

How do political parties affect the financial health of Flemish municipalities?

Ruben Vander Haeghen

Student number: 02104626

Supervisor: Prof. Annelies Roggeman

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Vander Haeghen Ruben

Preface

This master's dissertation is the culmination of a four-year educational program in Business Economics at Ghent University. It is the result of a one-year process, which entailed diving into the financial structure and performance of local public finances and the surrounding field of the study. More in detail, it examines the impact of political actors on the financial health of Flemish municipalities.

The groundwork for this thesis was laid by my own interests in public finances and the political landscape of Flanders, as this master's dissertation subject was an original idea. I would like to thank my promotor, Prof. Annelies Roggeman, not only for the expertise and support brought to the table, but also for the opportunity to work out a subject of my own, something rather unc customary at this faculty.

Lastly, I would like to thank the VVSG, Vereniging van Vlaamse Steden en Gemeenten. To complete this research, I had to generate an original database, containing over 65,000 original datapoints being entered into an excel file manually. Without the help of the VVSG, a lot of important data would be missing, since they provided the necessary instructions on where to find a vast majority of this dataset.

Vander Haeghen Ruben

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How do political parties in power influence the financial health of Flemish municipalities?

A comparative study of local finances

Vander Haeghen Ruben

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1. Abstract

This study investigates how political dynamics shape municipal fiscal outcomes in Flanders, a major Belgian region, by integrating long-term ideological preferences and short-term electoral incentives within a unified panel framework. An original dataset of 267 Flemish municipalities observed annually from 2014 to 2023 was drawn. Four main categories, composite local tax burden, expense levels, annual budget balances and year-on-year change in long-term debt, are analyzed by using fixed-effects and random-effects panel models. The results reveal a conditional complementarity between ideological and electoral forces. Coalition ideology overwhelmingly determines tax policy where right-leaning governments consistently levy lower tax burdens. Spending is also ideology-linked, only in ideologically heterogeneous coalitions, suggesting that internal bargaining drives expenditure upwards. By contrast, budget deficits align closely with the electoral cycle, peaking in the run-up to elections, regardless of ideological orientation. Neither ideology nor electoral timing significantly influence year-on-year debt changes, likely reflecting the opaque, long-term nature of borrowing decisions. This duality between enduring ideological commitments and transient electoral incentives offers a nuanced lens for understanding and guiding fiscal governance at the subnational level.

2. Introduction

Local governments occupy a central position in modern public finance. They are responsible for delivering key services, from education and social welfare to infrastructure maintenance and environmental management, while governing revenue instruments and borrowing financial means within nationally prescribed frameworks. Despite their fiscal prominence, scholarly attention has disproportionately emphasized national-level budgetary politics (Hallerberg & von Hagen, 1999; Kopits & Craig, 1998), leaving the determinants of subnational fiscal behavior relatively underexplored. This oversight is all the more striking given that, in many advanced democracies, local authorities account for 30 to 60 percent of total public expenditure (Dollery & Crase, 2006; Blöchliger & King, 2006) and their financing choices have potential implications for intergovernmental equity, economic growth and citizen welfare.

Comparative studies across federal and decentralized systems consistently document variation in subnational tax-and-spending patterns that cannot be explained solely by economic or demographic factors. In the United States, Besley and Case (2003) find evidence of electoral cycles in counties and states, with incumbents timing tax cuts or spending increases ahead of elections. Italy's multi-party coalitions further illustrate how ideological spillovers and bargaining complexity drive spending heterogeneity (Padovano & Turati, 2010). Collectively, these studies highlight two enduring puzzles: how do ideological differences persist at the municipal level despite shared legal and macroeconomic constraints and to what extent do electoral incentives induce short-term fiscal manipulations at the local scale?

Rooted in macro-level research (Persson et al., 2000; Alesina & Passalacqua, 2015), the political economy tradition argues that party ideology imprints stable preferences on tax, spending and borrowing decisions. Left-of-center governments are theorized to favor redistributive policies, public investment and social services, resulting in higher expenditure levels and larger deficits. Right-of-center administrations prioritize fiscal restraint, lower tax burdens and balanced budgets (Alesina & Angeletos, 2005). At the subnational level, Heyndels and Smolders (1994) demonstrate that Flemish municipalities led by Christian-democratic or socialist coalitions levy higher property taxes and exhibit more expansive welfare spending than those governed by liberal-conservative alliances. Similarly, Geys and Vermeir (2008) show that ideological composition predicts debt accumulation in Belgian communes. However, these studies often treat local party ideology as a fixed trait and neglect the internal bargaining dynamics of multi-party coalitions, which can moderate or amplify ideological effects (Lijphart, 1999).

In contrast, public choice models emphasize the short-term, opportunistic behavior of incumbents seeking electoral advantage. Pioneering work by Nordhaus (1975) at the national level established that incumbents manipulate fiscal instruments, running deficits or cutting taxes, in the months preceding elections. Besley and Case (2003) extended this inquiry to U.S. counties and states, finding pre-election spending surges and post-election retrenchment. At the municipal level, empirical

evidence is more mixed. Brender and Drazen (2005) document robust local political cycles in Israeli municipalities, whereas Geys and Vermeir (2008) find weaker timing effects in Belgium, arguing that the synchrony of election dates and the relatively low salience of local fiscal issues limit political manipulation. Moreover, Mayhew's (1974) "electoral connection" research suggests that fiscal cycles are contingent on voter awareness and the visibility of municipal budgets, factors that vary greatly across jurisdictions.

Recent calls for synthesis (Rodden, 2006) advocate models that integrate ideological predispositions with electoral timing to capture their joint and potentially interactive effects. Some cross-national panel studies (Armingeon & Schädel, 2015) have begun to combine party composition and electoral cycle variables, but typically at the level of regions, where data is more readily available. At the municipality scale, few studies, if any, have systematically tested both long-term ideological and short-term opportunistic mechanisms across multiple fiscal dimensions within a single, uniform institutional context.

To bridge this gap, this study adopts a multi-theoretical, longitudinal design built on an original dataset that combines three streams of information, political composition, operationalized via a weighted average of party ideological scores, electoral timing, captured through dummy variables for time-to-election, and a rich set of socio-economic and grant-related control variables. By tracking 267 Flemish municipalities over ten full fiscal years, 2,670 municipal-year observations are generated, each representing one municipality in one fiscal year, thus ensuring robust within-unit variation.

The focus of this analysis lies on four key dependent variables that together capture distinct dimensions of municipal fiscal policy (Dollery & Crase, 2006; OECD, 2008). First, a composite local tax burden index is constructed, measured as a z-score average of local income and property tax rates and the count of autonomous municipal taxes (Johnson & Lebreton, 2004). Second, the current spending per capita, encompassing personnel, operations, investments and social services. Third, a budget balance ratio per capita is used to assess fiscal surpluses and deficits. Lastly, debt dynamics, captured by the year-on-year change in long-term outstanding debt per capita, will be analyzed. While this study foregrounds the political determinants of these fiscal outcomes, it is important to recognize that non-political factors also shape local finances. Administrative capacity and long-term financial management culture, demographic trends and urbanization patterns, as well as structural economic differences can all independently influence revenue and expenditure decisions (Boyne, 2002). Historical path dependence, distinctive local leadership styles and levels of civic engagement may further moderate fiscal behavior (Pierson, 2000; Putnam, 1993). Although a battery of controls is included to account for these influences, the aim is not to exhaustively explain every source of variation.

For the empirical analysis strategy, a series of fixed-effects and random-effects panel models for each dependent variable is created, sequentially introducing coalition ideology, electoral timing dummies and a set of controls to test 8 hypotheses. These models allow to isolate the within-municipality effects of shifting political configurations and election proximity over time. Key findings reveal a

nuanced duality between enduring ideological commitments and electoral calculations. First, coalition ideology exerts a consistently strong influence on local tax-setting behavior. Municipalities led by left-leaning parties impose higher composite tax burdens, a pattern that holds even when isolating the impact of individual parties. Second, while spending levels also correlate with ideology, the relationship only exists for coalitions with a high level of heterogeneity rather than pure left-right orientation. This suggests that complex bargaining dynamics and the need to accommodate multiple policy preferences drive spending per capita upwards, beyond simple ideological motivation alone. Besides, during election years, spending per capita increases significantly. Third, budget balance outcomes per capita reveal the primacy of electoral timing over ideology. The largest deficits occur in the one- to two-year window preceding local elections, irrespective of whether the governing coalition is left- or right-leaning. This finding is consistent with public choice theory, as office-seekers ramp up expenditures, decrease the tax burden or do both to appeal to voters. Finally, neither ideology nor electoral proximity significantly explain year-on-year changes in municipal debt per capita. The absence of clear patterns may be attributable to the inherently long-term and somewhat opaque nature of borrowing decisions, which are less visible to politicians.

Practically, these findings inform policymakers about the enduring role of ideology in tax-setting, the influence of coalition complexity on spending and the opportunistic timing of deficits, while revealing that debt dynamics remain largely insulated from routine political maneuvering. In the Flemish context, where municipalities operate under a shared legal framework yet exhibit strong variation in fiscal outcomes (ABB, 2022), these insights can guide both local councils and the regional government in refining their understanding of local fiscal autonomy and performance dynamics.

The remainder of this paper unfolds as follows. Section 3 reviews the relevant literature and derives eight testable hypotheses. Section 4 presents the fit of the Flemish region for these panel models. Section 5 details the data sources, variable operationalization and sets up the panel construction. Section 6 reports the regression results, including robustness checks. Finally, section 7 discusses the policy implications of these findings.

3. Literature and hypotheses

Understanding the financial behavior of local governments begins with recognizing the basic institutional framework in which they operate, derived from the concept of fiscal federalism. In decentralized systems like Belgium, municipalities are granted limited but meaningful fiscal autonomy (ABB, 2022). While municipal authority remains constrained by higher-level regulations and standardized grant systems, local councils do retain discretion over key fiscal tools. Municipalities can for example set local income and property tax rates, determine staff sizes and make decisions about infrastructure investment priorities.

As outlined by Oates (1999), this decentralization enables local governments to better align public spending with citizen preferences. These fiscal instruments, as outlined in the previous paragraph, provide a narrow but politically significant space in which local variation can emerge. With each municipality operating under the same institutional boundaries, differences in taxation, spending and debt are primarily the result of local political decisions (Goeminne & Smolders, 2015; Geys & Revelli, 2011). Consequently, two theoretical perspectives are most relevant for understanding these differences: political economy and public choice theory (Alesina & Passalacqua, 2015).

The principle of political economy focuses on how party ideology and preferences influence fiscal behavior, while public choice theory introduces a behavioral dimension (Alesina & Passalacqua, 2015). The latter emphasizes how electoral incentives and strategic motives may lead politicians to deviate from ideological consistency. Together, these frameworks offer a comprehensive view on how local political leadership affects financial health and why outcomes may vary even under uniform institutional constraints. The fiscal autonomy may paradoxically lead to significant differences in fiscal performance, not because municipalities possess extensive fiscal powers, but because the limited discretion available to them is often politically charged.

The empirical analysis will be grounded in four core dimensions of municipal fiscal health, tax burden, spending, budget balance and debt dynamics, identified as the pillars of local government finance (Dollery & Crase, 2006; OECD, 2008). By examining these four interlocking outcome variables, predictions from political economy and public choice theory can comprehensively be tested.

The following sections presents the two theoretical frameworks and their respective hypotheses regarding the determinants of local fiscal behavior.

3.1. Political economy

The political economy perspective explains how political actors influence fiscal outcomes based on ideological preferences (Persson et al., 2000). The theory assumes that political parties differ systematically in their views on taxation, public investment and public debt (Drazen, 2000). Alesina and Passalacqua (2015) examine this assumption by reviewing both theoretical models and empirical studies across OECD countries. Their analysis focuses in particular on how party ideology affects fiscal trade-offs, such as decisions around debt accumulation, taxation and budget balance. Based on this review, they find consistent patterns: left-leaning governments tend to support higher taxation, redistribution and public investment, while right-leaning parties typically favor fiscal discipline and lower taxes. These ideological preferences translate into observable fiscal decisions, especially when institutional conditions allow for political discretion.

A quintessential instance of local fiscal decision-making is the determination of municipal tax rates, most notably the local income tax (LIT) and local property tax (LPT) in Flanders. From a political-economy standpoint, tax policy represents a prime arena in which party ideologies become tangible. In

this study, the local tax burden is defined as both the set levels of LIT and LPT and the count of additional autonomous taxes a municipality enacts. Collectively, these measures capture the breadth and depth of a locality's taxation strategy (ABB, 2022). Empirical research consistently finds that left-of-center parties favor higher local taxes to underwrite redistributive programs and enhanced public services, whereas right-of-center parties typically champion reduced tax burdens (Hopkin, 2009). This ideological cleavage in subnational tax policy is evident across Europe and recent work by Goeminne and Smolders (2015) demonstrates its persistence within Flanders, even after accounting for socioeconomic and demographic characteristics. Based on this reasoning, the following hypothesis is formulated:

H1: *Municipalities with a left-leaning governing coalition apply a higher local tax burden than those with a right-leaning coalition.*

A second principal domain in which ideological cleavages emerge is total municipal expenditure. Although local authorities vary in the breath of their fiscal autonomy, they uniformly exercise discretion over aggregate spending levels. From a political-economy standpoint, left-leaning coalitions typically endorse more expansive public programs and are therefore expected to exhibit higher overall outlays, whereas right-leaning coalitions tend to prioritize fiscal restraint and smaller government, yielding comparatively lower expenditure profiles. Empirical analyses corroborate this pattern, Alesina and Perotti (1995) show that left-wing administrations in OECD-countries incur significantly greater public spending, especially on social welfare and capital investment, than their right-wing counterparts. Likewise, Blais et al. (1993) and Cusack (1997) document systematic differences in aggregate expenditure linked to government ideology. A second hypothesis is formulated:

H2: *Municipalities with a left-leaning governing coalition will exhibit higher levels of total public spending than those with a right-leaning coalition.*

A third core measure of local fiscal behavior is the annual budget balance, which captures how closely a municipality aligns its spending with its revenues. Although balances may fluctuate due to exogenous shocks or intergovernmental transfers, political choices play a decisive role. From a political-economy perspective, right-leaning coalitions typically emphasize fiscal discipline and debt control, whereas left-leaning coalitions are more willing to incur temporary deficits to finance public investment and social services. Alesina and Perotti (1995) contend that left-wing administrations accept budget shortfalls in pursuit of redistribution and growth, while right-wing administrations prioritize stability and balanced accounts. In the Flemish context, Goeminne et al. (2007) find that conservative parties' risk-averse budgeting yields consistently stronger annual surpluses. Following this reasoning, the following hypothesis is formulated:

H3: *Municipalities governed by left-leaning coalitions are more likely to report annual budget deficits than those governed by right-leaning coalitions.*

A final dimension of fiscal behavior is the evolution of municipal debt over time. While annual budget balances offer a short-term gauge of fiscal discipline, debt accumulation or reduction captures longer-term strategic choices. From a political-economy standpoint, left-leaning coalitions are generally more willing to employ debt-financed investments and redistribution, whereas right-leaning coalitions prioritize debt containment and intergenerational equity. Alesina and Passalacqua (2015) demonstrate that conservative governments are more committed to restraining debt growth. Earlier work by Alesina and Perotti (1995) shows that left-of-center administrations tend to run deficits that increase public debt over time. In Flanders, Goeminne et al. (2007) find that municipalities led by conservative coalitions pursue tighter debt policies, resulting in slower debt growth or even net reductions. A fourth hypothesis is formulated:

H4: *Municipalities with a left-leaning governing coalition will exhibit higher levels of debt accumulation than those with a right-leaning coalition.*

3.2. Public choice theory

Public choice theory offers a distinct perspective on fiscal decision-making by emphasizing the role of individual actors' incentives, rather than ideological orientation. Rooted in rational choice and economic modeling, the theory views politicians and bureaucrats as self-interested agents who operate strategically within institutional constraints (Buchanan & Tullock, 1962; Mueller, 2003). Unlike political economy, which assumes ideological consistency, public choice highlights how electoral cycles, personal ambition and voter expectations can lead to opportunistic or inconsistent fiscal behavior. It predicts that fiscal outcomes may be shaped less by party preferences and more by timing, re-election incentives and the desire to shift costs or benefits across electoral boundaries.

One of the most visible and politically sensitive fiscal choices of local governments is the setting of tax levels. In a public choice framework, elected officials are assumed to act in their own electoral interest, rather than strictly following ideological principles. This implies that politicians may strategically reduce tax burden in the year leading up to elections in an attempt to win voter support. This behavior fits within the broader theory of electoral budget cycles (EBC), which predicts pre-electoral fiscal adjustments designed to appeal to the electorate (Rogoff, 1990; Shi & Svensson, 2006).

Rogoff (1990) developed a model showing how forward-looking voters create incentives for politicians to manipulate fiscal variables to appear competent, often by cutting taxes or boosting visible spending just before elections. Building on this, Shi and Svensson (2006) tested the electoral budget cycle empirically across a large panel of countries and found systematic evidence of fiscal expansions in election years, particularly in developing democracies. Their findings confirmed that incumbents

often reduce taxes or delay necessary fiscal adjustments in the run-up to elections, regardless of their ideological orientation. Based on this reasoning, the following hypothesis is proposed:

H5: *The local tax burden will be lower in election years than in non-election years.*

Another key prediction of public choice theory is that elected officials increase public spending in the period preceding elections to enhance their re-election prospects. This phenomenon, part of the broader electoral budget cycle, is driven by the assumption that voters reward visible improvements in local services and infrastructure (Brender & Drazen, 2005). Politicians may thus strategically expand spending shortly before elections, regardless of fiscal sustainability or long-term planning needs.

Empirical studies confirm this tendency in various settings. Alt and Lassen (2006) found that incumbents are more likely to increase public investment in election years, particularly in jurisdictions with limited fiscal transparency. Brender and Drazen (2008) further demonstrate that electoral spending effects are most pronounced in lower-level governments, where visibility is high and voter accountability is more direct. In the Flemish context, Geys and Vermeir (2008) found evidence of pre-electoral increases in municipal investment levels, consistent with strategic electoral behavior.

While these studies often examine specific types of expenditure, like infrastructure or subsidies, the underlying mechanism applies to general spending behavior. For the purpose of this study, total municipal expenditure is used as a proxy for fiscal expansion:

H6: *Municipal public spending will be higher in election years than in non-election years.*

In addition to adjusting taxes and spending, politicians may also manipulate the overall budget balance in the run-up to elections to create a perception of fiscal responsibility. Public choice theory suggests that politicians seek to present themselves as competent managers, particularly during electoral periods. One way to achieve this is by ensuring the annual budget balance appears favorable, either through temporary expenditure restraint, revenue timing or creative accounting techniques (Rogoff & Sibert, 1988).

While some studies find that election years are associated with spending increases or tax cuts, others observe a tendency toward balanced or even positive budget outcomes prior to elections, driven by reputational concerns. For instance, Drazen and Eslava (2010) argue that governments may shift the composition of spending without necessarily increasing the deficit, in order to appeal to voters while maintaining the appearance of fiscal caution. In local settings, where fiscal outcomes are increasingly scrutinized, maintaining a healthy budget balance may serve as a strategic electoral tool. Based on this reasoning, the following hypothesis is proposed:

H7: *Municipal budget balances will be higher in election years than in non-election years.*

A final dimension of fiscal behavior that may be influenced by electoral incentives is public debt accumulation. While politicians often avoid visible tax increases or deficits during election years, public choice theory suggests that they may shift fiscal burdens to the period after elections. This strategic timing allows incumbents to preserve electoral support in the short term, while deferring politically costly decisions (Rogoff, 1990; Persson & Svensson, 1989).

Intertemporal budget manipulation is particularly relevant in local governments, where debt is used to finance long-term investments or cover delayed adjustments. Geys and Vermeir (2008) found evidence that Flemish municipalities engage in strategic fiscal behavior around elections, including shifts in investment and budgeting. Following this logic, municipalities may limit new debt issuance during election years, but increase borrowing in the immediate post-election period, once political pressure subsides. Based on this reasoning, the following hypothesis is proposed:

H8: *Municipal debt accumulation will increase more in post-election years than in other years.*

3.3. Competing theoretical perspectives

This study builds on two distinct theoretical traditions to explain variation in local fiscal behavior: political economy and public choice theory. The political economy perspective assumes that ideological preferences of governing parties shape structural fiscal choices. In contrast, public choice theory suggests that fiscal decisions are primarily driven by strategic considerations, particularly around elections. Here, politicians act in their own electoral interest by manipulating taxes, spending or fiscal indicators to maximize re-election chances, regardless of ideological orientation.

These two perspectives generate competing expectations: political economy anticipates stable, ideology-driven patterns and public choice predicts short-term, opportunistic shifts aligned with the electoral cycle. While both frameworks are theoretically grounded and empirically supported, they cannot simultaneously explain the same fiscal behavior in the same contextual period. The subsequent analysis will therefore assess which perspective offers the most convincing account of municipal fiscal outcomes, while still acknowledging that alternative mechanisms, such as institutional path dependence where fiscal results are based on the existing fiscal performance (Pierson, 2000), may also play a role alongside ideology and electoral strategy.

4. The landscape of Flanders

Flanders, a major Belgian region, constitutes an exceptionally well-suited context for empirical research into the financial health of municipalities. With over 300 local governments densely spread across a geographically compact region, it offers a unique opportunity to conduct comparative municipal analysis under highly controlled conditions. This makes Flanders particularly opportune to empirically disentangle the effects of ideological preferences, as emphasized in political economy, from electoral strategies, highlighted by public choice theory.

One of the key advantages of the Flemish setting is its remarkable uniformity across macroeconomic and institutional variables (Belfius, 2023). Unlike federal systems with vast regional disparities, like Germany or the U.S., the socioeconomic and demographic landscape across Flemish municipalities is largely consistent, ensuring that observed differences in fiscal outcomes are not driven by structural or regional economic inequalities. Macro-level variables such as GDP per capita, inflation rates, intergovernmental transfer formulas and national policy frameworks are virtually identical across the Flemish region. These shared conditions significantly enhance the internal validity of any comparative fiscal analysis. As noted by Belfius (2023), differences in financial performance among municipalities are explained by the result of localized governance decisions and strategic political choices.

From an institutional standpoint, all municipalities in Flanders operate within an identical legal and regulatory framework. The ABB (Vlaams Agentschap Binnenlands Bestuur) oversees compliance with key fiscal principles such as the balanced-budget requirement and legally defined debt ratio thresholds set by the Flemish government. These rules are uniformly applicable and leave little room for creative interpretation or circumvention, thus minimizing variation due to legal loopholes or strategic interpretation (ABB, 2023).

Moreover, the Flemish regulatory system, contrary to the regions of Brussels and Wallonia, mandates a high level of fiscal transparency and data availability. The online Stadsmonitor, along with the ABB's Mandatenbank and local budget platforms, provide rich datasets on municipal performance, political composition and budget execution. This comprehensive data environment enhances the feasibility of large-scale, multi-year quantitative analysis.

In conclusion, Flanders presents an ideal controlled setting for studying the political drivers of municipal financial health. With a shared macroeconomic context, harmonized institutional framework, uniform fiscal oversight and detailed public data, it offers a rare opportunity to isolate the effects of political decision-making from structural economic constraints, exactly the conditions under which political economy and public choice theory can be most rigorously tested. Consequently, findings derived from this context may offer not only strong internal validity, but could also carry broader implications for other regions or countries with similar governance architectures. Building on this contextual foundation, the next section presents the empirical design and panel structure used to evaluate the proposed theoretical expectations.

5. Research design

The central research question is thus formulated as follows: How do political parties in power influence the financial health of Flemish municipalities? To address this question empirically, the study relies on a combination of administrative, financial and political datasets covering all Flemish municipalities between 2014 and 2023. These datasets provide detailed, standardized information that

enables the construction of consistent indicators for taxation, spending, budget balance and debt. The data comes from multiple official government sources, each providing structured information on a specific domain of municipal governance. By integrating these sources into a single dataset compiled by the author, the study constructs a panel structure that allows for consistent multi-year comparisons across municipalities operating under a harmonized institutional and legal framework. This foundation enables the systematic testing of both political economy and public choice hypotheses.

The table below provides an overview of the main data sources used to construct the empirical dataset, indicating their coverage, type of information and relevance for the operationalization of key variables.

Table 1: Data collection (2014-2023)

Source	Raw Data	Unit (annual)
Stadsmonitor	Local income tax (LIT) rate	%
	Local property tax (LPT) rate	Surcharges
	Municipal spending/capita	€
	Budget balance/capita	€
	Financial debt/capita	€
	Citizens	Count
	Space occupation (build area)	%
	Activity rate	%
	Gross added value/capita	€
Lokaal Bestuur Vlaanderen	Governing parties	Category
	Autonomous taxes	Count
	Grants	€
	Province	Category
VlaanderenKiest	Council seats per party	Count

The following two sections will discuss the research design in detail for hypotheses following the political economy model and for hypotheses following the public choice theory model.

5.1. Political economy model

The first empirical model tests the set of hypotheses derived from the political economy perspective, which links fiscal outcomes to the ideological orientation of local governments.

Table 2: Political economy hypotheses

Hypothesis	Premise
H1	Municipalities with a left-leaning governing coalition apply a higher local tax burden than those with a right-leaning coalition.
H2	Municipalities with a left-leaning governing coalition will exhibit higher levels of total public spending than those with a right-leaning coalition.
H3	Municipalities governed by left-leaning coalitions are more likely to report annual budget deficits than those governed by right-leaning coalitions.
H4	Municipalities with a left-leaning governing coalition will exhibit higher levels of debt accumulation than those with a right-leaning coalition.

5.1.1. Independent variables

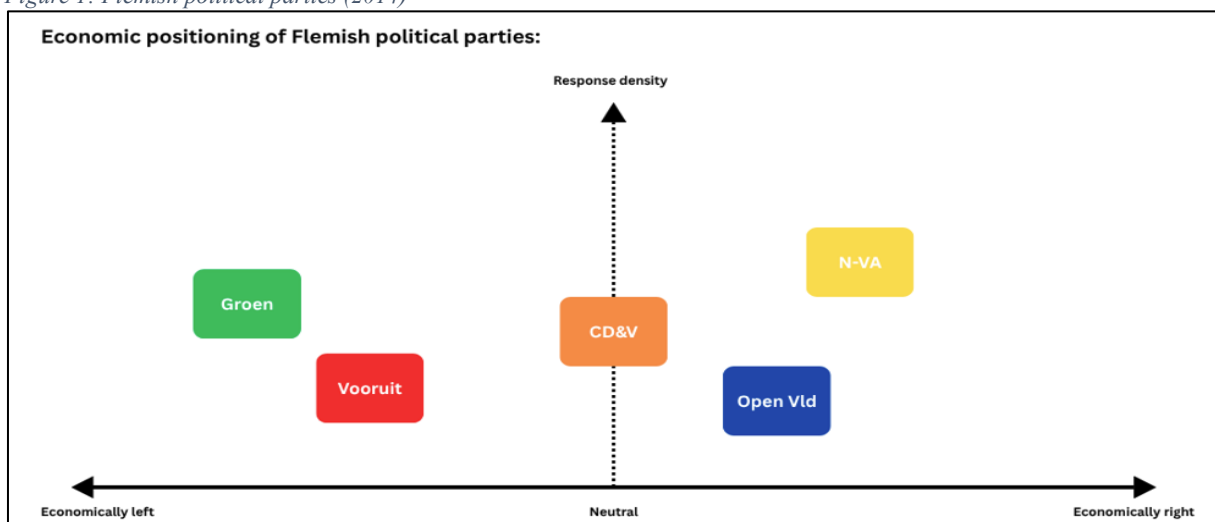
To test the ideological effects on fiscal outcomes, all four baseline hypotheses use the presence of a right-leaning and left-leaning governing coalition as the main independent variable. This study will rely on a standardized ideological classification from a 2014 survey conducted by the University of Antwerp in collaboration with Tree Company and De Morgen (Thijssen & Van Aelst, 2014). The survey gathered responses from nearly 1,400 candidates of all major Flemish parties ahead of the 2014 federal elections. Candidates were asked to position themselves on several ideological dimensions, including economic policy, ethics, environmental or social problems, using a Likert-type scale. Responses were aggregated to produce party-level scores. The methodology of the University of Antwerp study, being its large sample, thematic structure and candidate-level granularity, ensures transparency and external validity.

For this research, only the economic dimension from the 2014 survey will be used, as it directly relates to taxation, spending, debt and other fiscal outcomes. Although social ideology can indirectly influence fiscal preferences, this study explicitly focuses on tangible fiscal dimensions, where ideological effects are most directly observable and measurable.

Two political parties, PVDA and Vlaams Belang, were present in the 2014 survey, but will be excluded in this study. Although they are present locally through party branches, they almost never participate in governing coalitions at the municipal level. Therefore, their ideological orientation, while relevant in broader political studies, is not included in this study's analysis of local fiscal governance. In addition, local independent parties, not linked to national parties and often unique to specific municipalities, are not classified in the survey from the University of Antwerp, as their economic ideology cannot be systematically assessed. However, the raw data from this research indicates when independent parties are present.

Looking at the economic dimension a bit more closely, the 2014 survey provides the following visual, represented in a readable way for this research.

Figure 1: Flemish political parties (2014)



The economic axis ranges from economically left to economically right, representing the average economic stance of each party's surveyed candidates. The vertical height of each colored box indicates the density of the responses at that position, meaning the more tightly clustered the party members answered around the average position, the higher the box is placed. In other words, a taller box reflects a stronger internal consensus within the party regarding its economic orientation. The vertical density axis is part of the existing study from the University of Antwerp, however, the importance is rather limited for this research, only the horizontal position is relevant.

While the original positioning of parties in the 2014 survey provides useful granularity, this study applies a simplified ideological classification scheme tailored to this empirical analysis. Based solely on the economic axis, parties are grouped according to their relative position in the original survey, allowing for consistent operationalization across municipal governing coalitions.

Table 3: Party category of economical position (2014)

Party	Economic Orientation	Broad Category
Groen	Economically left (-2)	Progressive
Vooruit (former Sp.a)	Moderately economically left (-1)	Progressive
CD&V	Centrist (0)	Neutral
Open Vld	Moderately economically right (1)	Conservative
N-VA	Economically right (2)	Conservative

To translate coalition composition into a measurable indicator of economic orientation, each political party is assigned a standardized numerical score on a scale from -2 (economically left) to +2 (economically right), based on their average economic position in the 2014 University of Antwerp candidate survey (Van Aelst & Thijssen, 2014). These values reflect ordinal rankings and do not claim to represent exact ideological distances. Rather, they serve to consistently differentiate between progressive, centrist and conservative parties for analytical purposes. This approach is consistent with methods used in political science literature, where expert survey data, like the Chapel Hill Expert Survey (CHES), or manifesto-based scores, like the Comparative Manifesto Project (CMP) or the Right-Left Index (RILE), are translated into standardized left-right scales to quantify party ideology (Bakker et al., 2015; Laver & Garry, 2000).

The overall ideological profile of each municipal coalition is calculated as a weighted average of the ideological scores of the governing parties. Each party's score is weighted by its share of seats in the municipal council, ensuring that larger parties exert proportionally greater influence on the coalition's overall position. This approach captures both the ideological composition and the internal power balance within local governments. Although not yet common in Belgian subnational research, this method aligns with practices in comparative political economy (Geys, 2007; Fiva & Halse, 2016).

To facilitate interpretation, each coalition's continuous ideological score is translated back into one of the five economical orientations: "Economically left" (score ≤ -1.5), "Moderately economically left" ($-1.5 \leq \text{score} < -0.5$), "Centrist" ($-0.5 < \text{score} < 0.5$), "Moderately economically right" ($0.5 \leq \text{score} < 1.5$) or "Economically right" (score ≥ 1.5).

To complement the weighted ideological orientation of each coalition, this study also includes a polarization index to capture internal ideological dispersion of the coalition in place. The index is based on the weighted standard deviation of party ideology scores, following methods used in political economy research (Martin & Vanberg, 2011; Fiva & Halse, 2016). Including this variable serves as a control for coalition cohesion, based on the theoretical expectation that coalitions with high internal polarization face greater difficulty in implementing unified or ambitious fiscal strategies. This expectation is consistent with coalition theory, which emphasizes the disruptive effects of internal ideological disagreement on policy outcomes (Martin & Vanberg, 2011).

These interpretive thresholds are grounded in the empirical distribution of the Flemish coalition-polarization scores, rather than in an arbitrary split of the theoretical 0–2 range (the maximum standard deviation on 0 polarization in absolute value). Following common practice in comparative coalition research (Fiva & Halse, 2016; Martin & Vanberg, 2011), the 25%, 50% and 75% percentiles of the observed standard deviations are calculated and used as cut-points.

Table 4: Polarization values

Polarization Index Value	Interpretation
< 0.1080	Negligible polarization
$0.1080 \leq x < 0.1800$	Mild polarization
$0.1800 \leq x < 0.2530$	Moderate polarization
≥ 0.2530	Severe polarization

This data-driven approach ensures that each category contains a substantial share of cases and reflects the actual spread in coalition heterogeneity for Flanders (Laver & Schofield, 1998). At the same time, it remains fully replicable and comparable across datasets and contexts (Fiva & Halse, 2016).

To cover both the principle of ideological coalition score and polarization index, the following example is provided.

Equation 1: Coalition ideology score and polarization index

Assume a municipal coalition consists of the following parties: Vooruit (score: -1) with 6 seats CD&V (score: 0) with 5 seats Open Vld (score: +1) with 4 seats The weighted coalition score is calculated as: $\{(-1 \times 6) + (0 \times 5) + (1 \times 4)\} / (6 + 5 + 4)$ $= -0,13$ This indicates the coalition is slightly economically left-leaning, however, due to round-up, will be classified as neutral.	The weighted score is used to further calculate the deviation: $\text{Vooruit: } 6 \times \{-1 - (-0,13)\}^2 = 4,54$ $\text{CD\&V: } 5 \times \{0 - (-0,13)\}^2 = 0,08$ $\text{Open Vld: } 4 \times \{1 - (-0,13)\}^2 = 5,11$ The following polarization index is found: $\sqrt{\{(4,54 + 0,08 + 5,11) / 15\}} = 0,81$ This indicates the coalition has severe internal ideological diversity.
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When electoral cartels between parties are present, their total number of seats is evenly divided among the participating parties, as seat-specific results are unavailable. If the cartel forms the entire governing coalition, it is treated the same as a normal coalition with an average ideological score. If additional parties are part of the coalition, the constituent parties of the cartel are treated individually for calculating the coalition's ideological profile. This pragmatic approach follows precedents in

coalition research where full disaggregation is not feasible (Fiva & Halse, 2016) and ensures consistency in the weighting of ideological composition.

When a local independent party, defined as a party not affiliated with any nationally recognized Flemish political group, is part of the governing coalition, no economic ideology score is assigned. In such cases, the coalition receives the label “Independent” and no ideological position or polarization index is calculated. This also applies to electoral cartels that include at least one independent component. As the economic orientation of these local parties cannot be systematically assessed, all (partly) independent coalitions are grouped separately in the analysis and examined for significant deviations in fiscal behavior. This pragmatic treatment preserves the integrity of the ideological classification and is in line with studies that isolate non-coded or atypical parties for subgroup analysis (Geys, 2007).

5.1.2. Dependent variables

The local tax burden, the first dependent variable, reflects the fiscal pressure exerted by the municipality through its three main tax instruments: the local income tax (LIT), the local property tax (LPT) and the number of autonomous taxes. These sources represent the core of local fiscal autonomy in Flanders and are commonly used in studies of municipal tax behavior (Goeminne & Smolders, 2015; Geys & Revelli, 2011).

The LIT is expressed as a percentage, the LPT in surcharges and the number of autonomous taxes is a count variable. For analytical clarity, these three indicators are combined into a standardized composite index. To construct the composite tax burden index, each of the three components is first standardized using z-scores within each year. For every year in the dataset, the mean and standard deviation are calculated across all municipalities for each variable. Then, for each municipality, the deviation from the yearly mean is divided by the standard deviation, producing a standardized value (z-score) for each of the three components. These three z-scores are then averaged to produce a single composite score per municipality per year. This approach for creating a composite index via within-year z-score standardization is widely used in the social sciences (Nardo, 2008), psychometrics (Johnson & Lebreton, 2004) and survey research (DeVellis, 2016), as it ensures each component contributes equally regardless of its original scale. This index reflects the municipality’s relative tax burden compared to other municipalities in the same year, correcting for annual shifts in the overall tax environment. Higher index values indicate a relatively higher local tax burden. This multidimensional measure allows testing H1. The use of a combined tax burden measure is consistent with OECD recommendations for capturing fiscal effort in decentralized systems (Blöchliger & King, 2006) and has been adopted in various studies of subnational tax behavior (Geys & Revelli, 2011; Revelli, 2002).

Municipal spending per capita is used as a direct indicator of the scale of local government activity. This variable serves as the dependent variable for testing H2. The annual budget balance per capita is used to assess short-term fiscal performance, indicating whether municipal revenues exceed expenditures in a given year. This variable is used to test hypothesis H3.

To assess the fiscal trajectory under different coalitions, this study uses the year-on-year change in municipal financial debt per capita as the dependent variable for hypothesis H4. The dependent variable is constructed as the difference in debt per capita between year t and year $t-1$. This approach isolates the directional effect of coalition governance on municipal indebtedness and aligns with prior research emphasizing the importance of fiscal trends over time (Ashworth et al., 2005; Fiva & Halse, 2016).

5.1.3. Control variables

To isolate the effects of political ideology and party composition on fiscal outcomes, all political economy models include a consistent set of control variables. These controls account for structural, economic and institutional differences across municipalities that may influence taxation, spending, deficits and debt independent of political factors.

Table 5: Control variables political economy hypotheses

Variable	Reasoning
Citizens (ln-transformed)	To capture scale effects and administrative capacity.
Gross added value/capita	To indicate local economic strength and tax potential.
Activity rate	Used as a proxy for socio-economic health and fiscal pressure.
Space occupation	Reflecting spatial development potential and property-related revenue.
Grants/capita	Measuring external fiscal support and vertical dependence.

The number of citizens controls for scale effects and administrative capacity, as larger municipalities often benefit from professionalized governance structures and economies of scale. Population size will be ln-transformed to correct for skewness and to account for potential non-linear scale effects (Ashworth et al., 2005; Geys, 2006). Gross added value per capita reflects local economic strength and tax capacity, with wealthier municipalities enjoying greater fiscal room (Geys & Revelli, 2011; Fiva & Halse, 2016). The activity rate, being the percentage of the working-age population active in the labor market or actively looking and available for work, is included as a proxy for socio-economic health, capturing variation in welfare pressure and tax income potential (Goeminne & Smolders, 2015; Baskaran & Hessami, 2012). Space occupation, measured as area occupied by human activities, captures differences in spatial development potential and related property revenues (Geys, 2006). Based on the “settlement area” classification from the European Union, the space occupation captures whether a municipality is urban, semi-urban or rural (Eurostat, 2024). Urbanization levels affect spending needs, such as public transport or housing, and revenue potential, such as the property tax base, as demonstrated by Geys (2007). The levels are recoded as a categorical dummy variable (0 = rural, 1 = semi-urban, 2 = urban) for descriptive purposes. Grants per capita reflects vertical fiscal dependence and influences local autonomy and budgetary strategy (Blöchliger & King, 2006; Ashworth et al., 2005). Because a simple linear specification of grants per capita violated the linearity assumption (as evidenced by component-

plus-residual plots), a second-degree (quadratic) term was included, implemented via orthogonal polynomials, to capture the non-linear relationship (Wooldridge, 2013). In this study, “grants” encompass the full composition of intergovernmental transfers, from untied general-purpose grants to earmarked subsidies across education, infrastructure, social welfare and other policy domains, thereby capturing the overall financing structure of each municipality.

5.2. Public choice model

The second empirical model tests the set of hypotheses derived from the public choice perspective, which links fiscal behavior to electoral incentives rather than ideological orientation.

Table 6: Public choice hypotheses

Hypothesis	Premise
H5	The local tax burden will be lower in election years than in non-election years.
H6	Municipal public spending will be higher in election years than in non-election years.
H7	Municipal budget balances will be higher in election years than in non-election years.
H8	Municipal debt accumulation will increase more in post-election years than in other years.

5.2.1. Independent variables

To test the public choice hypotheses, the model includes an electoral timing variable as main independent predictor. A categorical variable is constructed to capture the fiscal dynamics across the municipal election cycle:

Table 7: Electoral cycle variable

Value	Interpretation
0	Normal year
1	Pre-election year
2	Election year
3	Post-election year

This variable is designed to test for strategic behavior by incumbent coalitions in anticipation of, during or immediately after electoral moments. This structure allows for detecting patterns consistent with the theory of electoral budget cycles, where politicians may reduce taxes, increase spending or accumulate debt to influence electoral outcomes (Rogoff, 1990; Shi & Svensson, 2006; Brender & Drazen, 2005).

5.2.2. Dependent variables

The dependent variables used to test the public choice hypotheses are the same as those employed in the political economy model: a composite index of local tax burden, total municipal spending per capita, annual budget balance per capita and year-on-year change in financial debt per capita. These variables are constructed and standardized as previously described. However, while the

operationalization remains identical, the theoretical rationale for their use differs. In line with electoral budget cycle theory, these variables are interpreted as potential instruments for electoral manipulation.

5.2.3. Control variables

To isolate the effects of electoral timing on fiscal behavior, all public choice models include a focused set of control variables. These controls account for demographic, socio-economic and political characteristics that may shape the incentives or constraints faced by incumbent coalitions around election periods.

Table 8: Control variables public choice hypotheses

Variable	Reasoning
Citizens (ln-transformed)	To capture scale effects and administrative capacity.
Activity rate	Used as a proxy for socio-economic health and fiscal pressure.
Space occupation	Reflecting spatial development potential and property-related revenue.
Coalition change	To account for fiscal shifts linked to new governing coalitions rather than election timing.

Citizens (ln-transformed) controls for differences in electoral visibility and administrative scale. Larger municipalities often experience more media scrutiny and voter oversight, which may limit the room for opportunistic behavior (Geys, 2006). The activity rate, defined as the share of the working-age population active or actively seeking work, serves as a proxy for local socio-economic pressure. Higher unemployment may increase the political incentive to engage in visible fiscal gestures, such as tax cuts or spending increases, particularly in pre-election years (Goeminne & Smolders, 2015; Baskaran & Hessami, 2012). Space occupation, based on the “settlement area” classification of the European Union, captures whether a municipality is rural, semi-urban or urban (Eurostat, 2024). Urban municipalities tend to have higher electoral competition and stronger public accountability, which can reduce the likelihood of electoral manipulation (Geys, 2007; Geys & Vermeir, 2008). Finally, a coalition change dummy is included to capture the effects of newly formed governing coalitions. Such transitions in political leadership may prompt fiscal corrections or policy reversals that are unrelated to electoral timing. The dummy is coded 1 for all years in which the governing coalition differs from that of the previous legislative term, with a change defined as the entry or exit of at least one coalition party following municipal elections. Including this variable also helps reduce collinearity with the electoral timing variable, as both may influence fiscal behavior in the post-election year but reflect distinct mechanisms: strategic timing versus institutional change (Franzese, 2002; Blais et al., 2010).

5.3. Panel setup and sample selection

To investigate how incumbents influence the financial health of Flemish municipalities, this study applies a panel data approach. This method captures both cross-sectional variation between

municipalities and temporal dynamics across multiple years, offering a richer analytical framework than purely cross-sectional or time-series designs.

Cross-sectional models fail to capture temporal developments, while time-series models lack comparability. Pooled OLS, meanwhile, assumes that the inherent variance across multiple observations is negligible and that errors are independent, assumptions unlikely to hold in municipal data (Greene, 2012).

Panel data allows to control for unobserved, time-invariant characteristics, such as historical voting patterns, administrative culture or geography, which may systematically affect fiscal decisions (Baltagi, 2008). Both fixed- and random-effects models will be used, selected via a Hausman test. Fixed effects absorb time-invariant heterogeneity, while random effects exploit both within- and between-municipality variation (Baltagi, 2008; Mundlak, 1978).

The value of this approach is well established. Ashworth et al. (2005) and Geys & Revelli (2011) use fixed effects to study political fragmentation and responsiveness in Belgian and Italian municipalities, respectively. Their work shows how fixed effects can reveal causal relationships that cross-sectional methods obscure. Similarly, Dollery & Crase (2006) advocate the use of panel data to compare local government efficiency, as it helps disentangle structural factors from governance-driven effects. Random-effects estimators are likewise well-established in subnational finance research. For example, Padovano and Turati (2012) employ random-effects models to disentangle party politics and spending behavior across Italian comuni, exploiting both within- and between-municipality variation. Similarly, Afonso and Hauptmeier (2009) apply random-effects techniques to examine fiscal decentralization and budget rules across European regions, demonstrating how these models can capture cross-jurisdictional differences alongside temporal dynamics.

Reverse causality poses minimal threat in this design, since election dates are exogenously fixed and coalition changes occur immediately after the vote rather than in response to budgetary outcomes. By employing a balanced panel with municipality fixed effects, all time-invariant confounders, such as local administrative culture or historical voting patterns, are eliminated, which might otherwise bias the estimates (Baltagi, 2008). Random-effects models do not inherently offer the same protection. They assume that unobserved, municipality-specific effects are uncorrelated with the regressors. As a result, although random effects can yield more efficient estimates by leveraging both within- and between-municipality variation, they are potentially susceptible to bias if the exogeneity assumption fails.

The sample includes 300 municipalities in Flanders. The period of observation runs from 2014 to 2023, the first year for which most financial and political data are consistently available, up to the most recent year with complete information at the time of analysis. While data coverage is generally strong, a limited number of municipalities are excluded due to missing or inconsistent information in key variables. These exclusions are necessary to maintain internal validity, as incomplete records could bias the estimation of political effects on fiscal outcomes. From the 300 municipalities, 33 were

excluded, leaving 267 remaining municipalities. The resulting panel remains highly representative for the Flemish local governance landscape and ensures a robust basis for inference.

Table 9: Excluded municipalities (2014-2023)

Excluded	Reason	Municipalities
Mergers in 2019	Excluded due to debt restructuring and administrative changes following Flemish merger incentives.	Deinze
		Aalter
		Puurs-Sint-Amands
		Oudsbergen
		Pelt
		Kruisem
PVDA participation	One-time party entry prevents ideological classification and comparison.	Lievegem
Presence of Francophone parties	Left–right coding not applicable due to non-aligning ideological spectrum.	Zelzate
		Linkebeek
		Wemmel
Grant data distortion	Early 2025 mergers led to the loss of pre-merger grant data, making reliable inclusion impossible. However, some merging municipalities were retained because their pre-merger data could still be collected in time. The inclusion of the latter makes selection bias impossible in this research.	Wezembeek Oppem
		Wingene
		Tongeren
		Kraainem
		Hoeselt
		Hasselt
		Ham
		Kortesseem
		Tessenderlo
		Zwijndrecht
		Kruibeke
		Gooik
		Herne
		Lokeren
		Moerbeke
		Wachtebeke
		Lochristi
		Melle
		Merelbeke
		Nazareth
		Meulebeke
		Tielt
		Ruiselede

6. Analysis

This section presents the empirical analysis of the dataset. The panel consists of 267 Flemish municipalities, combining financial, political and socio-economic indicators. Before testing the hypotheses outlined in the theoretical framework, this section begins with a descriptive overview of the key outcome variables. The goal of this descriptive analysis is to provide a clearer picture of the variation, distribution and dynamics of these fiscal outcomes across municipalities and over time. Given that each of the 267 municipalities is observed in each of the ten years, the dataset comprises 2,670 municipality-year observations where each observation represents one municipality in a single fiscal year.

Table 10: Descriptives dependent variables (2,670 observations, 2014-2023)

Variable	Missing	Mean	Std. Deviation	Minimum	Maximum
Tax burden	0	0.000	0.606	-1.860	1.660
Spending/capita	7	2,014.728	610.136	198.580	6,745.800
Balance/capita	0	23.137	200.161	-1,449.810	1,536.570
Debt/capita	0	1,180.073	718.852	0.000	5,481.200
Change of debt/capita	267	-29.069	180.255	-1,137.350	1,389.380

The composite tax burden index is calculated using three components: the local income tax rate (LIT), the property tax rate (LPT), and the number of autonomous local taxes. This index is standardized using z-scores within each year, meaning that the values represent a municipality's relative tax burden compared to all other municipalities in that same year. A value of 0 corresponds to the average tax burden for that year, while positive or negative values reflect above- or below-average tax levels. The distribution of this index is approximately normal, with a mean of 0.000 (to be expected) and a standard deviation of 0.606. The observed values range from -1.860 to 1.660, indicating that some municipalities have tax burdens nearly two standard deviations below or above the yearly average. These values suggest moderate variation across municipalities, without extreme outliers or excessive fiscal divergence. Looking at the individual tax instruments, the modal value for the LIT rate is 8%, which applies to the majority of municipalities across all years. For the LPT, the most frequently observed value is 850 surcharges. Regarding the number of autonomous local taxes, the most common count is 18. This suggests that many municipalities make use of a wide range of local tax instruments, at least within the range observed in this dataset.

Municipal public spending per capita shows substantial variation across Flemish municipalities. The average annual spending level is €2,014.728, with a standard deviation of €610.136. Spending ranges from a minimum of €198.580 to a maximum of €6,745.800 per resident. This wide range suggests that municipalities differ significantly in how much they allocate per capita, potentially reflecting differences in policy priorities, investment cycles or underlying fiscal capacity.

The average balance across all observations is €23.137, with a standard deviation of €200.161. Observed values range from a deficit of -€1,449.810 to a surplus of €1,536.570, indicating substantial variation in fiscal outcomes among Flemish municipalities. While most municipalities experienced both deficits and surpluses during the 2014–2023 period, only one municipality, Zonhoven, managed to avoid running a deficit entirely. Conversely, all municipalities recorded at least one year with a positive balance, meaning that no municipality maintained a deficit throughout the entire period.

The change in municipal debt per capita is based on a panel of 2,403 valid observations, excluding 267 municipality-year observation entries for 2014 due to the lack of a prior year comparison. The average yearly change in debt amounts to -€29.069, indicating a slight overall reduction in per capita municipal debt across the observed period. The wide range, looking at maximum and minimum values, suggests that municipalities differ considerably in their long-term debt management strategies. The

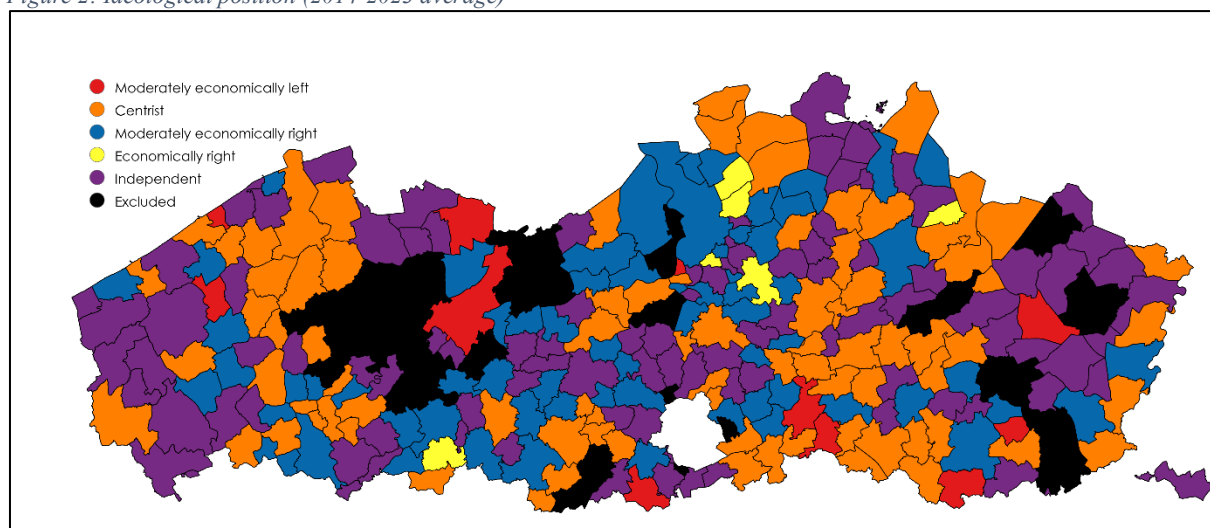
analysis further reveals that one municipality, Aalst, consistently increased its debt across all observed years, while 36 municipalities recorded uninterrupted year-on-year debt reduction.

Table 11: Descriptives independent/control variables (2,670 observations, 2014-2023)

Variable	Missing	Mean	Std. Deviation	Minimum	Maximum
Ideological coalition score	749	0.431	0.664	-1.060	2.000
Polarization index	749	0.174	0.117	0.000	0.540
Citizens	0	24,137	48,466	77	538,910
Grants/capita	0	304.266	152.107	5.530	1,861.270
Activity rate	267	80.000	2.894	63.900	86.900
Gross added value/capita	267	30,214.877	19,092.869	7,938.000	277,429.000

Based on the ideological position of the coalition, the most common category among Flemish municipalities is “Moderately economically right,” representing 31.8% of all municipality-year observations. This is closely followed by “Centrist” coalitions (30.7%) and coalitions where at least 1 independent party was involved (28.1%, classified as missing), the latter referring to municipalities governed by local parties not affiliated with national ideological classifications. Coalitions classified as “Moderately economically left” or “Economically right” make up a smaller share of the sample, with 6.0% and 3.4% respectively. Not a single “Economically left” municipality-year was observed.

Figure 2: Ideological position (2014-2023 average)



The map above displays, for each of the 267 Flemish municipalities, the average ideological coalition score over the full 2014–2023 panel. By aggregating each municipality’s yearly coalition scores into a ten-year mean, its typical policy orientation is captured, with independent-led councils in purple and excluded cases in black. These frequencies suggest a skew toward center-right governance in the Flemish local political landscape over the observed period. Across all available observations, excluding cases with independent involvement, the average ideological score is 0.431, with a standard deviation of 0.664. These results suggest that, on average, Flemish municipalities are governed by

moderately market-oriented coalitions, though substantial variation exists, with some coalitions leaning stronger to the left or strongly right.

The polarization variable is only available for municipalities governed by nationally identifiable parties, excluding local independents. Out of 2,670 municipality-year observations, polarization scores could be computed for 1,921 cases, 749 classified as missing due to independent involvement. The average polarization index is 0.174, with a standard deviation of 0.117. The index ranges from 0.000, indicating complete ideological homogeneity within the coalition, to 0.540. According to the predefined thresholds, 478 municipality-year observations are classified as having negligible polarization, 470 have mild polarization, 482 have moderate indexes and 491 are classified as severe polarization.

Electoral dynamics are captured through two related variables. Firstly, electoral timing is coded as a categorical variable distinguishing between normal years (2014, 2015, 2016, 2017, 2021 and 2022), pre-election years (2018 and 2023), election years (2019) and post-election years (2020). Secondly, coalition change is measured through a binary variable indicating whether the composition of the governing coalition shifted compared to the previous year. This includes not only post-electoral adjustments, but also intra-term realignments, such as the entry or departure of coalition partners during the legislative cycle. Out of 2,403 valid observations, 5.8% experienced such a change, while 94.2% remained politically stable. Missing data for 267 municipality-years are primarily linked to the first year of the panel, 2014, where no prior coalition configuration was available for comparison.

In order to assess the ideology of governing coalitions, a set of dummy variables was constructed to indicate whether a given party participated in the governing coalition in a given municipality-year observation. The most frequently represented party is CD&V, which held coalition positions in 64.4% of all municipality-year observations, followed closely by N-VA (41.3%), Vooruit (31.3%) and Open Vld (35.3%). Groen participated less frequently, appearing in 19.1% of observations. Independent local parties, which are not affiliated with any national political label, governed in 28.1% of the municipality-year observation.

The polarization index captures how many parties are governing in a certain coalition, however, for descriptive purposes, the number of governing parties was looked at separately. The number of parties forming the municipal executive ranges from one to five, with two-party coalitions being the most common configuration (43.0%), followed by three-party (25.5%) and single-party (22.5%) governments. Larger coalitions of four or five parties are relatively rare, accounting for only 9.0% of all municipality-year observations.

The average municipality has approximately 24,137 inhabitants. The smallest municipality recorded a population of just 77 residents in one year, Herstappe, while the largest, Antwerpen, reached 538,910, illustrating the considerable heterogeneity in administrative scale across the region. To account for this skewed distribution and reduce the influence of outliers, the natural logarithm of population is used in the regression models presented in the next section.

For both activity rate and gross added value per capita, data for the year 2023 were not yet available at the time of analysis and are therefore missing from the dataset. Municipalities are also classified by spatial occupation, distinguishing between rural (13.6%), semi-urban (55.6%) and urban (30.8%) areas. The majority of observations fall into the semi-urban category, reflecting the suburbanized nature of much of the Flemish territory.

The next four subsections systematically test the hypotheses for each dependent variable. For all subsequent models, linearity was confirmed both for the overall model and for each predictor using residual-vs-fitted plots, which showed no systematic patterns (Wooldridge, 2013). In exception, a second-degree (quadratic) term was included, implemented via orthogonal polynomials, to capture the non-linear relationship. Normality of the error terms was assessed via Q–Q plots, although minor deviations appeared in the tails, these were deemed acceptable under the central limit theorem given the large sample size (Angrist & Pischke, 2015). Multicollinearity was evaluated through variance inflation factors (VIFs), all of which fell below the critical threshold of 5 (O’Brien, 2007). The correlation matrices for both sets of variables was also examined. In each case, pairwise correlations remained fine (all $|r| < 0.70$), indicating no problematic overlap or multicollinearity among the predictors. Cook’s distance diagnostics were conducted for each regression model and several influential observations were identified. However, these datapoints represent valid cases rather than data errors, so they were retained in all analyses, precisely because those extreme values capture the substantive differences aimed to investigate. Finally, homoscedasticity was consistently violated, as indicated by Breusch–Pagan tests (Breusch & Pagan, 1979), accordingly, all results are reported with heteroscedasticity-consistent standard errors, as recommended for panel analyses (Wooldridge, 2010). Besides, for every model, the Wooldridge test was used to check for panel-level autocorrelation. Cluster-robust standard errors were used to correct for both serial correlation and heteroskedasticity since the Wooldridge test was constantly significant, using the known Arellano method (Arellano, 1987).

For all upcoming models, the overall- R^2 for both fixed effects and random effects specifications will be used to facilitate direct comparison, acknowledging that the fixed effects estimates are identified via within-unit variation while the random effects estimates leverage both dimensions. An F-test was conducted for each model and consistently found that pooled OLS was inappropriate, necessitating a panel specification.

6.1. Tax burden

H1: *Municipalities with a left-leaning governing coalition apply a higher local tax burden than those with a right-leaning coalition.*

Equation 2: Model H1

$$\begin{aligned}
\text{Tax Burden}_{it} = & \beta_0 + \beta_1 \cdot \text{Ideological Score}_{it} + \beta_2 \cdot \text{Polarization Index}_{it} + \beta_3 \cdot \ln(\text{Citizens}_{it}) \\
& + \beta_4 \cdot \frac{\text{Gross Added Value}}{\text{capita}}_{it} + \beta_5 \cdot \text{Activity Rate}_{it} + \beta_6 \cdot \text{Space Occupation}_{it} \\
& + \beta_7 \cdot \frac{\text{Grants}}{\text{capita}}_{it} + \beta_8 \cdot \left(\frac{\text{Grants}}{\text{capita}}_{it} \right)^2 + \mu_i + \varepsilon_{it}
\end{aligned}$$

Table 12: Model H1 (fixed-effects, $R^2 = 5.24\%$, 2014-2023)

Parameter (N=1,732)	General Model	LIT	LPT	Autonomous Taxes
<i>Ideological Score</i>	-0.069 ** (0.022)	-0.006 (0.012)	-28.313 (16.843)	-1.035 *** (0.186)
<i>Polarization Index</i>	0.256 * (0.107)	0.200 *** (0.056)	138.733 (80.031)	2.917 *** (0.881)
<i>Citizens (ln)</i>	-0.036 (0.291)	-0.166 (0.215)	-1,644.500 *** (304.732)	-8.489 * (3.356)
<i>Gross Added Value/capita</i>	<0.001 ** (<0.001)	<0.001 (<0.001)	<0.001 (0.001)	<0.001 ** (<0.001)
<i>Activity Rate (%)</i>	-0.012 * (0.005)	0.001 (0.004)	-64.014 *** (5.667)	-0.259 *** (0.062)
<i>Space Occupation</i>	0.064 (0.036)	0.023 (0.038)	24.641 (53.807)	1.386 * (0.593)
<i>Poly (Grants/capita) 1</i>	-0.750 (1.188)	-2.831 *** (0.683)	-13,880.939 *** (969.091)	-16.251 (10.673)
<i>Poly (Grants/capita) 2</i>	-1.013 (0.780)	0.674 * (0.342)	3,029.647 *** (485.202)	-19.483 *** (5.344)

Significance codes: ** <0.05 *** <0.01 **** <0.001

The coefficient of ideological score, -0.069, is significant and provides clear support for H1. A one-unit shift towards a right-leaning coalition is associated with a 0.069 standard deviation units reduction in the local tax burden, meaning that left-leaning coalitions tend to use higher tax burden compared to right-leaning coalitions. The model was re-estimated separately for each tax burden component, LIT, LPT and the number of autonomous taxes. A one-unit shift towards a more right-leaning coalition has no meaningful impact on the local income tax rate or the local property tax rate. However, the ideology of the coalition yields a highly significant decrease of one local tax instrument per municipality ($\beta = -1.035$). For a Flemish municipality with an ideological score of -1 (moderately left), a shift to an economically right coalition (+2) would lead to 3 less autonomous taxes for that municipality on average. Also, when coalitions experience higher levels of polarization the LIT and number of autonomous taxes are significantly higher.

Among the controls, the number of citizens has significant impact. After reversing the transformations to make the coefficients readable, a 12% increase of the existing population leads to a decrease of 186 surcharges on the LPT and 1 fewer autonomous local tax. This pattern reflects how larger municipalities tend to spread fiscal pressure more thinly across a broader base of citizens.

Municipalities with an independent-inclusive coalition have a mean z-score for the tax burden of -0.107 (SD = 0.655, N = 749), whereas all other coalition types combined average 0.042. A Welch

two-sample t-test confirms this difference is highly significant ($t(1,229.9) = -5.44, p < 0.001$). Since a formal ideology index for independent-inclusive coalitions was unavailable, this simple comparison of raw group means provides the most direct evidence of their distinctly lower average tax burden.

Next, the baseline model was altered by adding year-dummies to soak up any common time trends as a robustness check. Given the large number of observations in the dataset, the inclusion of these time indicators does not materially reduce the statistical power of the models (Wooldridge, 2010; Angrist & Pischke, 2009).

Table 13: Model H1 + time dummy's (fixed-effects, $R^2 = 5.76\%$, 2014-2023)

Parameter (N=1,732)	General Model	LIT	LPT	Autonomous Taxes
<i>Ideological Score</i>	-0.071 ** (0.022)	-0.006 (0.012)	0.041 (5.981)	-0.991 *** (0.186)
<i>Polarization Index</i>	0.263 * (0.108)	0.202 *** (0.057)	55.700 * (28.323)	2.878 ** (0.880)
<i>Citizens (ln)</i>	-0.191 (0.314)	-0.194 (0.234)	278.774 * (117.247)	-7.706 * (3.642)
<i>Gross Added Value/capita</i>	<0.001 ** (<0.001)	<0.001 (<0.001)	0.002 *** (0.001)	<0.001 ** (<0.001)
<i>Activity Rate (%)</i>	-0.017 ** (0.005)	0.001 (0.005)	6.063 * (2.363)	-0.259 *** (0.073)
<i>Space Occupation</i>	0.067 (0.035)	0.024 (0.038)	5.024 (19.032)	1.373 * (0.591)
<i>Poly (Grants/capita) 1</i>	-2.405 (2.051)	-3.777 ** (1.203)	-3,745.615 *** (602.516)	-29.858 (18.715)
<i>Poly (Grants/capita) 2</i>	-0.551 (0.912)	0.964 * (0.447)	457.886 * (224.084)	-14.392 * (6.961)
<i>Year 2015</i>	0.014 (0.009)	0.019 (0.013)	2.693 (6.379)	0.373 (0.198)
<i>Year 2016</i>	0.029 (0.024)	0.040 * (0.019)	30.998 ** (9.625)	0.657 * (0.299)
<i>Year 2017</i>	0.036 (0.027)	0.028 (0.021)	27.773 ** (10.703)	0.833 * (0.332)
<i>Year 2018</i>	0.038 (0.030)	0.009 (0.023)	-490.797 *** (11.636)	0.721 * (0.361)
<i>Year 2019</i>	0.053 (0.033)	0.022 (0.026)	-489.480 *** (13.059)	0.754 (0.406)
<i>Year 2020</i>	0.069 (0.042)	0.039 (0.032)	-455.797 *** (15.914)	0.390 (0.494)
<i>Year 2021</i>	0.060 (0.045)	0.033 (0.033)	-461.953 *** (16.768)	0.402 (0.521)
<i>Year 2022</i>	0.052 (0.051)	0.024 (0.038)	-461.858 *** (18.924)	0.492 (0.588)

Significance codes: ** <0.05 *** <0.01 **** <0.001

Crucially, the key coefficients of ideological coalition score and polarization index remain significant, virtually unchanged in sign and magnitude. Splitting out the three tax burden components, the effect on the number of local tax instruments stays robust and significant, underscoring the stability of the core result.

The Flemish Parliament adopted a decree raising the regional base rate of property tax and simultaneously mandated that all municipalities adjusted their own surcharge rates downward by the same factor to preserve revenue neutrality (Vlaams Parlement, 2016). Consequently, average municipal surcharges fell sharply in 2018, producing the significant downward shift observed here.

As a second robustness test, or a more detailed form of analysis, the ideological coalition score is split into individual party presence dummies to identify more specifically the differences (Goeminne et al., 2007). The following regression function can be used.

Equation 3: Model H1 individual party presence

$$\begin{aligned} Tax\ Burden_{it} = & \beta_0 + \beta_1 \cdot Groen_{it} + \beta_2 \cdot Vooruit_{it} + \beta_3 \cdot CD\&V_{it} + \beta_4 \cdot Open\ VLD_{it} + \beta_5 \cdot NVA_{it} \\ & + \beta_6 \cdot Independent_{it} + \beta_7 \cdot \ln(Citizens_{it}) + \beta_8 \cdot Gross\ Added\ \frac{Value}{capita_{it}} + \beta_9 \\ & \cdot Activity\ Rate_{it} + \beta_{10} \cdot Space\ Occupation_{it} + \beta_{11} \cdot \frac{Grants}{capita_{it}} + \beta_{12} \cdot \left(\frac{Grants}{capita}\right)^2_{it} \\ & + \mu_i + \varepsilon_{it} \end{aligned}$$

Table 14: Model H1 + individual party presence (fixed-effects, $R^2 = 4.72\%$, 2014-2023)

Parameter (N=2,403)	General Model	LIT	LPT	Autonomous Taxes
<i>Groen</i>	0.021 (0.020)	0.014 (0.015)	-14.320 (17.288)	0.129 (0.185)
<i>Vooruit</i>	0.054 ** (0.020)	0.032 * (0.013)	36.777 * (15.993)	0.776 *** (0.172)
<i>CD&V</i>	0.042 * (0.020)	0.001 (0.013)	10.391 (15.393)	0.504 ** (0.165)
<i>OpenVLD</i>	-0.012 (0.016)	0.010 (0.013)	-0.340 (14.911)	-0.072 (0.160)
<i>NVA</i>	-0.007 (0.018)	0.041 *** (0.012)	3.668 (14.239)	-0.440 ** (0.153)
<i>Independent</i>	0.024 (0.019)	-0.023 (0.015)	-25.621 (18.059)	0.458 * (0.194)
<i>Citizens (ln)</i>	0.023 (0.034)	-0.099 (0.066)	-422.241 *** (78.028)	-0.157 (0.834)
<i>Gross Added Value/capita</i>	<0.001 *** (<0.001)	<0.001 (<0.001)	-0.001 (0.001)	<0.001 * (<0.001)
<i>Activity Rate (%)</i>	-0.011 * (0.004)	-0.004 (0.003)	-53.317 *** (3.973)	-0.236 *** (0.043)
<i>Space Occupation</i>	0.014 (0.029)	0.006 (0.035)	36.006 (41.408)	0.236 (0.444)
<i>Poly (Grants/capita) 1</i>	-0.609 (0.937)	-2.862 *** (0.652)	-16,934.062 *** (773.236)	-11.937 (8.293)
<i>Poly (Grants/capita) 2</i>	-1.139 (0.628)	0.887 * (0.392)	3,906.489 *** (464.066)	-21.764 *** (4.977)

Significance codes: * <0.05 ** <0.01 *** <0.001

When Vooruit, the socialist party in Flanders, is present in the governing coalition of a municipality, the tax burden increases with 0.054 standard deviation units compared to when the part is not present, independent of the other governing parties in that coalition. The presence of CD&V, a

Christian-democratic and economically central party, increases the tax burden as well with 0.042 standard deviation units. The model was re-estimated separately for each tax burden component. Looking at Vooruit, the LIT, the LPT and the number of autonomous taxes are all significantly higher. For CD&V, only the number of autonomous taxes lies significantly higher.

Disentangling the composite tax burden also showed some interesting trends on individual party levels. NVA, the economically right party in this research, showed significantly higher local income tax, however, this effect is possibly countered by a lower use of autonomous taxes, averaging out the composite tax burden variable. Lastly, independent parties use on average more autonomous taxes.

Overall, these results lend robust empirical evidence to support H1. A more left-leaning coalition uses a higher tax burden on average, supporting the conclusions of Hopkin (2009) and Goeminne and Smolders (2015). Specifically the number of autonomous taxes is set higher under left coalitions. The parties Vooruit and CD&V specifically following this trend of a higher tax burden. Even when absorbing time trends, the conclusion holds and proves its robustness. Higher-level authorities could impose binding rules that cap LIT, LPT and the number of autonomous levies individually, thereby constraining municipal discretion, or could even link changes across all three instruments via a single formula, ensuring that any decision to raise one levy automatically triggers proportional adjustments in the others to prevent uncoordinated tax burdens.

H5: *The local tax burden will be lower in election years than in non-election years.*

Equation 4: Model H5

$$\text{Tax Burden}_{it} = \beta_0 + \beta_1 \cdot \text{Electoral Timing}_{it} + \beta_2 \cdot \text{Change of Coalition}_{it} + \beta_3 \cdot \text{Ln}(\text{Citizens}_{it}) + \beta_4 \cdot \text{Activity Rate}_{it} + \beta_5 \cdot \text{Space Occupation}_{it} + \mu_i + \varepsilon_{it}$$

Table 15: Model H5 (fixed-effects, $R^2 = 0.24\%$, 2014-2023)

Parameter (N=2,136)	General Model
<i>Electoral Timing</i>	<0.001 (0.003)
<i>Change of coalition</i>	0.005 (0.021)
<i>Citizens (ln)</i>	0.018 (0.026)
<i>Activity Rate (%)</i>	-0.005 (0.004)
<i>Space Occupation</i>	<0.001 (0.030)

Significance codes: ** <0.05 *** <0.01 **** <0.001

The model finds no statistically significant predictors. Neither electoral timing nor a change of coalition alters the local tax burden. Year dummies were not included as a robustness test in this specification because the electoral-timing variable already captures the key temporal variation of interest.

Overall, these results do not lend robust empirical support to accept H5. Election years have no impact at all on the level of tax burden in municipalities. Also, new coalitions, different from the previous one, do not set a clear trend by changing the existing tax structure significantly.

6.2. Public spending

H2: *Municipalities with a left-leaning governing coalition will exhibit higher levels of total public spending than those with a right-leaning coalition.*

Equation 5: Model H2

$$\begin{aligned} \text{Spending/capita}_{it} = & \beta_0 + \beta_1 \cdot \text{Ideological Score}_{it} + \beta_2 \cdot \text{Polarization Index}_{it} + \beta_3 \cdot \text{Ln}(\text{Citizens}_{it}) \\ & + \beta_4 \cdot \frac{\text{Gross Added Value}}{\text{capita}}_{it} + \beta_5 \cdot \text{Activity Rate}_{it} + \beta_6 \cdot \text{Space Occupation}_{it} \\ & + \beta_7 \cdot \frac{\text{Grants}}{\text{capita}}_{it} + \beta_8 \cdot \left(\frac{\text{Grants}}{\text{capita}}_{it} \right)^2 + \mu_i + \varepsilon_{it} \end{aligned}$$

Table 16: Model H2 (fixed-effects , 2014-2023)

Parameter (N=1,732)	General Model (R ² = 3.52%)	Time Dummy's (R ² = 9.56%)
<i>Ideological Score</i>	-38.777 (36.487)	-37.469 (36.849)
<i>Polarization Index</i>	546.185 *** (147.784)	569.183 *** (145.510)
<i>Citizens (ln)</i>	212.349 (553.021)	-268.935 (775.392)
<i>Gross Added Value/capita</i>	0.004 (0.002)	-0.001 (0.001)
<i>Activity Rate (%)</i>	-0.568 (9.431)	-12.882 (9.281)
<i>Space Occupation</i>	30.296 (88.703)	-5.689 (81.351)
<i>Poly (Grants/capita) 1</i>	2,582.863 (1,630.097)	-875.034 (2,463.773)
<i>Poly (Grants/capita) 2</i>	509.919 (737.519)	1,571.198 (914.360)
<i>Year 2015</i>	N/A	-61.681 ** (22.525)
<i>Year 2016</i>	N/A	-15.753 (35.959)
<i>Year 2017</i>	N/A	23.289 (39.314)
<i>Year 2018</i>	N/A	114.366 * (45.420)
<i>Year 2019</i>	N/A	86.239 (50.571)
<i>Year 2020</i>	N/A	26.050 (61.504)
<i>Year 2021</i>	N/A	76.238 (65.410)
<i>Year 2022</i>	N/A	247.260 *** (74.609)

Significance codes: ** <0.05 *** <0.01 **** <0.001

Spending is clearly depending on the level of polarization within the coalition. Even after absorbing the time trends, a higher polarization index leads to a higher spending per capita. Looking specifically at the polarization categories that were created, while still absorbing the time trends, the spending per capita increases as the coalition enters a higher category of polarization. The severely polarized coalitions spend 175 euro per capita per year more than coalitions with negligible polarization. For coalitions with moderate and mild polarization, the spending per capita lays respectively 110 euro and 95 euro higher compared to coalitions with almost no polarization.

A very rough calculation can be based on the averages described in this dataset. The median municipality-year observation for coalitions classifying as severely polarized has 16,871 citizens and 491 municipality-year observations were classified as severely polarized, meaning that on average each fiscal year has 49.1 severely polarized coalitions. Following these average and median values, these 49.1 municipalities per year spend on average 144,668,825 euro more than coalitions with negligible polarization to satisfy all governing coalition partners. Importantly, this is only a very rough approximation, it assumes every severely polarized municipality has exactly 16,871 residents and that each one uniformly spends € 175 more per person. In reality, individual populations and per-capita differentials vary, so a precise total would sum each municipality-year's actual population multiplied by its own spending gap. Nevertheless, the above back-of-the-envelope calculation conveys that severe polarization across Flemish municipalities carries an order-of-magnitude fiscal cost of around € 140 million per year.

In conclusion, the analysis demonstrates a clear relationship between coalition polarization and municipal spending per capita. More internally polarized coalitions incur substantially higher per-resident costs as they navigate competing interests. In practical terms, each severely polarized municipality spends roughly € 175 more per inhabitant per year, an aggregate burden that translates into an additional € 140 million across Flemish municipalities annually. These findings may complement Alesina and Perotti (1995), showing that left-wing administrations in OECD-countries incur significantly greater public spending, and Blais et al. (1993), documenting systematic differences in public spending based on coalition ideology. This analysis furthermore suggests that higher-level authorities wishing to temper excessive local spending might consider policies aimed at reducing coalition fragmentation, either by capping the number of coalition partners or by incentivizing narrower ideological spreads within governing alliances. At the same time, any concrete reform should be informed by further, more granular investigation into how and why polarization drives fiscal decisions. Only with additional qualitative and quantitative studies can policymakers craft balanced rules that preserve democratic representation while mitigating the steep fiscal costs associated with highly polarized local governments.

H6: *Municipal public spending will be higher in election years than in non-election years.*

Equation 6: Model H6

$$\begin{aligned}
& \text{Spending/capita}_{it} \\
& = \beta_0 + \beta_1 \cdot \text{Electoral Timing}_{it} + \beta_2 \cdot \text{Change of Coalition}_{it} + \beta_3 \\
& \cdot \text{Ln}(\text{Citizens}_{it}) + \beta_4 \cdot \text{Activity Rate}_{it} + \beta_5 \cdot \text{Space Occupation}_{it} + \mu_i + \varepsilon_{it}
\end{aligned}$$

Table 17: Model H6 (fixed-effects, $R^2 = 2.71\%$, 2014-2023)

Parameter (N=2,136)	General Model
<i>Electoral Timing</i>	13.222 * (5.826)
<i>Change of coalition</i>	8.298 (23.435)
<i>Citizens (ln)</i>	65.593 (91.889)
<i>Activity Rate (%)</i>	27.130 *** (7.775)
<i>Space Occupation</i>	64.370 (49.318)

Significance codes: ** <0.05 *** <0.01 **** <0.001

Spending per capita is impacted by electoral timing. Looking more specific, election years lead to higher spending per capita ($\beta = 70.857$ ***). Making another rough calculation, a municipality has on average 24,137 citizens, meaning that in election years the spending per capita for each municipality increases on average with 1.7 million euro.

Overall, these results do provide evidence to accept H6. Politicians do significantly change the amount of spending in election years, following conclusions of Geys and Vermeir (2008). Higher authorities could impose spending caps or stricter budgetary controls specifically in election and pre-election years to curb the observed spike in per-capita outlays. Nonetheless, a more granular investigation into exactly which line items rise most and how these additional funds are allocated across services or projects is necessary before designing fine-tuned policy interventions.

6.3. Budget balances

H3: *Municipalities governed by left-leaning coalitions are more likely to report annual budget deficits than those governed by right-leaning coalitions.*

Equation 7: Model H3

$$\begin{aligned}
& \text{Saldo/capita}_{it} \\
& = \beta_0 + \beta_1 \cdot \text{Ideological Score}_{it} + \beta_2 \cdot \text{Polarization Index}_{it} + \beta_3 \cdot \text{Ln}(\text{Citizens}_{it}) \\
& + \beta_4 \cdot \frac{\text{Gross Added Value}}{\text{capita}_{it}} + \beta_5 \cdot \text{Activity Rate}_{it} + \beta_6 \cdot \text{Space Occupation}_{it} \\
& + \beta_7 \cdot \frac{\text{Grants}}{\text{capita}_{it}} + \beta_8 \cdot \left(\frac{\text{Grants}}{\text{capita}_{it}} \right)^2 + \mu_i + \varepsilon_{it}
\end{aligned}$$

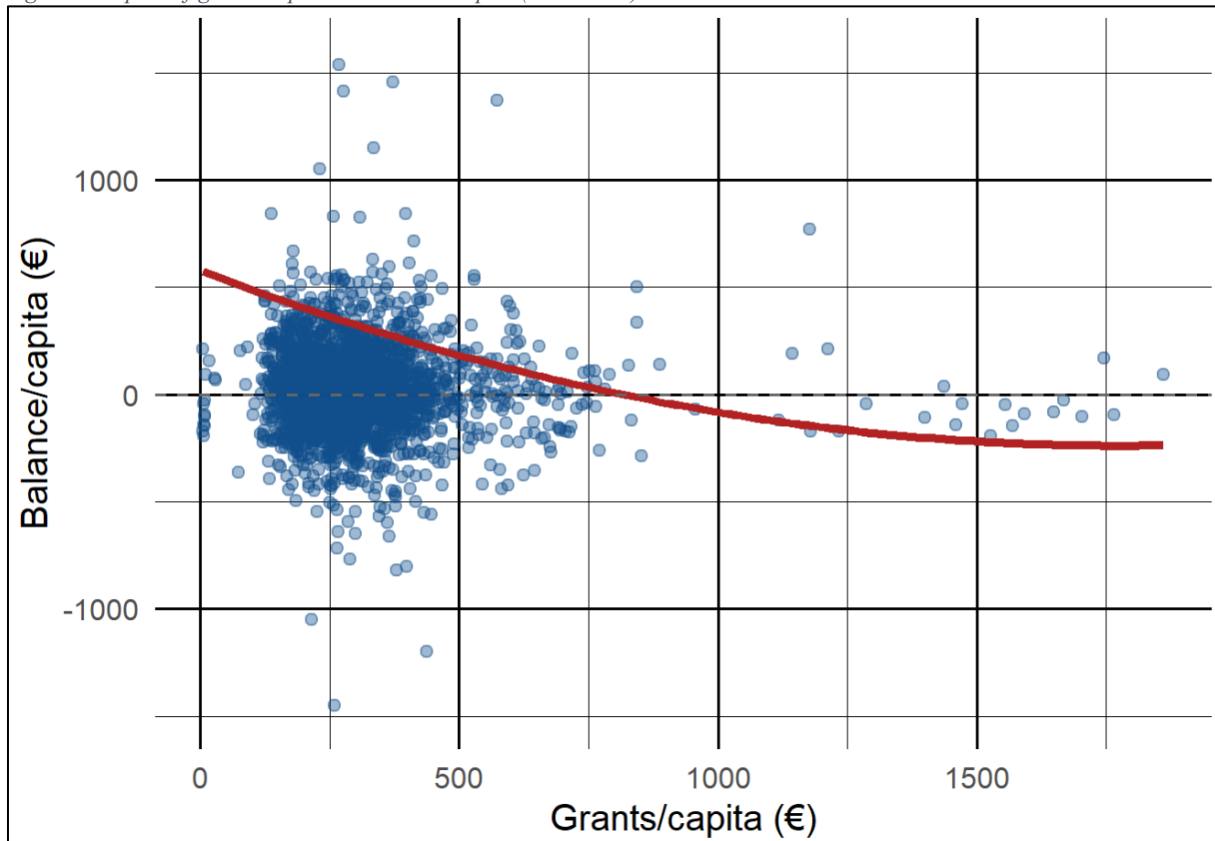
Table 18: Model H3 (fixed-effects, $R^2 = 1.92\%$, 2014-2023)

Parameter (N=1,732)	General Model
<i>Ideological Score</i>	-27.929 (18.564)
<i>Polarization Index</i>	-144.187 (98.648)
<i>Citizens (ln)</i>	-105.377 (235.639)
<i>Gross Added Value/capita</i>	-0.001 (0.001)
<i>Activity Rate (%)</i>	0.559 (5.116)
<i>Space Occupation</i>	77.232 (41.194)
<i>Poly (Grants/capita) 1</i>	-2,358.111 ** (790.031)
<i>Poly (Grants/capita) 2</i>	675.865 ** (233.612)

Significance codes: ** <0.05 *** <0.01 **** <0.001

The coalition ideology is not affecting if municipalities register balance deficits or surpluses. However, grants have a significant impact. Although the grants per capita variable enters the model as an orthogonal polynomial, meaning its raw coefficients cannot be read off as a direct effect, the joint significance of both polynomial terms confirms that grants have a nonlinear impact on the budget balance.

Figure 3: Impact of grants/capita on balances/capita (2014-2023)



In the above fitted-curve figure, the horizontal axis and vertical axis translate the polynomial terms into a clear, intuitive visualization. The blue dots in the plot are the actual observed values. Each dot represents a single municipality-year, showing how many euros of grants per capita it received and what its resulting balance per capita was in reality. In contrast, the red curve is the model's fitted function, for every possible grants-per-capita value on the x-axis, it shows the predicted balance per capita. In short, the red line summarizes the overall downward trend, more grants lead to more negative balances. From a policy standpoint, this figure implies that as grants per capita rise, municipalities become progressively less constrained by balanced-budget concerns, consistent with the well-known flypaper-effect where external grants tend to stick in local budgets rather than being passed on to taxpayers or offset by lower local revenue so that larger transfers directly increase municipal spending (Oates, 1999). Higher-level authorities should therefore recognize that increasing per-capita transfers can weaken local fiscal discipline.

Overall, these results cannot confirm H3. Coalition ideology itself is not significantly linked to the balanced result of a municipality.

H7: *Municipal budget balances will be higher in election years than in non-election years.*

Equation 8: Model H7

$$\text{Saldo/capita}_{it} = \beta_0 + \beta_1 \cdot \text{Electoral Timing}_{it} + \beta_2 \cdot \text{Change of Coalition}_{it} + \beta_3 \cdot \ln(\text{Citizens}_{it}) + \beta_4 \cdot \text{Activity Rate}_{it} + \beta_5 \cdot \text{Space Occupation}_{it} + \mu_i + \varepsilon_{it}$$

Table 19: Model H7 (fixed-effects, $R^2 = 5.71\%$, 2014-2023)

Parameter (N=2,136)	General Model
<i>Electoral Timing</i>	-28.530 *** (4.796)
<i>Change of coalition</i>	54.248 ** (20.201)
<i>Citizens (ln)</i>	-152.896 (116.062)
<i>Activity Rate (%)</i>	-27.794 *** (5.563)
<i>Space Occupation</i>	-2.059 (36.314)

Significance codes: ** <0.05 *** <0.01 **** <0.001

Electoral timing has significant impact on the balanced result of municipalities. Splitting out the electoral timing variable, the pre-election years ($\beta = -62.881$ ***) and the election years ($\beta = -123.339$ ***) show significant impact on the balanced result. Again, using the 24,137 citizens per municipality average, the analysis concludes that during pre-election years and election years, the balanced result is respectively 1.5 million euro and 3 million euro lower per municipality. However, the results of this dataset contradict the conclusions made by Rogoff and Sibert (1988) and Drazen and Eslava (2010). Politicians do not try to present themselves as fiscally cautious, even further, municipal books are closed with larger deficits, in line with the previous conclusion of higher spending per capita in election years.

Also, the coalition change variable shows significant impact on the balanced result, indicating that new coalitions tend to realize significant higher balanced results, possibly to make themselves appear more financially cautious than the preceding coalition. When a new coalition comes in play, the balanced result is 54 euro per capita higher than when the existing coalition keeps power.

Overall, these results provide clear evidence to reject H7. Depending on the political timeline, municipalities will realize different balanced results. In years preceding the election, the realized results will be significantly lower compared to a normal year. Politicians might try to increase their image by approving some last moment investments for example, but fiscal caution is not a priority. New coalitions on the other hand will try to perform better and realize higher balanced results, this time following the conclusions and reasoning of Rogoff and Sibert (1988) and Drazen and Eslava (2010).

6.4. Outstanding debt

H4: *Municipalities with a left-leaning governing coalition will exhibit higher levels of debt accumulation than those with a right-leaning coalition.*

Equation 9: Model H4

$$\begin{aligned} \text{Change of debt/capita}_{it} &= \beta_0 + \beta_1 \cdot \text{Ideological Score}_{it} + \beta_2 \cdot \text{Polarization Index}_{it} + \beta_3 \cdot \text{Ln}(\text{Citizens}_{it}) \\ &+ \beta_4 \cdot \frac{\text{Gross Added Value}}{\text{capita}_{it}} + \beta_5 \cdot \text{Activity Rate}_{it} + \beta_6 \cdot \text{Space Occupation}_{it} \\ &+ \beta_7 \cdot \frac{\text{Grants}}{\text{capita}_{it}} + \beta_8 \cdot \left(\frac{\text{Grants}}{\text{capita}_{it}} \right)^2 + \mu_i + \varepsilon_{it} \end{aligned}$$

Table 20: Model H4 (fixed-effects, $R^2 = 1.60\%$, 2015-2023)

Parameter (N=1,535)	General Model
<i>Ideological Score</i>	5.969 (27.830)
<i>Polarization Index</i>	51.917 (80.649)
<i>Citizens (ln)</i>	828.805 *** (239.550)
<i>Gross Added Value/capita</i>	0.001 (0.003)
<i>Activity Rate (%)</i>	-0.904 (9.722)
<i>Space Occupation</i>	12.486 (37.318)
<i>Poly (Grants/capita) 1</i>	1,364.284 (1,449.990)
<i>Poly (Grants/capita) 2</i>	1,626.762 * (687.672)

Significance codes: ** <0.05 *** <0.01 **** <0.001

The coalition ideology is not affecting if municipalities increase or decrease their outstanding debt level per capita. Meaning that the findings of Alesina and Passalacqua (2015) and Goeminne et al. (2007) cannot be confirmed in this dataset. However, the number of citizens has an impact. Transforming

the natural logarithm back, a 1% increase in population leads to a 8.30 euro higher debt accumulation per capita.

H8: *Municipal debt accumulation will increase more in post-election years than in other years.*

Equation 10: Model H8

$$\begin{aligned} \text{Change of debt/capita}_{it} &= \beta_0 + \beta_1 \cdot \text{Electoral Timing}_{it} + \beta_2 \cdot \text{Change of Coalition}_{it} + \beta_3 \\ &\cdot \text{Ln}(\text{Citizens}_{it}) + \beta_4 \cdot \text{Activity Rate}_{it} + \beta_5 \cdot \text{Space Occupation}_{it} + \mu_i + \varepsilon_{it} \end{aligned}$$

Table 21: Model H8 (random-effects, $R^2 = 0.75\%$, 2015-2023)

Parameter (N=2,136)	General Model
<i>Intercept</i>	-32.480 (177.705)
<i>Electoral Timing</i>	-1.396 (4.919)
<i>Change of coalition</i>	42.839 (22.948)
<i>Citizens (ln)</i>	-16.531 * (7.613)
<i>Activity Rate (%)</i>	1.725 (1.918)
<i>Space Occupation</i>	17.496 (9.322)

Significance codes: ‘*’ <0.05 ‘***’ <0.01 ‘****’ <0.001

Clearly, the change of debt outstanding per capita is not affected by electoral timing either. Overall, these results do not provide the necessary evidence to accept H8.

7. Conclusion

This study examines how political parties in power shape the financial health of Flemish municipalities by analyzing four core variables, local tax burden, per capita expenditures, annual balance per capita and per capita change of debt, over the period 2014–2023. The analysis demonstrates that both coalition ideology and electoral timing play distinct roles in different dimensions of municipal finances, showing that ideological preferences primarily influence structural fiscal choices, whereas electoral timing accentuates short-term cyclical phenomena.

Left-leaning coalitions, particularly those including Vooruit and CD&V alongside other progressive currents, systematically impose a higher combined tax burden than right-leaning or center-right coalitions. These left-leaning local governments introduce more autonomous taxes confirming that left-wing local administrations are more willing to accept additional levies to finance public services and redistribution (Hopkin 2009; Goeminne & Smolders 2015). In contrast, N-VA–dominated coalitions offset their higher income tax by limiting the number of autonomous taxes, resulting in a combined tax burden that does not significantly deviate from the Flemish average. Independent local parties, falling

outside the standard nationwide ideological spectrum, tend to employ more autonomous taxes, indicating that they follow alternative fiscal strategies without clear ideological anchoring.

With respect to expenditure per capita, the degree of internal ideological polarization within the governing coalition proves more consequential than its left-right orientation. Municipalities governed by highly polarized coalitions spend, on average, approximately €175 more per capita per year than those with ideologically homogeneous coalitions, translating to an additional annual outlay of around €140 million, a very rough estimation across all Flemish municipalities purely due to coalition fragmentation. This finding corroborates earlier work suggesting that ideological diversity among decision-makers leads to more difficult consensus and higher spending (Alesina & Angeletos 2005; Lijphart 1999). Furthermore, there is a clear electoral budgetary cycle. In election years, average expenditures per capita increase by roughly €71, which at an average municipal population of about 24,000 citizens corresponds to approximately €1.7 million extra spending in that year. This indicates that, irrespective of coalition ideology, local political opportunism is active in election periods (Geys & Vermeir 2008; Rogoff 1990).

Regarding the annual balance per capita, coalition ideology alone does not significantly associate with higher or lower deficits. Instead, electoral timing is crucial: in pre-election years, balances decrease by an average of €62.88 per capita and in election years by €123.34 per capita, resulting in roughly €1.5 million and €3 million extra deficits per average municipality, respectively. This suggests that local administrations aim to realize visible investments and expenditures precisely in election years, leading to deteriorated budgetary balances even when they do not reduce the tax burden. Conversely, new coalitions formed after elections exhibit a significantly more positive balance (+€54 per capita), reflecting a reputational strategy by newly established administrations to present a more balanced budget in their inaugural year and thereby emphasize financial competence (Besley & Case 2003).

As for debt accumulation per capita, neither coalition ideology nor electoral timing has a substantive effect on year-on-year changes in long-term debt. Only demographic growth (a 1 percent increase in population) correlates with an increase of €8.30 in debt per capita, suggesting that larger municipalities, owing to scale-related investment reasons, more frequently undertake larger loans independently of ideology or electoral dynamics (Alesina & Passalacqua 2015). This implies that debt behavior is driven mostly by institutional and functional imperatives rather than short-term political or strategic considerations.

These results have clear implications for Flemish policymakers aiming to bolster municipal financial resilience. First, reducing coalition fragmentation is paramount. Since highly polarized coalitions substantially raise municipal expenditures, it would be prudent to legally cap the number of parties in a municipal executive, for example, at three, thereby reducing the likelihood of ideologically disparate configurations and potentially saving municipalities substantial sums annually. Additionally, incentives could be offered to coalitions exhibiting limited ideological spread, such as supplementary grants or administrative support for municipalities demonstrating coherent policymaking among

coalition partners. Second, the budgetary process in pre-election and election years should include additional safeguards to curb excessive spending and deficits. Requiring municipalities to adopt multiyear budget frameworks with explicit forecasts for expenditures, revenues and balances would enhance transparency and restrain strategic spending during elections. Complementary measures such as temporary spending caps or enhanced reporting requirements in election years, for instance, biannual budget monitoring tied to the regional oversight authority, could interrupt sudden spending spikes without infringing on local autonomy. Third, local taxation regulations should be streamlined. Although local autonomy is a foundational principle in Flanders, adjustments to the local property tax (LPT) could be mandated to automatically align with changes in autonomous taxes, preventing coalitions from funding ideological priorities through new levies without transparent disclosure. Moreover, introducing a standardized list of no more than fifteen permitted autonomous tax types would curb arbitrary increases or introductions of new taxes, rendering the tax burden structure more predictable and uniform.

Fourth, reforms to the grant system are warranted, as the analysis shows that higher per capita grants correlate with worsened budget balances, largely due to the principle of the flypaper effect, in which extra funds lead to increased spending rather than structural savings (Oates 1999). To mitigate this, Flemish transfers could be indexed more progressively to performance criteria, such as debt-to-population ratio and budget balances, with annual updates. Grants could also be tied to co-financing obligations for recurrent expenses, thereby encouraging municipalities to implement structural savings rather than merely expand spendings. Fifth, increasing transparency around coalition compositions and ideological scores is essential. Requiring an annual publication on the Stadsmonitor, where each municipality discloses its coalition partners and corresponding ideological score, would enable both researchers and citizens to monitor the correlation between ideology and fiscal decisions, fostering public oversight and academic scrutiny, thereby exerting political pressure on coalitions to act responsibly and coherently.

Finally, small municipalities, under 5,000 inhabitants, might need extra budgetary support, as they appear more sensitive to demographic trends in debt accumulation, since population increases seem to occur more easily in smaller cities. The Flemish government could establish regional expertise centers to assist small municipalities with financial management and recovery planning, enabling them to manage debt more effectively and prevent unsustainable debt levels driven by demographic fluctuations.

In sum, this study illustrates that achieving policies which simultaneously uphold local autonomy and ensure financial sustainability requires carefully balancing the influences of ideology and electoral dynamics. A combined approach involving legal limits on coalition size, tightening of budgetary processes during election years, harmonized tax regulation, performance-based grants and enhanced transparency can help foster a more balanced and stable local fiscal policy. Such measures will increase the likelihood that Flemish municipalities maintain structurally healthy budgets while preserving sufficient democratic latitude to implement citizen-driven choices.

8. Limitations

Despite the considerable methodological rigor of this study, like the extensive diagnostic testing and heteroskedasticity-consistent standard errors, several elements warrant discussion.

First, the measurement of coalition ideology relies on a survey of economic orientations conducted at the federal level. Although local party branches in Flanders generally mirror the economic platforms of their national counterparts (Goeminne & Smolders, 2015), this proxy may fail to capture subtle, municipality-specific deviations in policy preferences. Moreover, the survey instrument was fielded at the outset of the observation window (2014–2023), raising the possibility that subsequent ideological shifts at the local level are not fully reflected in the data.

Second, local party branches are assumed to maintain stable economic orientations over the study period. Therefore, subsequent shifts at the local level are treated as random “noise” rather than substantive “signals”. For instance, Dalton et al. (2011) acknowledge that using a fixed survey score for a party overlooks short-term realignments, but argue that doing so is a necessary simplification to maintain comparability across jurisdictions. Similarly, Budge (2001) explains that while manifesto-based scores can capture ideological drift over time, the application at the municipal level is rarely feasible because local manifestos are unevenly documented or coded.

Independent local parties represent a particular limitation in this analysis because they function as some kind of “black box”. Lacking affiliation with national party structures, they often do not produce standardized manifestos or clear policy statements, making it impossible to ascertain their true ideological orientation. In this dataset, independent parties were treated either as a residual category or assigned the mean ideological score, but this imputation likely masks substantial heterogeneity within and across municipalities (Goeminne & Smolders 2015). Budge (2001) notes that manifesto-based coding becomes infeasible when local party documents are sporadic or unavailable, forcing researchers to aggregate independents into a generic category. Ezrow et al. (2011) similarly caution that subnational actors, particularly non-affiliated local lists, can shift positions in response to highly localized concerns that standard measurement strategies fail to capture, so any averaged or imputed score introduces additional measurement error. Consequently, treating independent parties as a homogeneous group likely underestimates their influence on fiscal decisions.

Finally, extending this analysis to other decentralized contexts or exploring the interplay of ideology and timing in time period schemes would help test the generalizability of these Flemish findings.

9. Further research and research extension

Further research should build on this present study in several interrelated ways. First, before any of the proposed policy recommendations can be implemented or even considered, it is essential to examine their real-world implications using a combination of simulation exercises, pilot interventions

and stakeholder consultations. For example, capping the number of parties in a municipal coalition might curb spending driven by ideological fragmentation (Alesina & Angeletos 2005; Lijphart 1999), but it could also diminish representational plurality and provoke legal challenges. A rigorous cost–benefit analysis, ideally drawing on comparative cases where similar constraints have been introduced, would help anticipate unintended consequences. Likewise, multiyear budget frameworks and spending caps in election years should be trailed in a subset of municipalities, preferably varying in size, demographic composition and governance tradition, to assess whether increased transparency truly translates into restrained electoral-cycle spending or merely shifts expenditures to off-budget accounts (Geys & Vermeir, 2008). Engaging local treasurers, council members, auditors and civil society groups in scenario workshops will provide insight into practical obstacles (e.g. data availability, political will, administrative capacity) and ensure that any regulatory design is sensitive to institutional constraints.

Second, the present analysis treats total expenditures as a single aggregate, but municipal spending encompasses a heterogeneous array of services, ranging from social welfare and education to infrastructure, environmental management, cultural subsidies and administrative personnel costs. Future studies should therefore “unbundle” spending into its principal subcomponents and investigate whether coalition ideology, polarization and electoral timing exert divergent effects across these categories. For instance, left-leaning or highly polarized coalitions might disproportionately expand social assistance or cultural grants, whereas right-leaning coalitions could focus additional resources on infrastructure upgrades or business-related incentives (Padovano & Turati 2012). Likewise, election-year spikes in spending might concentrate in highly visible areas, such as roadworks or cultural events, while other budget lines remain relatively constant. To explore these patterns, scholars could exploit line-item budget data to construct panel datasets of functional spending categories and apply similar fixed-effects models as in the current study. Such disaggregated analyses will not only clarify which sectors are most susceptible to “opportunistic” inflation in election cycles (Rogoff, 1990; Shi & Svensson, 2006), but also inform targeted policy measures.

Third, the phenomenon of “cartel parties” (Katz & Mair 2009) deserves further scrutiny in the Flemish municipal context. Cartelization occurs when dominant parties cooperate to limit competition, often by sharing officeholders or agreeing not to challenge each other in certain districts, and may lead to higher spending if coalition partners prioritize collective entrenchment over fiscal discipline (Alesina & Passalacqua 2015). Although the present study implicitly captures aspects of cartel behavior through measures of ideological overlap, it does not explicitly distinguish between competitive and cartelized party dynamics. Future research could classify municipal coalitions according to indicators of cartelization and test whether these cartel coalitions exhibit systematically different fiscal behavior. Building on work by Katz and Mair (2009) on cartel parties at the subnational level, scholars could employ qualitative interviews with party elites and content-analysis of local electoral manifestos to validate the classification, supplementing quantitative models with a dummy variable for cartel status.

Such an approach would illuminate whether cartel tendencies amplify or mitigate the ideological and electoral-cycle effects identified here.

Fourth, independent parties remain a “black box” whose impact on municipal finances is poorly understood. By lumping all independents into a residual category or assigning them a mean score, the current analysis likely underestimates their heterogeneity and potential influence. Independent lists in Flanders often arise from local notables, civic associations or splinter groups and their platforms may emphasize service delivery over ideology or focus on single issues. To unpack these dynamics, future work should collect primary data on independent party platforms, through systematic coding of local manifestos, minutes of council debates and press releases, and attempt to discern whether certain types of independents drive variations in spending or revenue choices. A latent-class clustering approach could help identify subtypes of independents and estimate their separate effects. Moreover, voter survey data at the municipal level, especially exit polls or local opinion surveys, could shed light on whether citizens perceive independents as more fiscally responsible or as balancing the excesses of mainstream coalitions. Understanding these nuances would allow researchers to advise policymakers on whether independent-friendly reforms might promote fiscal discipline or, conversely, introduce new sources of budgetary volatility.

Finally, the implications of the proposed policy instruments themselves warrant longitudinal evaluation. For instance, if a region mandates automatic alignment of property tax (LPT) adjustments with autonomous taxes, scholars should monitor whether such a rule reduces “hidden” tax increments or simply shifts revenue-seeking to fees, fines or public-private partnership arrangements (Goeminne & Smolders 2015; Oates 1999). Likewise, performance-based grants indexed to debt ratios could increase compliance but might also penalize municipalities suffering from structural demographic decline, exacerbating inequality between urban and rural areas (Van Aelst & Thijssen 2014). A careful comparative study, possibly using synthetic control methods or difference-in-differences designs, could assess the causal impact of pilot experiments once these reforms are introduced in specific provinces or cohorts of municipalities. Embedding process evaluations, incorporating interviews with municipal staff and external auditors, will also capture how local actors adapt to new rules, whether they employ creative accounting tactics and how citizen engagement responds to enhanced transparency measures.

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12. The use of AI

In the preparation of this paper, AI tools were employed to support a range of supplementary tasks, including literature searches and source verification, data integrity checks (to look for manual typing mistakes from the author), assistance with coding scripts in R and SPSS and the paraphrasing of text passages. At no point was AI used to generate substantive analytical content or interpret results. All conceptualization, methodology and conclusions remain the authors' own.