

## Chapter 1

# Institutional Foundations of Local Governance

In 1931, a number of prominent businessmen in Dallas carefully orchestrated a successful campaign to replace the existing city charter with a new charter establishing a councilmanager form of government for Dallas. This group became known as the Citizen's Charter Association, and it remained active in Dallas civic and political affairs, along with another businessmen's group, the Dallas Citizen's Council. Through the new charter, and through their other efforts, the Dallas "business elite was instrumental in helping to create and maintain a political system in which those who held elected and appointed office did not have to be told what to do," according to Stephen Elkin. Instead, the government officials "would be drawn of their own volition to particular projects and to general ways of looking at the city that were compatible with the inclinations of business leaders. They were to act in ways that, if the members of the business elite had time and authority, they might be drawn to themselves" (Elkin 1987).

Almost thirty years later, an incorporation petition was circulated in northeastern Los Angeles County for a community that was to be called Industry. Despite the fact that the boundaries specified on the petition contained six square miles of land, the areas failed to contain five hundred inhabitants, the minimum number required by state law for incorporated communities. The sponsors then redrew the boundaries to include the 169 patients of a mental sanitarium. Once the thirty-one employees at the sanitarium were added to the total, the area contained a population of 629 inhabitants. The City of Industry was soon born, and no adjoining municipality could annex its land, which included some of the prime industrial properties in the metropolitan area. In 1961, Industry's per capita property tax assessment was \$41,865, compared to \$849 per capita in the neighboring City of La Puente (Miller 1981).

In September 1979, General Motors' chairman Thomas Murphy met with Michigan Governor William Milliken and Detroit's Mayor Coleman Young to discuss the deterioration of the American automobile industry and to invite these political leaders to help GM find a new site for any new assembly plants that might be constructed in the near future. Murphy's invitation may have been half-hearted, because it did not seem likely at the time that the state or the city could find an affordable site, with the appropriate design and location, and then help GM take title to the property during the time frame that Murphy had in mind. However, by April of the next year the Michigan legislature had changed the state law of eminent domain to permit a "quick-take" of property whereby a condemning authority could take title before compensation had been settled on with property owners. By July, the residents of an area that was to become a new Cadillac assembly plant were informed that their homes, businesses, and churches were to be destroyed (Jones and Bachelor 1986).

What is common to each of these controversies is the critical role played by the formal institutions and rules of government. The form of government authorized by municipal charter, the authority and ability to incorporate as a municipality, and the power of eminent domain were each used strategically by political actors to pursue their interests. These institutions were central to the outcomes. In some instances, the political actors involved are struggling among themselves to establish new and different institutions to govern their communities. In other instances, political and policy outcomes can be attributed to the presence of certain institutions that exist in some, but not all, communities. In either case, the institutional arrangements present or absent in the different communities are considered worth the struggle to change or maintain them over the opposition of other political actors who want to impose or retain their own sets of institutions. If citizens believe them to be worth fighting over, we believe they are worthy of study.

One difficulty with an institutional focus is that the term *institution* can take on several meanings. Substantial confusion exists between scholars who use the term *institution* to refer to an organizational entity such as a family, a business firm, political party, or a university, and scholars who use the term *institution* to refer to the formal and informal rules operating within or across organizations (Ostrom 1990). We adopt the latter use of the term. Douglass North has defined institutions as "the rules of the game in a society or, more formally, the humanly devised constraints that shape human interaction" (North 1990). Institutions encompass both formal rules such as the formal powers of office and also informal norms, roles, and operating practices that are so stable, structured, and accepted that they can be said to be "institutionalized" (Wolman 1995). While we place greater emphasis on rules than on roles, both formal rules and informal roles are important to the extent to which they structure political action.

Institutions serve several important functions in organizing local politics. First, institutional arrangements shape individual actions because they offer incentives to engage in certain behaviors and disincentives to behave in other ways. Second, by reducing uncertainty, institutions can provide premises for decision making and supply particular channels for information to travel through and among organizations. Third, institutions can provide stability in collective choices that otherwise would be chaotic. In short, they induce patterns within social phenomena that otherwise would appear meaningless.

### THE NEW INSTITUTIONALISM

Increased attention to institutions has arisen in history, sociology, economics, and political science over the last few years (Goodin 1996). This “new institutionalism” is more than a resurrection of older institutionalist traditions. In political science, this approach has addressed questions regarding both legislative decision making and bureaucratic action. The first of these has focused on institutions as constraints that limit choices, predispose certain outcomes, and allow decision makers to overcome the intransitivity of majority voting. Institutional arrangements such as committee structures in legislative bodies or constitutional constraints on the actions of officials often produce a “structure-induced equilibrium” (Shepsle and Weingast 1987).

The second contribution of the new institutionalism has modeled bureaucratic institutions based on the economic theory of the firm and principal-agent analysis. Ensuring the wishes of principals are carried out by their agents depends on complex calculations of the comparative costs of internal monitoring of subordinate behavior and external monitoring of the quality of goods supplied by external providers. It is sometimes advantageous to reduce uncertainty and minimize transaction costs through institutional arrangements that “internalize” certain activities within an organization rather than contracting with external suppliers (Moe 1984; Weingast 1988).

### THE ROLE OF INSTITUTIONS IN URBAN POLITICS THEORY

We believe that formal institutions are at the core of local governance and that any understanding of how and why local governments do what they do must include some appreciation of the constraints and incentives derived from institutions. Though few scholars today would question the general proposition that institutions matter, much of the contemporary research in urban politics and policy making has little role for institutional arrangements. Research explaining local government action often attributes particular outcomes to changing demographics, shortages in revenue, corporate power, hegemonic ideology, and a number of other factors. We are not arguing research in this

tradition is wrong, merely that it is incomplete by its omission of the role of institutions in structuring behavior. The internal political forces that are the focus of this work are certainly important for understanding the dynamics of local politics. Nevertheless, the path of these trends and internal forces, as well as their impacts on policy choices, may in large part be a product of the institutional constraints on local governments. These constraints characteristically have historical roots, as artifacts of past action and policy choices.

Somewhat ironically, thirty years ago the study of institutions held a prominent place in the study of urban politics. In the 1960s scholars such as Gordon Black, Robert H. Salisbury, and Edmund Fowler and Robert Lineberry devoted a great deal of effort to examining the electoral and policy implications of the institutions of the municipal reform movement. While the study of institutions has continued, the institutional perspective has played only a minor role in the behavioral and class-conflict scholarship that dominates contemporary study of urban politics. This is not to say that analysis of local institutions came to a halt.

Over the last two decades, several authors have added greatly to our knowledge. Susan Welch and Timothy Bledsoe have continued to investigate the implications of the institutions of the municipal reformers (Welch and Bledsoe 1988). In addition considerable attention has been given to the organization and fragmentation of jurisdictions in metropolitan areas (Miller 1981; Oakerson and Parks 1988; Parks and Oakerson 1989; Schneider 1989), and the various institutional arrangements employed in delivering city services (Stein 1990). But this work, first, is far out-numbered by urban research which downplays local government institutions; second, this work has tended to focus on a far-from-comprehensive set of local institutions and a fairly select set of public issues.

Even in the field of intergovernmental relations, where the formal legal relationship of one level of government to another is central, intergovernmental institutions have not played a prominent role in the literature. One notable exception is the recent work of Nancy Burns, which examines the effects state level constraints have on municipal incorporations and jurisdictional change (Burns 1994). In this book, we will show how institutionally focused analysis, informed by principal-agent theory, transaction costs economics, and rational-choice approaches to politics can provide a richer understanding of local politics and policy making.

#### WHY DO INSTITUTIONS MATTER?

First and foremost, institutions matter because they affect the behaviors of policy makers. One objective of this book is to examine how the constraints and incentives derived from institutions influence the choices and perfor-

mance of local governments. Because institutions provide incentives for political exchange, they affect political and policy outcomes, often in very predictable ways. For example, we will demonstrate how institutions such as electoral rules, constituency and jurisdictional boundaries, and the formal powers of local officers shape and constrain the choices of elected officials who wish to remain in office or rise to higher office.

This is not to say that the general impact of institutions is straightforward or easily predictable, nor do we mean to imply that there is great consensus as to what those impacts really are. For example, much of the social scientific research views institutions, particularly economic arrangements, as efficiency enhancing (Posner 1972; Williamson 1985). Others see them as primarily exploitative and coercive (Marglin 1974). We will argue that, under various circumstances and contexts, institutions may induce each of these outcomes.

What is generally true of all institutions that pertain to local governance is that they affect participation in public decisions. Some arrangements expand the set of participants, others determine which sets of participants will be taken seriously, while still others affect the scope of issues about which citizens may participate. E. E. Schattschneider viewed institutions as critical to the determination of political outcomes because they expand or limit the scope of conflict. For these reasons, institutional rules help determine who the winners and losers will be in local controversies over policy choices (Schattschneider 1975).

The impact of institutions does not stop with policy adoption; their influence also reaches to the administration and implementation of policies that have already been chosen. Differing institutional arrangements can affect the risk and uncertainty of bureaucratic actions as well as creating incentives that reward or punish administrators for acting in particular ways. The implications of differing sets of institutions on policy choices, their implementation and their performance are central to our analysis.

### *Institutions as Outcomes*

Before embarking on our analysis of the impacts of various local government institutions it is useful to introduce some ideas regarding the origins of different institutions to inform this analysis. We do not accept particular sets of institutions as given, as did institutional economists of the early twentieth century, but instead see them as humanly derived constructs. Individuals and groups have preferences for particular institutions. These preferences may be shaped by a belief that those institutions will increase the probability of reaching their favored policy ends. Therefore, the politics of institutional choice may be a continuation of the politics of particular policy choices. At any given

point in time, institutions may represent the “congealed tastes” for the specific policies that they encourage (Riker 1980). We can therefore explain, to some extent, variation in institutions across different jurisdictions by identifying differences in the preferences and clout of the individuals and groups in these different jurisdictions.

Accounting for institutional change over time, however, is somewhat more difficult. Some change can be attributed to changes in the relative prices of the goods, services, and objects of desire of the people governed by particular institutions. In those cases, specific policy preferences will change as the cost of reaching different goals changes.

Therefore, the choice of ideal institutions will also be modified to improve the chances of reaching new policy ends. Frequently local government institutions will change because of the impetus of outside forces, such as when federal courts dictate that at-large elections will no longer be permitted. But on other occasions preferences for institutions change as more general preferences and worldviews change. How and why this occurs is not well-understood, but many scholars suggest that such views are socially constructed as a function of the kind of social interactions and contexts into which individuals are imbedded (Durkheim 1952; Huckfeldt and Sprague 1995; North 1990). Therefore we should expect institutional change over time to occur most when the social environments of communities are undergoing the most upheaval. For example, when demographic change is most rapid, or when the occupational base of a community is suddenly transformed by economic circumstances.

## OVERVIEW OF THE BOOK

In the next chapter, we elaborate how institutional features of city governments affect some different kinds of important policy choices. We then apply this framework to an analysis of the adoption of comprehensive zoning ordinances and the choices of different kinds of economic development policies. We find that institutional arrangements such as ward representation and mayoral veto power affect these policy choices, and in some instances, even determine the kind of effect that socioeconomic variables have on these outcomes.

We next examine how institutions shape the relationships between legislators and their constituents. Here we show how institutions make a difference in how citizens relate to individual council members, and how interactions between citizens and council members are shaped by constituency characteristics, the nature of electoral coalitions, and career characteristics of council members. We examine how these factors affect the extent to which citizens contact members of city council over economic development issues and policies. We

find that contacting of ward, as opposed to at-large, representatives is affected by somewhat different conditions. We also find similar forces affecting levels of council member constituent service regarding development policy. Our analysis also reveals that ward representation interacts with partisan affiliation to affect attitudes toward the targeting of development policy to disadvantaged areas of the city.

The next two chapters examine the implication of leadership turnover for policy choices. Chapter 4 examines decisions about how to deliver city services. In particular, the chapter identifies whether services are delivered directly or through some form of contracting with private firms, nonprofit organizations, or other units of government. We argue that turnover in leadership positions in city government should increase transaction costs involved in contractual agreements, thus encouraging cities to deliver services directly. Our findings indicate that many cities do deliver services directly when top administrator turnover is high, but they are likely to contract out services when mayoral turnover is high. This finding is consistent with patterns of delegation of authority to bureaucracies reported by legislative scholars.

Chapter 5 examines how mayoral, manager, and council turnover affects time horizons, transaction costs, and the credibility of city government commitments as revealed in longterm obligations such as debt financing, pension funding, and long-run leasing. Electoral threats may encourage politicians to provide government benefits to important interests and constituencies in the present, while postponing the payment of the resulting costs until the future. This could be done through borrowing rather than pay-as-you-go financing of a project, through underfunding of a pension system, or through long-term leasing of facilities and equipment. At the same time, cities experiencing great leadership turnover may have difficulties making credible commitments that would satisfy creditrating firms, banks, or other private interests with which cities would do business.

City governments are nested within an intergovernmental framework where they are subject to external rules and constraints imposed by higher levels of government. In chapter 6 we examine how state or federal regulations, mandates, judicial requirements, and other external limitations operate as intergovernmental institutions. We apply this intergovernmental institutions framework to analyze the implications of state annexation laws, requirements for quasi-judicial processes in zoning, and the Federal Tax Reform Act of 1986 for local government annexations, exclusionary zoning, and borrowing decisions.

Chapter 7 summarizes our major findings and renews the call for an institutionally focused perspective of how local governments are managed and how and why city elected officials act as they do. In this concluding chapter we focus on the role of institutions in local governance. Contemporary empirical

research that treats institutions as directly influencing local decisions and tests only for the additive effects of institutions is based on a misunderstanding of the role of institutions as mechanisms to aggregate preferences. We argue in favor of an interactive approach that treats the institutions of local government as mechanisms for mediating conflict and aggregating and articulating individual and group preferences. We then review the analyses from this book that reveal preferences interact with institutional arrangements to predict the use of legislative case work decisions, as well as development and debt financing choices. Our focus next turns to the implications of institutions for uncertainty. The consequences of uncertainty for political choice are examined based on our exploration of local government borrowing and contracting decisions. We then briefly discuss the importance of intergovernmental institutions, rules and constraints, and conclude by explaining how the concept of path-dependent development helps explain the long-enduring impacts of the institutions of local governance.

In these seven chapters we hope to advance institutional analysis of local governments and local governance. We seek to demonstrate the promise of such an approach by taking on a wider array of theoretical and substantive problem than has been attempted before and viewing them from the perspective of the institutions that shape and influence them.

## CONCLUSION

We want to make the case that institutional analysis should be at the center, not the periphery, of the study of local politics. This chapter began with some illustrations of political battles over institutions. Sometimes the battles concern city charters or electoral systems, sometimes they deal with the nature of service contracts, at other times they may involve civil service requirements or the extent of authority delegated to city administrators. These arrangements are all what are commonly called “institutions.” These features of local government are humanly devised constraints that shape human interaction and consequently provide incentives for political exchange (North 1990). Institutions affect political and policy outcomes, often in predictable ways. It is because they often have predictable effects that political actors struggle to change or retain existing arrangements. We hope that our illustrations presented here and the analysis that follows will make this point clear.