



The median voter didn't show up: Costly meetings and insider rents[☆]

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ABSTRACT

How does changing from an assembly to a town-council form of government affect the way in which cities are run? Previous empirical research on this question has not found much of an impact of assemblies on aggregate outcomes such as local public expenditures or taxation. Nevertheless, the specific role of organized insiders may be important to understand how cities and towns governed by citizens' assemblies work. Existing surveys point to local workers as an important pressure group in local assemblies. Using data from local governments in New England I find that municipalities governed by assemblies pay around 4% to 10% higher salaries to their employees. This wage premium is bigger in assemblies with lower attendance, and increasing with the employees' voting power. I prove my results robust to the inclusion of an exogenous representative-government comparison group: municipalities in New York State that lie within 40 miles of the border with New England. The results demonstrate how insider groups derive some advantages from an assembly form of government. More broadly, the potential capture of assemblies by insider groups can be an important risk faced by municipalities with low citizen participation, which provides a rationale for the widespread adoption of representative government at the local level.

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1. Introduction

The institutions, policies, and practices of local governance are very important to explain how cities run. An extensive literature in urban economics and local public finance (Rubinfeld, 1987) has studied how taxes, public expenditures, infrastructure provision, school quality, and zoning affect urban outcomes and growth. However, relatively less attention has been devoted to the impact of local political and governmental institutions on town and city management.

This paper compares the assembly institution to its democratic counterfactual, representative government, as alternative ways to

manage the provision of public goods and services in cities and towns. Previous empirical research has not found much impact of assemblies on aggregate outcomes such as local public expenditures or taxation. However, there may be more subtle ways by which local institutions impact urban governance. I hypothesize that the power of insider groups, such as government workers and local officials, becomes very important in a context of costly attendance to meetings. Empirically, I use data from local governments in New England, where many municipalities are governed by an assembly type of government – the Town Meeting. I compare the wages paid in similar job positions between Town-Meeting municipalities and local representative governments. I find that municipalities governed by assemblies pay around 4% to 10% higher salaries to their employees. I prove these results robust to the inclusion of an exogenous representative-government comparison group: municipalities in New York State that lie within 40 miles of the New England border. For historical reasons that are exogenous to the contemporary political debate, New York never introduced the Town Meeting system.

The results of this paper can be used to understand how competing forms of local government affect the administration of cities. Positive theories about representative government (such as Niskanen, 1975) have tended to focus on simplified models of representative democracy and ignore the variety and richness of institutional forms that exist in the field. The paper shows how interest groups can derive advantages from less hierarchical institutions of governance. Previous

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papers (Osborne et al., 2000, 2005; Turner and Weninger, 2005) have argued that attendance will tend to be low in assemblies with costly participation, and that the composition of voters will not generally be representative of the population. Borghers (2004), however, points out to the existence of negative externalities associated with higher attendance, which may actually make the outcome of poorly attended assemblies more efficient. Here I show that, in the context of urban city management, voting institutions cannot be analyzed independently of the existence of organized insider groups. Assembly institutions are susceptible to being captured by insider groups with low attendance costs, coincident and well-defined interests, and effective organization (Olson, 1971). Therefore more representative forms of city government seem more attractive in the presence of extreme preferences or organized insider groups and high participation costs, both in terms of allocative and productive efficiency.

This work also enriches the existing empirical literature on assembly local government. Assemblies, direct democracy, and direct participation of the citizens in public decisions — these concepts have exerted a great intellectual attraction for many people, from libertarians to the Soviets.¹ Despite this theoretical appeal, the empirical work on the performance of municipal assemblies relative to representative city governments is far from complete. The existing literature has focused on the total size of municipal budgets² and displays a lack of consensus on the effects of assemblies: there does not seem to be a *systematic* impact of the form of governance on local expenditures and taxation. However, there may be other dimensions in which the two forms of city management differ such as the allocation of rents to interest groups explored here.

Furthermore, previous papers in this literature share common econometric problems. They do not properly address endogeneity issues: omitted variables that are correlated with the propensity of having a representative government may also be correlated with the outcome. Also, representative and assembly-type municipalities are very different in terms of population. The literature has not taken seriously the issues of comparability of treatment and control samples, and the potential existence of nonlinearities in the impact of observable variables on the outcomes of interest.

The paper therefore expands the existing literature in five new directions. First, it goes a step further in analyzing the institutional reality of actual assembly city governments, where the issues are not limited to voting preferences and rules. As in the recent corporate finance literature, I show that the existence of entrenched insiders is key to understanding the functioning of local government and the trade-offs of different institutional arrangements. Second, I examine the productive efficiency rather than allocative efficiency of municipal assemblies, focusing on an altogether different outcome — municipal wages. Third, I limit the samples by population similarity between representative and assembly governments to their common support in terms of population to enhance comparability. I also prove the results robust to nonlinearities. Fourth, the paper provides a direct link between attendance rates in local assemblies and outcomes. In so doing, it also presents new results on the determinants of contemporaneous attendance to the institution that can be considered the cradle of American democracy. Lastly, I introduce an exogenous control group: municipalities in New York State, which does not have the assembly institution.

¹ Assembly-type governance institutions are pervasive. Neighbor and community organizations, unions, universities, school districts, limited societies, and the like all use assemblies to reach and implement collective decisions. Most municipalities in New England and Switzerland have the assembly form of government. According to Poterba and Rueben (1995) about two thirds of municipal budgets in the US are devoted to pay for labor services. Understanding how assemblies bargain with their employees is key to understanding the overall performance of direct democracy.

² See Wheeler (1967); Pommerehne (1978); Chicoine Walzer and Deller (1989); Pommerehne (1978); Pommerehne and Scheider (1978); and Santerre (1986, 1989).

The paper proceeds as follows. Section 2 introduces the reader to the institutional features of the New England Town Meeting, and discusses the relation between the different economic theories of government and this work. Section 3 introduces the data and its sources. Section 4 presents the results of the analysis, and tests the robustness of the findings. Section 5 concludes.

2. Background

“Absolute independence characterizes Town Meeting. No one tells a Yankee how to vote, no one dictates; and only another Yankee can persuade. In a world where Democracy perishes, and in a country where self-government occupies every thinking mind, it is startling and refreshing to find New England Town Meeting alive and able and in the hands of a tightfisted people who keep their heritage well.” (Gould, 1940).

The New England Town Meeting is a fascinating institution: a local assembly where municipal government issues are openly debated and voted on by the attending registered citizens. This form of local government is common in many of the small and medium-sized municipalities in the states of New England: Connecticut, Massachusetts, Maine, New Hampshire, Rhode Island, and Vermont. The institution appeared in New England in the 17th Century, probably as an adaptation of the Swiss cantonal democracy or a translation of the incipient societal venture rules into colonization.³ It is thus an institution whose origins are exogenous to the contemporaneous debate about the role of government.

By the beginning of the 18th century the Town-Meeting local government was extended to all the States of New England, where it functioned until 1780 in all towns. On that year, some citizens advocated for the incorporation of Boston as a city (with representative government), which was finally accepted by popular vote only in 1822. From then until today a number of municipalities, singularly big communities, passed votes to abandon the Town Meeting.

Although the role of the New England Town Meeting as the origin of the American democratic *ethos* has been emphasized previously (Tocqueville, 1831), its economic role remains somewhat unexplored. Yet the link between direct democracy and economic choice on taxes and budgets was made clear since at least the 18th century Town Meetings. Only taxpayers were allowed to vote. Indeed “decisions on the qualification of voters in eighteenth-century Massachusetts were made by the moderator according to the List and Valuation of Estates and Faculties. The list was prepared for purposes of taxation by the assessors...” (Zuckerman, 1970).

At present, the Town Meeting is usually held once a year at a regular date.⁴ Every registered voter in the Municipality can attend, speak, and vote. Between Town Meetings, the daily government is delegated on the town's elected executive body: the board of selectmen, or local representatives. The selectmen set the agenda of the meeting (the warrant), although any proposal can be raised by citizens' action and it is easy to include a new point to be voted during the assembly. The selectmen can also call special Town Meetings to deal with important matters.

Most local governments' decisions are of an economic nature and are summarized by the annual municipal budget. Total worker compensation represents 68.5% of municipal budgets (Poterba and Rueben, 1995). Consequently, municipal public workers' employment

³ For more extensive discussions see Worcester (1925), Callahan (1931), Gould (1940), Zimmerman (1967), Zuckerman (1970), and Zimmerman (1998).

⁴ Mansbridge (1983) provides an extensive account of the proceeds of a Town Meeting in Vermont and interviews many town dwellers for their views on the workings of the institution. Here I follow Zimmerman (1999). The interested reader can access many Town Meeting minutes on the Internet.

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