



Direct democracy and local government efficiency



Zareh Asatryan^{a,*,1}, Kristof De Witte^{b,c,1,2}

^a ZEW Mannheim, University of Freiburg, Germany

^b Top Institute for Evidence Based Education Research, Maastricht University, Kapoenstraat 2, 6200 MD Maastricht, The Netherlands

^c Leuven Economics of Education Research, Faculty of Economics and Business, KU Leuven, Naamsestraat 69, 3000 Leuven, Belgium

ARTICLE INFO

Article history:

Received 19 August 2014

Received in revised form 17 April 2015

Accepted 17 April 2015

Available online 25 April 2015

JEL classifications:

C14

D7

H7

Keywords:

Direct democracy

Public sector efficiency

Conditional efficiency

ABSTRACT

This paper studies the role of direct democracy in ensuring efficient and cost-effective provision of goods and services in the public sector. The sample consists of the population of municipalities in the German State of Bavaria, where in the mid-1990s considerable direct democratic reforms granted citizens wide opportunities to directly participate in local affairs through binding initiatives. Using information on the municipal provision of public goods, and applying a fully non-parametric approach to estimate local government overall efficiency, the analysis shows that more direct democratic activity is associated with higher government efficiency. This result suggests that more inclusive governance through direct decision-making mechanisms may induce more accountable and less inefficient governments.

© 2015 Elsevier B.V. All rights reserved.

1. Introduction

It has been long established that public bureaucracies often lack the appropriate incentives to provide public goods and services in an efficient and cost-effective manner (e.g. [Ostrom and Ostrom, 1971](#)). These incentive schemes are governed by a set of accepted rules (i.e., political institutions), the functionality of which, among other things, ultimately determines public sector efficiency. Institutions to constrain the inefficient behavior of budget maximizing bureaucrats usually aim at inducing competition between elected representatives ([Niskanen, 1968](#)). But what happens if voters (in addition to their representatives) are granted decision-making mechanisms to directly choose (or veto) laws and policies? More specifically, can direct citizen participation through direct democratic institutions (e.g., initiatives) increase public sector efficiency? This is the question we visit in the current paper.

A large amount of applied work has attempted to study the determinants of public sector efficiency both in public firms and national or sub-national governments.³ Regarding the production of decentralized public goods and services, unsurprisingly, democratic institutions such as citizen participation ([Borge et al., 2008](#); [Geys et al., 2010](#)) or political competition ([Eeckhout et al., 1993](#); [Ashworth et al., 2006](#)) have been shown to be significant determinants of local government efficiency (measured as some ratio of input-to-output indicators). The arguments and the supporting empirical evidence, however, do not go beyond the idea that higher

* Corresponding author at: ZEW, L7 1, 68161 Mannheim, Germany. Tel.: +49 6211235392.

E-mail addresses: asatryan@zew.de (Z. Asatryan), k.dewitte@maastrichtuniversity.nl, kristof.dewitte@kuleuven.be (K. De Witte).

¹ We gratefully acknowledge Benny Geys, Friedrich Heinemann, Wim Moesen and Jan-Egbert Sturm for valuable comments, as well as Rene Laub for excellent research assistance.

² Tel.: +31 433848437.

³ See [Kalb \(2010b\)](#) for a recent literature review of the commonly used methods and their applications.

participation (e.g., measured by election turnout) improves efficiency by a better monitoring of local politicians' activities and through a positive impact on their effort levels.

Scholars of direct democracy, on the other hand, have extensively argued that direct democracy allows the public to participate in law making and policy decisions which may improve broadly defined resource allocation in several ways. First, in societies with political collusion or ones with low competition between parties, initiatives may induce more political competition by citizens playing the role of the opposition (Breton, 1996). Second, initiatives may alleviate all kinds of possible principal-agent problems, such as reducing the possibility of vote trading between legislators for sub-optimal projects and allowing for projects closer to the preferences of the median voter to appear on the ballot by removing the agenda-setting monopoly of the legislature (Matsusaka, 1995). These theoretical arguments may enable voters in a direct democratic system to act as an additional veto-player and, thus, make it possible to reject inefficient spending projects and petition for better ones, demand more productive public sector investments, induce competitive bidding on public auctions, lower production costs by fighting public sector unions or other established interest groups, etc. In general, the introduction of direct democratic elements to complement institutions of representative democracy is expected to increase government efficiency by breaking the established status quo and inducing more accountable governments.

Contributions in this second strand of literature (i.e., effects of direct democracy), however, concentrate on general economic (e.g., growth, employment, etc.) and fiscal (e.g., government spending, taxation, borrowing, etc.) effects of direct democratic institutions, and to a lesser extent on their effects on government efficiency (for a general overview see Matsusaka, 2004). Several exceptions emerge. Pommerehne (1983), one of the first empirical studies, finds an efficiency-enhancing effect of direct democracy on (publicly managed) trash collection in Swiss cities. In an interesting recent contribution, Matsusaka (2009) shows that US direct democratic legislation cuts the inefficiently high levels of public sector employment (and wages) by breaking the political power of patronage of public sector unions. Nguyen-Hoang (2012), with school-district level data from the US, finds that budget referendums increase student–teacher ratios.⁴ These findings are not surprising, since voters arguably have much clearer positions against inefficient governments than regarding the level of its expenditures or taxes.

These studies, although suggestive, only concentrate on a specific sector of government service (i.e., trash collection, public sector employment, primary education). Clearly, direct democracy may potentially affect the efficiency of any production sector over which initiatives are not prohibited by law. Hence, it is important to understand the “overall” or “global” efficiency-related effects of direct democracy. The lack to do so can perhaps be explained by the methodological and data-driven complexity of measuring government's overall efficiency. Similar to the arguments of reversed causality, direct democracy on itself can influence the level of the municipal resources and provided public goods. Any direct democracy related effects should therefore be immediately accounted for within an efficiency model. This so called “separability condition” is often neglected in earlier work, and can bias the estimates (for a discussion see Simar and Wilson, 2007). In this paper, we bridge this gap with an attempt to tackle these methodological issues.

The first strand of literature (on the determinants of government efficiency mentioned above) is also prone to methodological issues. In the current paper, we define efficiency as a relative concept (in contrast to, e.g., Borge et al., 2008) without making any a priori assumptions on the functional form of the production frontier (in contrast to semi-parametric models applied in, e.g., Geys et al., 2010). As argued by Yatchew (1998), the functional form of the production process is often unobserved to researchers. Hence, specification biases might arise if parametric assumptions are explicitly set by the researcher. On the other hand, the traditional non-parametric methods, such as the popular Data Envelopment Analysis (applied in De Borger et al., 1994; De Borger and Kerstens, 1996), have a deterministic nature in that they ignore measurement errors and bias in the data. The efficiency estimates might therefore infer from outlying observations, which make them less reliable.

We avoid similar drawbacks by employing a fully non-parametric approach to measure overall efficiency.⁵ In contrast to earlier literature, the approach is not deterministic and allows us to account for heterogeneity among municipalities. In a second step, we test the role of direct democratic activity in explaining the observed differences in efficiency scores across local government units. Such a global approach is more appropriate because of the wide coverage and applicability of direct democratic instruments in various sectors of social life. Even more so for our setting of local governments in the German State of Bavaria, where in mid-1990 a bottom-up reform introduced significant rights of direct democracy at virtually all sectors of local public good provision.⁶

The introduction of direct democracy arrived in the post-reunification period which also saw a wave of public administration reforms across German States, often referred to as New Public Management reforms, aiming to make the local public sector more efficient and competitive (e.g., Wollmann, 2000; Reichard, 2003). The new institutions of direct democracy allowed citizens wide opportunities to participate in local affairs through binding initiatives, and were meant to complement to the public management reforms with the important element of citizen participation. As Wollmann (2000) describes, the direct democratic reforms brought

⁴ There are several further studies related to efficiency, which, however, contain less direct evidence. Feld and Savioz (1997) demonstrate greater total factor productivity in Swiss Cantons with more direct democracy, which then translates into higher output. Blomberg et al. (2004) find that US States with the initiative legislation host more productive workers and have higher (both private and public) capital to labor ratios. Dalton (2008), again with data on US States, finds that the availability and use of initiatives are correlated with several proxies of good governance, such as government management, tax and education policies. Blume et al. (2009) study the economic effects of direct democracy in a cross-country setting, where next to common indicators such as output or spending, aggregated indices of government quality such as (broadly defined) effectiveness, corruption and tax morale, are also employed. Evidence of a different sort comes from Santerre (1986) where in a Tiebout-type voting context consumer-voters are willing to pay a premium (in real estate prices) to live in communities with direct democratic rules, since they perceive these to be more efficient.

⁵ See Emrouznejad and De Witte (2010) for a practical introduction to non-parametric analysis.

⁶ See Asatryan et al. (2013) and Asatryan (2014) for summaries of direct democratic institutions, respectively, in Bavaria and across all German States. As shown in these studies, Bavaria has far more lenient institutions of direct democracy than other German States. This is one of the reasons for us to concentrate on the case of Bavaria.

Download English Version:

<https://daneshyari.com/en/article/5067925>

Download Persian Version:

<https://daneshyari.com/article/5067925>

[Daneshyari.com](https://daneshyari.com)