

# Friends in high places can lead to questionable spending

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Having friends in high places such as the U.S. Congress can lead to reckless behavior at the local government level, according to a new study.

Mihir Mehta, assistant professor of accounting at the University of Michigan, and colleagues Christine Cuny and Jungbae Kim of New York University analyzed the public financial disclosures of local [government](#) units and found that powerful political representation in Congress weakens local government incentives to act in the public interest.

Mehta said the findings "are most important for citizens who stand to benefit from their local government links to powerful politicians. They're not getting the full value out of what they should given how federal [money](#) is allocated at the local level."

The study looked at about 10,000 [local governments](#) in the United States from 1999 to 2016. The sample size consisted of more than 56,000 local government audit reports, of which 24 percent had material weaknesses in their internal controls and 9 percent did not comply with laws and regulations.

"These local governments seem to become less responsible at looking after their money once they have extra money because of their powerful congressional representatives," Mehta said. "However, our results suggest that this effect is mitigated in more competitive voting areas."

For example, in the set of local government data that included voter data, the researchers could see that when Democrats and Republicans were nearly equally represented, local officials managed taxpayer dollars more wisely.

And once a long-serving member of Congress passes away or departs office for a Cabinet position, the researchers find that less money flows to their districts and local governments subsequently behave better.

"Once they get less money, local governments become more careful with their money," Mehta said.

The main takeaway from the study, he said, is that "having strong federal relationships can lead to suboptimal outcomes at the local level in terms of how local governments use their money."

**More information:** Friends in High Places: An Examination of Politically Connected Governments. [papers.ssrn.com/sol3/papers.cfm ... ?abstract\\_id=3171830](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3171830)

Provided by University of Michigan

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