(0.563)		
Administrative Delegation with CMO ·		-0.536**	-0.808*
Incumbent Majority Support (dummy)		(0.211)	(0.470)
Incumbent Majority Support (dummy)		0.165	-
		(0.154)	
R-squared	0.146	0.146	0.146
Observations	6,342	6,342	6,348
Number of municipalities	437	437	438

Notes. The table displays regression estimates using the net budgetary surplus as response variable. *Administrative Delegation with CMO* is a dummy variable equal to 1 in years where the local government applies administrative delegation of budgetary powers, and 0 otherwise. *Incumbent Majority Support* is measured as share of councilors belonging to the mayor's coalition (centered at 0.5). *Incumbent Majority Support (dummy)* equals 1 in years when the mayor's coalition has a majority in the local council, and 0 otherwise. In model (4), *Incumbent Majority Support* has instead been measured as average incumbent support across the entire period in a given municipality. All models include municipality and year fixed effects, and all models include the same time-varying controls as in Table 1. In addition, they comprise controls for share of right-wing and other representatives in the local council, while the left-wing seat share is a reference category. The standard errors are robust and clustered on municipalities (in parentheses). Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Two methodological issues arise at this point. First, the results in Table 2 (and Figure A5) assume conditional linearity, i.e. the effect of administrative delegation changes linearly with the support enjoyed by the incumbent mayor. Hainmueller et al. (2019: 164) argue that this assumption "often fails in empirical settings because many interaction effects are not linear and some may not even be monotonic". We therefore follow their suggestion to assess Kernel-weighted local polynomial smoothed estimates separately for cases with/without administrative delegation (i.e., full versus dotted lines in Figure 4) and where the mayor

holds/lacks majority support in the local council (i.e. left- versus right-hand side of Figure 4).[7] The results confirm our main findings. Fiscal performance – depicted on the y-axis – is consistently better with administrative delegation under minority support (left-hand side of Figure 4). Yet, administrative delegation makes no obvious difference under majority support (right-hand side of Figure 4).

Figure 4. Fiscal performance conditional on incumbent support and CMO delegation

Note: The diagram displays results from a locally weighted regression of the budget surplus on incumbent support. The budget surplus has been residualized using the baseline fixed effects and covariates. The local regressions are estimated separately for four categories: municipalities with/without majority party support for the incumbent major and municipalities where budget making has/has not been delegated to the CMO.

Second, one might worry that incumbent support is endogenous. A right-wing majority might, for instance, be more likely to accept a left-wing mayor under conditions of poor fiscal performance. The reason is that this limits the discretion of the executive, while the majority at the same time can put the blame for unpopular policies on the mayor. To accommodate this concern, we calculate the mean level of incumbent support for each municipality over the entire period of observation. We then re-estimate the model using this time-averaged indicator (which naturally is unresponsive to changes in fiscal policies at any given point in time). The results

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[7] In practical terms, the approach entails the repeated estimation of polynomial regressions via locally weighted least squares using only the observations within a given distance (the kernel radius) of a given datapoint.

are given in Column (3) of Table 2, and yield the same pattern as in Column (2). The point estimates are larger in absolute values, which might indicate some downward bias due to the endogeneity of incumbent support. This result confirms, however, that local authorities with frequent minority situations (would) benefit substantially from administrative delegation in budgetary processes – while those with frequent majority status do not.[8]

3.4 *Mechanisms*

Our analysis thus far shows that administrative delegation benefits fiscal performance, at least when the mayor lacks a strong majority position in the local council. A natural next question relates to the potential mechanisms underlying this result. Does administrative delegation induce increased taxation and user charges, intensify efforts to control costs, or some combination of both? In this section, we extend the analysis by evaluating the revenue as well as expenditure sides of the budget. The main independent variable remains *Administrative Delegation with CMO*, but our dependent variables now become total current revenues per capita (Columns 1-3 of Table 3) and total expenditures per capita (Columns 4-6 of Table 3). The estimates in Columns (1) and (4) include the entire sample – as in Table 1. The remainder of Table 3 again takes into account the role of mayors' political support. Columns (2) and (5) comprise municipality-years where the mayors' party has support from a majority in the local council (i.e. *Incumbent Majority Support* > 0.5). Columns (3) and (6) cover municipality-years where the mayors are in a minority position (i.e. *Incumbent Majority Support* < 0.5).

The main observation in Table 3 is that the majority of administrative delegation's improvement in fiscal performance when the mayor is in a politically weak position is due to keeping spending under control. This observation confirms anecdotal evidence brought forward in several consultancy reports (e.g., Econ 2006; Haraldsvik et al. 2018). Those reports indeed highlight that CMOs implement a stricter cost-control regime (especially to avoid cost overruns in the final months of a budgetary year) and reduce administrative spending by cutting the number of administrative layers. Overall, stronger effects on the expenditure side are also consistent with the fact that 'weak' mayors may resort to buying support via higher spending or use such expenditures to keep coalition partners on board. From this perspective, it is

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[8] We also checked whether our results in Table 2 persist when adding additional interactions between *Incumbent Majority Support* and all our control variables. If any of our controls are correlated with majority status and themselves act as moderators, excluding such interaction terms might bias our findings. Although this implies a much more stringent specification, all results in Table 2 are robust to adding these additional interaction terms.

interesting to observe that previous work on the deficit-increasing impact of government fragmentation links such effects predominantly to higher expenditures rather than lower revenues (e.g., Kontopoulos & Perotti 1998, 1999).

Table 3. Budgetary process, current revenues and expenditures

	Revenues			Expenditures		
	(1)	(2)	(3)	(4)	(5)	(6)
Majority support	Both	Yes	No	Both	Yes	No
Administrative Delegation with CMO	0.0819	0.122	-0.154	-0.0133	0.182	-0.601**
	(0.127)	(0.149)	(0.202)	(0.130)	(0.150)	(0.273)
Observations	6,510	4,581	1,923	6,510	4,581	1,923
R-squared	0.981	0.981	0.984	0.975	0.974	0.980
Number of municipalities	440	432	338	440	432	338

Notes. The table displays regression estimates of *Administrative Delegation with CMO* using the current revenues and expenditures per capita as response variable. The estimates in columns (1) and (4) include the entire sample, columns (2) and (5) comprise municipality-years where the mayors' party have support from a majority in the local council, while (3) and (6) cover municipality-years where the mayors' party have support from a minority in the local council. All models include controls for municipality and year fixed effects as well as a municipality-specific linear time trend. The time-varying covariates are: Block grants, exogenous tax revenues, hydropower electricity production (measured per capita), population size, share aged 0–5, 6–16, 67 and over, share of women, and the unemployment rate. The standard errors (in parentheses) are clustered at the municipality level. Significance levels: *** $p<0.01$, ** $p<0.05$, * $p<0.1$

3.5 *Robustness*

Table A2 in the Online Appendix summarizes the results of a number of robustness checks. Since municipalities are open economies and economic shocks might be positively correlated across geographic areas, Column (1) re-estimates our preferred model specification (i.e. Column (2) in Table 2) while clustering on economic regions.[9] In Column (2), we exclude all municipalities that *never* changed their budgeting procedure over our 25-year period. In Column (3), we restrict the sample to municipalities that have at least 12 years of complete data. Each of these modifications has at best a marginal impact on standard errors and point estimates.

Since Norway has a proportional representation electoral system, one might expect incumbent mayor support to be correlated with the level of political fragmentation in the local council. This might affect our findings since several studies have shown that political fragmentation impedes fiscal performance (e.g., Perotti & Kontopoulos 2002; Borge 2005; Ashworth et al. 2005; Fabrizio et al. 2006; Artés & Jurado 2018). Column (4) in Table A2 therefore includes

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[9] For documentation of economic regions, see Statistics Norway: https://www.ssb.no/a/english/publikasjoner/pdf/nos_c634_en/nos_c634_en.pdf

the Herfindahl index of party concentration within the incumbent coalition as an additional control variable. This again has no implications for our main findings. The same is also true when we add an additional control variable for the mayor's party-political leaning.

Finally, clustering standard errors on municipalities in a model with municipality fixed effects (as we have done thus far) yields consistent estimates even in the presence of serial correlation in the idiosyncratic error term. However, if positive serial correlation is sufficiently strong, it is more efficient to estimate the model in first differences. Yet, this gain in efficiency should be weighed against the higher sensitivity of the first-difference estimation to measurement errors, which could bias estimates towards zero. To assess the sensitivity of our findings to the exact estimation approach, Tables A3 and A4 in the online appendix show that results of a first-difference estimation are very comparable to the results reported previously.[10]

3.6 *Caveats*

There are, of course, a number of potential remaining caveats related to our analysis. First, it is generally very hard to control for all potential variables affecting fiscal outcomes. Hence, omitted variable bias always remains a potential concern. Still, any time-varying municipality-specific omitted variable that affects both the timing of administrative delegation (our treatment) and the fiscal surplus (our outcome) would imply a violation of the parallel trends assumption. From this perspective, it is important to reiterate that our results in Table 1 arise even when including municipality-specific time trends (which alleviates concerns about any violation of parallel trends). Our analysis of pre-treatment time trends in Figure A3 is also consistent with the assumption of parallel lines.

Second, as mentioned, trends in fiscal performance might trigger the introduction of specific budgeting procedures (reverse causation). For example, improvement in fiscal performance might induce elected politicians to take back control of the budgetary process. A worsening fiscal situation may instead trigger delegation to independent administrators. Crucially, such reverse causation would be reflected in *positive* rather than *negative* point estimates in Table 1. As such, reverse causation in our setting works to bias our main estimates towards zero.

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[10] Wooldridge (2010: chapter 10) has developed a test of serial correlation in panel data based on the residuals in the first-difference model. With no serial correlation, the relevant test statistic should equal -0.5. With perfect serial correlation, the test statistic equals 0. In the current case, the statistic equals -0.33, which is statistically different from -0.5 [$F(1, 422) = 132.82$]. It is therefore reassuring to see that the first-difference estimator yields results comparable to those reported thus far.

Third, and arguably the most critical issue, it is extremely hard to verify what determined the choice for a specific budgeting procedure in a given municipality at a given point in time. Understanding such choices is clearly very important to avoid biased inferences. Interestingly, previous research suggests that many transitions to administrative delegation in Norway were initiated by a desire to clarify administrative and political responsibilities. Ideas related to "New Public Management" from the early 1990s onwards emphasized that elected politicians should focus on setting policy goals and defining the overall local strategy. Administrators instead should address policy preparation and day-to-day implementation. Based on such ideas, local governments gradually transformed their organizational setup by delegating wider responsibilities to agency heads and CMOs (Vabo 2002: 39-40). It is in this context that local authorities also delegated extensive control of budgetary preparations to CMOs. Naturally, this line of argument does not identify why specific municipalities transitioned towards administrative delegation at a specific point in time. Nevertheless, it does highlight an underlying trend to do so based on arguments unrelated to the immediate fiscal situation of local governments.

4 Conclusion

In this article, we study whether awarding top civil servants a central role in the (local) government's budget preparation process improves or worsens fiscal performance. Our analysis exploits substantial variation over time and space in budgetary procedures and fiscal performance in Norwegian local governments. Our main findings highlight that budgetary delegation in budget procedures *improves* fiscal performance. This is a strong result given that the public administrators in our setting mainly set the initial parameters of the budget process and lack formal authority to impose their preferred budget on elected officials. Our estimates indicate that there is on average a 0.3 percentage point increase in fiscal performance (measured by the net budget surplus as a share of current revenues), representing a ten percent improvement relative to the three-percent benchmark set for the local budget surplus by the national government. Importantly, the average effect of administrative delegation hides significant heterogeneity depending on the majority/minority position of the mayor. Administrative delegation improves fiscal performance *only when* the mayor is in a minority position (yielding a net surplus increase of about 0.5 percentage points) whereas it has no significant effect in majority situations.

Naturally, one might wonder to what extent our findings would generalize beyond the Norwegian setting. From this perspective, it is important to observe that local governments in most European countries have highly comparable policy responsibilities, frequently operate under similar financial frameworks, and often witness substantial variation in their level of government fragmentation/weakness. As such, we believe that our results can be of substantial importance also for other countries. Furthermore, to the best of our knowledge, budgeting procedures at the local level in other countries generally follow procedures relying on either political coordination or the traditional 'bottom-up' procedure. Hence, there may in many countries remain an important unexploited potential approach towards ensuring increased levels of fiscal discipline.

From a policy perspective, our findings suggest that a system where top administrators have wide responsibilities for budgetary preparation may improve fiscal discipline. This could be particularly important in policy areas requiring extensive political coordination, or time periods where politicians may be less interested in fiscal conservatism (e.g., prior to elections). Hence, one could imagine that even very limited interventions – such as increased administrative coordination in budgetary processes for specific policy areas or time periods – may already be of public interest. The same is true for jurisdictions that repeatedly experience minority governments. The negative fiscal implications of 'weak' governments (Roubini & Sachs 1989; Edin & Ohlsson 1991; Ashworth et al. 2005; Baskaran 2013; Artés & Jurado 2018) or under proportional compared to majoritarian electoral systems (Persson & Tabellini 2003) suggest other settings where administrative delegation may be particularly advantageous.

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