Political Participation and Public Efficiency: Decisions, strategies and fiscal competition in a local public goods experiment

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“You can do a lot when you have a lot of money. When you want to do good things but you don’t have a lot of money it is more challenging and requires more creativity. But struggling communities need people who are committed to providing quality services and quality of life even though there is not a lot of money” (Connolly, 2016, 11).

For a long period, an appointed city manager was seen as a “neutral expert who efficiently and effectively carries out the policies of the council” (Svara 1998, 52). This attitude has supported the widespread idea of the benefit of the politics-administration dichotomy i.e. the separation of politics from administration through an independent and specialized executive (Bertelli and Lynn, 2006). When the empirical analysis has proposed that city managers play, instead, a crucial role within the municipal policy-making process¹ and hardly resist to political “appeal” (Nalbandian, 1999, 2004; Svara 1998, 1999), researchers have begun to doubt that the aptitude of local government officials is really to distinct politics from administration and have considered the politics-administration dichotomy more as a desirable than as a realistic target (Stillman 1974; Svara 1998; Banovetz 1995; McCabe et al. 2008). Looking at the managers’ role and the local governments’ willing to increase managers’ accountability and engagement, the current municipal form of government generates a classic principal-agent relationship. The elected council delegates discretion to the qualified manager to supervise municipal administration and then tries to find the best incentives to push the manager to perform in line with its preferences (Feiock et al., 2003).

¹ Often proposing policies, making policy recommendations to the council, and facilitating communication between citizens and council members (Martin 1990; Morgan and Watson 1992; Nalbandian 1999).
According to this theoretical framework, municipalities’ organization recalls private companies, with voters in the equivalent place as stockholders, city council members performing as the board of directors, and the city manager at the top of the structure, alike the CEO. This implies to consider also the relationship between politicians and voters as a principal-agent model. In this case, voters are the principal(s) and politicians are the agents\(^2\). The basis of electoral democracy is that voters can hold political officials accountable for their policy choices, by granting a close adherence of the latter to the public preferences. Electoral accountability relies on the politicians’ concerns about elections, which not only provide an instrument for sanctioning uncompliant politicians, but also for selecting politicians with accomplishing behaviors or preferences (Ferejohn, 1986; Rogoff, 1990; Coate and Morris, 1995; Fearon, 1999; Beasly, 2007). Nevertheless, competitive elections might, also, induce two unpleasant effects: politicians running for re-election and willing to gain favour among voters may implement policies not aiming at fostering the long-term voters’ welfare (Ashworth, 2012)\(^3\); managers’ career risk increases, as they must calibrate their initiatives in accordance with both professional canons and council *desiderata*.

Considering public provision means, also, to address simultaneously efficiency advantages of competitive markets without losing the equity returns of traditional schemes associated to public administration and funding. Nowadays, many local governments try to promote or pretend to promote and consequently to introduce a “fair” degree of competition in the provision of public goods and services. In most cases, they mimic free markets’ characteristics of being a self-regulating incentive

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\(^2\) Dixit et al. (1997) present an interesting twist on this, in which politicians are agents but (multiple, competing) interest groups are the principals. This illustrates the positive use of principal agent analysis without any normative connection to public accountability.

\(^3\) “incentive to choose a policy that is ex ante popular with voters, even if [the incumbent] knows it is the wrong decision, given all of the information” (Ashworth 2012, 189).
system that influences consumers’ and providers’ behaviours. However, such systems are quasi-markets because they have characteristics at both supply and demand levels that differentiate them from conventional ones. In literature (Bartlett and Le Grand, 1993), quasi-markets specifically refer to the welfare provision, but, competitive schemes are pursued also for public utilities’ goods and services. In general, public government aims at creating a public sector institutional structure that is intended, on one side, to obtain more efficiency and choice than the one that would be ensured by bureaucratic “producing” schemes, on the other, to pursue more equity, affordability and steadiness than the ones would occur in case of traditional markets.

On the supply side, the idea is to generate a form of market system, where many providers compete for the market itself⁴ or to attract consumers. However, most of the time those providers do not purely seek out their profits maximization ⁵. On the demand side, the aim is to produce or to boost consumers’ choices, forcing providers to fulfil those preferences. Still, these quasi-market systems diverge from competitive ones because, usually, consumers do not directly pay for the service they select and because price is not the variable which determines consumers’ choice⁶. For them what matters, instead, are such aspects as perceived quality of service, waiting time, or accessibility. On the contrary, price plays a crucial role for the third-party payer, the local

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⁴ When elements of the utility system exhibit natural monopoly characteristics, customers can still gain some benefits of competition through effective use of competition for the market (Gómez-Ibáñez, 2003). In these situations, the government often auctions off the right to be a monopoly. Doing so can improve the efficiency of the utility services because: (1) cost efficiency is achieved because the firm able to “pay” the most for the market would also be the firm that could serve the market at the lowest cost; and (2) monopoly rents can be distributed to customers. This latter feature occurs if firms bid their retail prices (with the lowest bid winning) or if the firms’ bid payments for the franchise and the franchise fees are returned to customers.

⁵ In the public sector, those providers are often more or less nonowned organizations or nongovernmental organizations (NGOs). Providers can also be components or sectors of a single organization that internally trade their services inside a specific form of quasi-market called an internal market. Moreover, internal markets are not open markets, because providers and their products or services often need a third party or purchaser approbation to enter the market (Bartlett and Le Grand, 1993).

⁶ Quasi-market purchasing can be implemented through fee-for-service reimbursements, vouchers, retrospective budgeting, and the like. See
government, which should constrain consumers’ choices to services that have a high value for money. Efficient providers are supposed to - at the same time - accomplish purchasers’ demands for low price or good value as well as to consumers’ preferences for quality, accessibility and waiting time.

Therefore, government officials and managers should offer results that matter to the citizenry - despite being often subject to resource constraints. In other words, local governments must aim at providing public goods and services that can be perceived by the community being produced efficiently and effectively to conquer voters’ trust. The latter is a pre-condition for politicians to be re-elected and for managers to be re-appointed. So far, the attitude that has characterized public sector management has not been sufficient to make this occurs. Although there have been many studies to better understand service delivery, taxation, and expenditures with respect to policy making at the local level, as well as the issue of divergent incentives between the different groups of actors involved: citizens, politicians and managers, relatively few analysis investigate municipal level results after the city manager is appointed (see, e.g., Benton 2002; Donahue et al. 2000; Feiock and Tavares 2002; Hayes and Chang 1990; Honadle 1981; Morgan and Kickham 1999; Schneider and Park 1989).

This paper aims at extending this literature studying how the interactions among citizens, managers and politicians may affects the efficiency of the public services’, under the hypothesis of a principal-agent problem between an elected municipal major and the appointed managers, while an active or rational electorate monitors their behaviour. To this end, we apply the methodology of experimental economics, proposing an experimental design which comprises of four treatments differing in the level of information provided to participants and in how the PM’s wage has to be set.

7 See Besley (2007) for a wide-review of this issue.
In each treatment, however, there are the same number of participants randomly divided into three roles: Major candidates, Public Managers and Citizens. In particular, in each session, there are two candidates competing for the seat of Major, two public managers each linked to a specific candidate and five citizens.

At the beginning of each session, the software tosses a fair coin to choose who will be the first Major between the two candidates. Each Major lasts for three periods after that new election will start. Once the first Major has been chosen, he will appoint his public manager who will be in charge of local public goods and services provision. Also the Major has to decide whether to have a low or high local tax rate (10% or 20%). The difference can be seen both in terms of more or less resources devoted to provide local public goods and services and more or less disposable income for citizens.

Each participants is endowed with the same amount of tokens at the beginning of each period. However, when one candidate gets elected his endowment doubles during the three periods serving as Major, whereas the endowment of the public manager working with the elected Major gets increased by 150%. Once the public manager has been chosen, he will have to decide whether to put low or high effort in providing local public goods or services. The effort provided will affect the efficiency of the local public goods and services and, therefore, the payoff level of citizens. This in turn has a direct effect on the probability of the current Major to be re-elected at the end of his three-period mandate.

To sum up:

• the payoff of the candidates - when not elected - is given by
\[ \pi_i = w_i(1-t) + MPRC \sum_{i=1}^{n} g \]  
\[ s.f. \ w_i = w \]  

where \( w \) is the endowment, \( t \) the level of local tax rate, \( MPRC \sum_{i=1}^{n} g \) the returns to public goods (as function of public managers effort and levels of local tax rate)

- which changes as follows when elected

\[ \pi_i = w_i(1-t) + w_i(2-t) + MPRC \sum_{i=1}^{n} g \]  
\[ s.f. \ w_i = w \]  

- the payoff of the public managers - when not working for the elected major - is given by

\[ \pi_i = w_i(1-t) + MPRC \sum_{i=1}^{n} g \]  
\[ s.f. \ w_i = w \]  

- which changes - for each period spent working for the major - as follows

\[ \pi_i = w_i(1.5-t) + MPRC \sum_{i=1}^{n} g \]  
\[ s.f. \ w_i = w \]  

- the payoff of each citizen is given by

\[ \pi_i = w_i(1-t) + MPRC \sum_{i=1}^{n} g \]  
\[ s.f. \ w_i = w \]
As already said, we will run four treatments. The first one, labelled FI_Fixed, is characterized by full information setting, meaning that all participants in the experiment have complete knowledge of all the choices of both major and public managers. Also, in this treatment, the wage of the public manager does not depend on the level of effort provided.

The second treatment, labelled FI_V, differs from the previous one only in the wage awarded to public manager in charge of local public goods and services provision. In this case, his wage directly depends on the effort provided and, hence, it may be low when the effort provided is low or high when the effort has been high.

The remaining treatments differ from the previous ones in the level of information provided to participants. In details, the third treatment, labelled II_F, differs from the FI_F treatment in the fact that neither the citizens nor the major know the effort provided by public major in providing local public goods and services, being his wage fixed. Finally, the fourth treatment differs form the FI_V treatment in the fact that neither the citizens nor the major know the effort provided by public major in providing local public goods and services, being his wage function of the effort provided.

By appropriate comparisons, it will be possible to test whether the level of information matters in providing local public goods and services efficiently and assuring re-election to current major, keeping the wage setting constant. At the same time, it would be possible to assess the effect of having fixed or variable payment system to public managers on the efficiency of local public goods provision, keeping the level of information constant.

A novel aspect of our experiments is that we introduce as the optimal stopping rule the expected level of efficiency citizens have in mind when they approach public
provision. This enables citizenry to reduce the cost of gathering information on the local administration. In this extent, we, indirectly, also test the hypothesis of an increasing demand for information transparency, determined by the willingness to monitor the performance in the public activity, favouring accountability and reducing corruption of public officials (Galli et. 2017).

To the best of our knowledge, no systematic literature exists addressing the aforementioned research questions.

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