Staying in Power: How does political continuity shape debt

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Resumen:

This paper contributes to the literature by examining political continuity as a determinant of subnational indebtedness. The central question we address is: does political continuity at the municipal level lead to higher debt accumulation, and through which mechanisms does this effect operate? We define political continuity as the case in which a mayor from the same political party succeeds the incumbent. Continuity may sustain or expand ongoing fiscal commitments, whereas political alternation may slow, redirect, or terminate projects initiated by previous administrations.

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This paper investigates the relationship between political continuity and public municipal debt in Colombia, highlighting how political cycles influence fiscal behavior at subnational level. Unlike national cycles, local political dynamics, marked by consecutive electoral victories of the same party, significantly impact fiscal policy and debt accumulation. Using a Kink Regression Discontinuity design, we explore the effects of these electoral outcomes on public financial debt. Our results show that an additional percentage point in the mayoral win margin increases municipal per capita debt by 2 thousand COP, with larger effects in smaller municipalities and evidence of amplification where the governing party has stronger council representation. The effect strengthens over time, is consistent in sign and magnitude with a complementary difference-in-differences strategy, and remains robust to alternative bandwidth specifications, permutation-based tests, and time-placebo exercises.