



# Citizens' Preferences and the Portfolio of Public Goods: Evidence from Nigeria

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**Summary.** — Developing countries have undertaken decentralization reforms to increase the efficiency of public goods' provisioning. By tailoring the goods to the preferences of smaller groups, the reforms aim to ensure that the resulting supply of public goods matches local demands. We analyze if local politicians tasked with supplying public goods in a developing country respond to citizens' preferences. We ask two questions: First, faced with demands for increased spending on a particular type of public good, will politicians increase the overall spending on public goods or keep it constant while reallocating resources between different public goods? Second, if politicians reallocate resources rather than increase overall spending, which public good will receive additional funds at the expense of another good? We examine these questions using sub-national spending and preference data in Nigerian districts. Our empirical strategy accounts for interdependency between spending areas as increased spending in one area can be offset by decreasing expenditures elsewhere. We find that local politicians reallocate resources across education, health, infrastructure, and agricultural support to match the preference profile of citizens across these goods but do not increase overall spending for public goods.

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*Key words* — local public goods, citizens' preferences, budgetary policy, Nigeria, simultaneous estimation

## 1. INTRODUCTION

Many developing countries have recently attempted decentralizing their governance structures. Though the reforms differ across countries, they share a common goal: improving the provision of public goods and services. Central administrations typically lack the knowledge to implement policies that reflect people's preferences concerning the quantity and type of public goods. In contrast, decentralization provides an opportunity to increase economic welfare by tailoring the provision of public goods to the preferences of smaller groups (Wallis & Oates, 1988, p. 5), thereby ensuring that the resulting supply of these goods matches local demands.

An impressive body of research investigates the effects of decentralization on such areas as poverty (Hickey, 2005), child mortality (Granados & Sánchez, 2014), and economic growth (Petrick & Gramzow, 2012). However, most work focuses on the form and type of decentralization. Thus, previous literature assesses variation in institutions (see Jütting *et al.*, 2005) while we focus on the variation in citizens' preferences—while holding the institutional context constant—to examine the success of decentralization.

For this reason, we focus on Nigeria. The 1999 Nigerian constitution restored democratic rule and implemented a system of elected local governance. A main goal of democratic decentralization is the devolution of decision-making powers to local governments in the interest of giving people a voice in the new democracy. By committing to decentralization initiatives, Nigeria's government is attempting to be more responsive to the local population's needs. Suberu (2015) points out that due to Nigeria's fiscal allocation system, sub-national political entities cannot blame budget mismanagement on the federal government, but are held accountable themselves. Moreover, as a country plagued by ethnic divisions, decentralization may alleviate distrust in government decisions and encourage popular participation (Azfar, Kahkonen, Lanyi, Meagher, & Rutherford, 1999), thereby accomplishing more than just improved service delivery.

In addition to its implementation of decentralization, Nigeria is an attractive case because our data provide a rare opportunity to test whether local supply of public goods corresponds to citizens' demands. Reliable data at the local level are scarce, so we take advantage of appropriately disaggregated data to test our theories. With respect to citizens' demands, we utilize survey data on 123,095 Nigerian households that measure district-level demand of four types of public goods: education, health care, infrastructure (in particular, roads, electricity, and water), as well as agricultural support.<sup>1</sup> We then analyze the supply of public goods by examining whether the budget allocations of Nigerian districts correspond to local demand.

Significant variation characterizes spending by Nigerian districts on public goods. For one, there is heterogeneity with respect to the overall level of all public goods combined. For example, Efon district spent just over 39 million Naira on public goods in 2006, while Kiyawa district spent over seven billion Naira. This is surprising considering the total population of Efon amounts to 86,941 while only 17,704 individuals live in Kiyawa district, resulting in significant differences in per capita spending on public goods. In addition to the variation in *overall* volume spent on public goods in general, significant heterogeneity exists with respect to the *types of public goods* politicians provide. For example, overall expenses for public goods are identical in Mubi South and Bagwai districts, amounting to nearly 213 million Naira each. In addition, the stock of existing public goods is comparatively similar, as both districts have completed the same number of education and health projects in the past five years. Yet, Mubi South spends 2% of its budget on education and 24% on

\*The paper greatly benefited from the comments of Patrick Brandt, Jennifer Holmes, Clint Peinhardt, David Samuels, Todd Sandler, Laura Thaut Vinson, and three anonymous referees. Any remaining errors are the sole responsibility of the authors. This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors. Final revision accepted: November 8, 2016.

health, while Bagwai spends 12% on education and 1% on health.

We seek to explain the variation in the types of public goods provided. While supply-side arguments can convincingly explain the variation in overall public good expenses, they have less traction in explaining the relative share of spending on a certain type of public good. What explains this variation in the portfolio of public goods provided?

To answer this question, we focus on variation in citizens' demands. In doing so, we disagree with Banerjee, Iyer, and Somanathan (2007, p. 3) who state that "It seems implausible that these very large differences in access to education, better hygiene, health, and longevity could be entirely explained by differences in what people want." We find that citizens do differ in the types of public goods they want, even after accounting for existing levels of public good provision. With successful constitutional reform, we expect politicians' allocation of resources across different types of public goods to closely match the preference profile of the local population.

To shed light on this, we analyze whether public goods' provision in Nigeria is responsive to citizens' preferences. This paper examines two questions: First, when faced with demands for increased spending on a particular type of public good, will politicians increase overall spending on public goods or keep it constant while reallocating resources between different public goods? Second, if politicians reallocate resources, which public good will receive additional funds at the expense of other goods?

We argue that politicians do not increase overall spending, but instead pursue a reallocation strategy when faced with demands for a particular type of public good. In such a situation, politicians allocate resources to the type of good preferred by the majority of citizens in their district at the expense of goods preferred by only a fraction of households. In contrast to Harding and Stasavage (2013), who focus on the characteristics of public goods, we argue that the aggregated preferences of individuals explain the type of public good provided.

We estimate a Differentiated Product Model since this methodology allows simultaneous testing of two hypotheses: Do politicians reallocate resources (rather than increase overall spending), and if so, do they allocate resources to the most preferred public good? Our results confirm that citizens' preferences explain which types of public goods are provided, and that the relative demand for different goods matters. We show that politicians follow the demands of their constituencies by providing the preferred type of public good while cutting expenditures on the least-preferred type.

## 2. EXPLAINING PUBLIC GOODS' PROVISION

Much work exists explaining the level of total spending on public goods. Yet, these approaches do not consider differences across various *types of public goods* such as education, health, or infrastructure. For example, Bueno de Mesquita, Morrow, Siverson, and Smith, 2002 suggest that leaders decide between providing a generic public good or an unspecified private good. Thus, the overall volume of spending on public goods is analyzed, not the mix of different types of public goods. Recent work has begun to analyze the allocation of resources to different types of public goods. In the context of developing countries, this body of work can be divided into several schools of thought.

First, there is the argument that ethnic groups have divergent tastes for public goods. Ethnic group *A* is hypothesized

to want good *i* for historical and cultural reasons, while group *B* prefers good *j*. For example, Easterly and Levine (1997, pp. 1215–1216) review qualitative work suggesting that politicians provide different public goods as a function of different preferences across ethnic groups. Using quantitative analysis, Lieberman and McClendon, 2013 confirm that preferences vary across ethnic groups in most sub-Saharan African countries. However, this emphasis on the preferences of specific ethnic groups might not provide substantive insights. Bates (1974), Chandra (2007); and Posner (2005) describe ethnic political competition primarily as a battle over who gets the spoils from public policies rather than a substantive conversation regarding the relative priority of competing policy objectives. Consequently, the focus on historic, cultural, and context-specific group characteristics yields non-generalizable explanations. Moreover, this approach has produced contradictory findings. Lieberman and McClendon (2013) argue that ethnicity is a significant predictor for demand of public goods, while Habyarimana, Humphreys, Posner, and Weinstein (2009, p. 81) find that ethnic indicators are not jointly significant.

A second argument suggests that it is not the ethnic identities per se, but the degree of ethnic heterogeneity that undermines efficient supply of public goods. Following the seminal work by Alesina, Baqir, and Easterly (1999), Easterly (2001) shows that ethnically diverse societies receive only half the schooling but experience twice the number of electric power losses in comparison to more homogeneous societies. Others suggest that ethnic groups systematically disagree over the kinds of public goods they want provided (Habyarimana *et al.*, 2009). As a result, Jackson (2013), Kimenyi (2006) and Habyarimana, Humphreys, Posner, and Weinstein (2007) argue that ethnic diversity increases collective action problems, undermining communities' ability to demand public goods. However, empirical work has failed to provide convincing evidence for this argument. In a review of empirical work, Banerjee *et al.* (2007) argue that "the social composition of communities is able to explain only a fraction of the total variation in provision." When Alesina *et al.* (1999) include fixed effects in their models, the effect of heterogeneity on overall public good spending becomes insignificant. Two reasons for these findings have been suggested: first, exogenous factors affecting heterogeneity (such as migration patterns or urbanization) can affect heterogeneity measures as well as economic outcomes, including the demand for and supply of public goods (Banerjee *et al.*, 2007). Second, rarely observed public action complicates differentiating between (a) less collective action due to ethnic heterogeneity (Alesina *et al.*, 1999), and (b) more, albeit wasteful, collective action resulting in inefficient outcomes as suggested by Esteban and Ray (1999).

Another approach focuses on the characteristics of specific public goods to explain which type of good is provided. For example, Robinson and Verdier (2013), Rodrik (1998), and Katsimi (1998) show that public sector jobs are the preferred type of public good since they address politicians' commitment problems to voters preceding an election. Similarly, Harding and Stasavage (2013) provide evidence that visible public goods like infrastructure are more likely provided than invisible public goods like school quality. This explanation implies that *every* politician should *always* prefer providing a particular public good because its favorable characteristics are time- and space-invariant. Yet, we observe something different: politicians in one district prioritize good *A*, while good *B* is prioritized in another. One exception is Albertus (2013) who argues that politicians dispense different types of public goods depending on the characteristics of constituencies from which

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