Local Government Efficiency and the Political Characteristics

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Local governments are in charge of a significant amount of public provisions like amongst others waste collection, social support, road maintenance and public education. For this reason it is necessary to evaluate how efficient the local governments are in the provision of their public services. The European Commission has in a recent report emphasized the importance of efficiency. Countries with high levels of public debt need to show that they are committed to reduce these debts and show progress in the right direction. The member states need to improve the quality of their expenses by rising their expenditure efficiency (European Commission, 2014). For this reason it is necessary to evaluate how efficient the local governments are in the provision of their public services. The objective of this research is to understand the causes of inefficiency and to be able to improve the overall efficiency of local governments.

This paper measures and studies the technical efficiency of the Flemish local governments in the years 1999-2013 by employing an input-oriented bootstrapped DEA analysis and a bootstrapped truncated regression. Our work could be an extension of previous Flemish and international work. Flemish existing work, until now, only focused on cross sectional research of the efficiency of local municipalities. The efficiency has more specifically only been examined in the year 1985 (De Borger and Kerstens, 1996) and the year 2000 (Ashworth et al., 2014; Geys, 2006; Geys and Moesen, 2009a; 2009b) whereas we are employing a panel data set containing 15 years. International existing literature has already researched the local efficiency in a panel data setting but does not explain the efficiency in a political way, we introduce three political variables to explain the efficiency of local governments. Additional in the international existing literature concerning the efficiency of the local governments there are only two other papers who have used the double bootstrapped method proposed by Simar and Wilson (2007).

We employ a bootstrapped DEA analysis to measure the efficiency and use the bootstrapped truncated regression to explain the efficiency of the municipalities. The efficiency of certain units is measured by looking at how well the inputs are being transformed in outputs. To do this in a public context one first has to determine what are the key in- and outputs. The inputs and the outputs should underline the commitments and aims the local governments have and try to proxy those aims as closely as possible (Cullinane et al., 2006). As the input variable we choose to use the current expenditures of the local government. The
expenditures are the resources the local governments address to provide in their local service provision. To choose the output variables we need to take a look at the different outputs the government provides by examining the different expenditure items that come with the local governments’ commitments. The first output variable we use is the waste collection per capita in the municipality. The second output variable is the number of people who are paid a subsistence minimum. Next we also include the number of building applications that are being processed by the administration department of the municipality. Fourthly we also use the number of students in kindergarten and in primary education as output variables.

From performing the input-oriented bootstrapped DEA method, we find that on average the Flemish municipalities have an efficiency score of 41% meaning that there is room to decrease the used inputs by 59%. In the bootstrapped truncated regression we introduce three political variables to explain the efficiency and we find that the fragmentation of the government has a negative impact on the efficiency of the municipality (the number of political parties in the government). This negative effect can be understood in three different ways. First, tax money is paid by the entire adult population, while the expenditures are often targeted at a specific group (Weingast et al., 1981). Therefore, politicians compete with each other to target these benefits to their electorate (Eslava, 2011). This means that there is more inefficient allocation of the resources. Second, if the coalition is more fragmented, different parties are less sure about being in the government in the next legislature. To make governing in the next legislature more difficult for their successors with different political preferences, parties ensure that there are high levels of debt (Alesina and Tabellini, 1990; Persson and Svensson, 1989). This means that they do less well considered expenditures leading to more inefficiency. Third it is harder to reach a decision when a lot of parties have to agree upon the decision, this may have a detrimental effect on the way a government manages its budget and can lead to more inefficiency. The second political variable we introduce is the ideology of the government. We find that right wing governments are on average less efficient which is opposite to what we expected according to the theory on ideology (Hibbs, 1992). Next we also introduce the power of the government (the percentage of seats the coalition parties have in the government). We find that if a coalition is more powerful than the efficiency of the government is also higher. This can be due to the fact that if the government has a lot of power than it is easier to implement the chosen policies and to withstand the challenges presented by different interest groups which renders the high powered government more efficient (Doumpos and Cohen, 2014; Ricciuti, 2004). Next to the political variables we also find that a number of control variables are significant in the analysis namely the received funds, the level of debt and the percentage of unemployment who all have a negative impact on the efficiency of Flemish local governments.
References


