

Dear Vincent,

This is a copy of a paper for a conference made up mainly of planners and municipal bureaucrats. It does not, however, pretend to be a comprehensive explication of the public choice approach. But I think it will raise some eyebrows.

Best wishes,
Mark

URBAN BADS AND THE STRUCTURE OF
INSTITUTIONAL ARRANGEMENTS

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WORKSHOP IN POLITICAL THEORY
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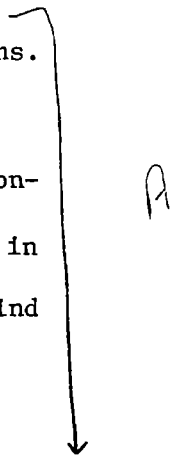
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I. Introduction

Many countries experienced the same phenomenon in the 1960's and early 1970's. Urbanization and urban problems were recognized as major social, economic and political priorities. Even the term "an urban crisis" was occasionally used. Governments responded with a variety of policy and institutional initiatives.

Times have apparently changed. A mood of fiscal conservatism and a belief in the ineffectiveness of governmental solutions to urban and other social problems are symptomatic of this change (Canadian Public Policy, 1976). Does this mean that the policy problems of an urban society were misspecified? Does it mean that the institutional initiatives and changes in governmental responses were inappropriate? And what does it mean for institutional and policy arrangements for the next decade?

This paper will attempt to answer these broad questions. It does so by first outlining what may be called "the theory of public bads." Such a theory is necessary to explain the relationships between institutional arrangements and policy initiatives in the context of an urban and interdependent society. And this kind of explanatory knowledge is necessary for an evaluation of past institutional changes and future institutional possibilities.



Part II of the paper contains the theory and an illustrative case study of its empirical warrantability.

Part III of the paper argues that the thrust of most changes in institutional arrangements over the last decade may have exacerbated rather than ameliorated the human condition in urban society. This argument is congruent with the theoretical section. It also presents a key institutional reform which could set the agenda for responsive and effective governance of urban society in the immediate future.

II. The Theory of Public Bads

Academic textbooks and informed commentaries all suggest similar reasons for the socio-economic problems of urban societies. Individual or private behaviour can create a number of unfavourable consequences for other persons in an interdependent world. The private automobile, for example, can create unfavourable consequences for others that take the forms of pollution, congestion, central city blight and urban sprawl. Or as a second example, private sector demand for the agglomeration economies of central city office space can create unfavourable consequences in housing and employment markets as well as in neighborhood amenities. The pursuit of "private goods" can lead to a series of "public bads". Or to use the language

of economists, market weaknesses and market failures are exemplified in modern urban communities.

Academic textbooks and informed commentaries also suggest similar solutions to these urban problems. Governments must adopt regulatory, taxation and expenditure policies to reduce the number and extent of "public bads". They must extend the number and extent of "public goods". Governments in Canada and abroad largely followed this prescriptive advice. New policy initiatives were undertaken to replace "public bads" with "public goods".

Public goods possess two major technical characteristics.¹ First, it is difficult for technological and/or legal reasons to exclude citizens from enjoying, using or consuming the goods. So, for example, it is difficult to exclude urban citizens from enjoying the benefits of police patrols or neighborhood parks. Secondly, public goods possess a high degree of availability, which means that once one person has used the good (such as an open space amenity) there is usually an adequate supply left for others to enjoy.

Public goods are usually provided by governments because of these characteristics. If left to the private sector, individuals have an incentive not to purchase or contribute to their provision, because others are jointly consuming and (hopefully) paying for their supply. Taxation by the public sector is the typical method to force individuals to contribute toward the provision of public goods which they use, and

1. The theory of public goods has largely developed since Samuelson's (1954) formalization of their optimality conditions. For a recent summary see Sproule-Jones (1975).

so ensure optimal supply.²

When governments provide urban "public goods" to solve the problems of urban "public bads", other consequences occur. Unfortunately, academic textbooks and informed commentaries are often silent on these consequences. Public goods may be transformed into new kinds of public bads. They may erode, run down or be destroyed unless institutional incentives exist to maintain the goods over time (Buchanan 1970).

Two well known urban problems may be explained by and are illustrative of this phenomenon. The collective housing arrangement when directly supplied by government (and called public housing) or supplied by the private sector under statutory regulations (and called strata title housing) is the first example. Those parts of the housing arrangements that are provided as public goods, such as elevators, gardens, parking lots, common rooms and recreational facilities, tend either to be run down or destroyed, or monopolized by one group of persons, unless institutional arrangements exist to maintain and ration their use. In extreme cases, public elevators are transformed into public bads for all but the monopoly use of the local teenage gang!

2. For other methods see Olson (1965).

A second example is the public road supplied as a public good to relieve automobile congestion. In the absence of policies designed to maintain and ration its use, congestion normally reoccurs after a small time lag.

There are two features of the erosion or maintenance of urban public goods that must be noted. These features, it may be suggested, are the real reasons behind the current mood of scepticism toward governmental solutions to urban problems in the 1970's. The first feature is noted in academic writings (e.g. Lineberry, 1977; Antumes and Plumlee, 1977), but the second is often ignored. Both are exemplified in the following case study. The first feature is that the degree of erosion or maintenance of an urban public good is a function of the decision rules in urban bureaucracies. The second is that erosion or lack of maintenance will create an incentive for private behaviour to capture the public good for exclusive use.

CASE STUDY

Urban communities are usually situated on the shores of coasts, rivers or lakes. The historical reasons include the importance of water borne transportation systems (Bellan, 1971). Access to the waterfront is often provided as a public good, in part because of the salience and value placed on the foreshore as a natural recreational amenity (Sproule-Jones, 1978, No. 33). The case study examines access to the beaches in the urban communities of Greater Victoria.³

Access to foreshores is supplied as a public good under pro-

3. Defined for purposes of this study, as the urbanized municipalities of Esquimalt, Oak Bay, Saanich and Victoria, with a resident population of 165,000.

visions of the B.C. Land Registry Act.⁴ Section 86 (b) reads:

Where the land subdivided borders (1) on the shore of any body of water ... access shall be given by sufficient public highway to such body of water and to such strips at distances not greater than 200m. between centre lines, or in district municipalities or unorganized territory where the parcels into which the land is subdivided exceed 5ha, at distances not greater than 400m. between centre lines (The Land Registry Act, 1973, c. 48, s.1)

Comparable provisions have existed under the Act since 1911. The public good is supplied in two ways. First, the municipal planning departments as well as the Provincial Land Registry Office approve all subdivision plans to ensure compliance with the terms of the statute. Secondly, municipal governments maintain the public good by clearing obstructions and developing footpaths or vehicle access.

In fact, much erosion of the public good has occurred. Some 33 of the 88 beach accesses (38%) are eroded and impassable by normal pedestrian or vehicular means.⁵

Our theory also suggests that erosion of public goods is a function of the decision rules operative in urban bureaucracies. The critical decision rule adopted by the officials in all four municipalities is the same; beach accesses are to be maintained only if they lead to accretional or dry pocket beaches (where the backshore is wetted only under extreme conditions). These beaches lend themselves

4. The legislative jurisdiction was established, for foreshores excluding harbours, in Nanaimo Ice and Cold Storage Ltd. v. Blyth, 63 BCR 150.

5. I am grateful to R.G. Lapper for data collection. The data are calculated from Chapman (1976), and supplemented by visual inspection of a number of sites.

to particular forms of outdoor recreation, such as sunbathing, boat launching and easy walking. No attempt is made to maintain accesses to other kinds of beaches except under persistent complaints.⁶

Our theory suggests also that erosion will create an incentive for private behaviour to capture the public good for the exclusive use of one or more persons or corporate persons. Put more intuitively some individuals will take the law into their own hands. A visual inspection of many of the eroded beach accesses reveals that adjacent property owners have successfully absorbed the accesses into their own properties by extending landscapes and private fences, and removing public access signs. In one extreme case, a property owner has constructed a garage on the adjacent access and paved the remainder as a private driveway! Some owners suggest that such private behaviour is a response to the behaviour of other users of the accesses who through noise, littering and "social behaviour" have attempted to monopolise use of the public good. In either case, the "public good" established as a means to eliminate a "public bad" (enclosure of a natural amenity) has reverted to a

6. Other kinds of beaches are (1) those at the foot of gravel containing banks that do not erode but do not create a stable and dry backshore zone; (2) those low in gravel and high in clay, and providing insufficient material to protect the fore-shore shelf; and (3) rocky shores. The classification is Bauer's (1976). Each kind of beach attracts different forms of recreational use. The decision rule is confirmed from interview data.

"public bad". This consequence is relatively well understood in natural resources management; it is often labelled as "The Tragedy of the Commons" (Hardin, 1968). It is rarely perceived as a typical consequence of government remedies to modern urban problems.

III. Institutional Arrangements

Our theory and illustrative case study imply that the critical institutional arrangements in urban communities are those creating incentives on public officials to maintain public goods and reduce public bads in both the private and public sectors. It is important to note that such incentives are justified on grounds of social efficiency as well as mere responsive problem solving on the part of governments.

The critical institutional arrangements are traditionally defined in Canada, however, as considerations of scale. Municipal governments and local special districts are seen as too small for effective and coordinated governmental solutions to modern urban problems. Reorganisations are continually adopted in most provinces.⁷ They sometimes take the form of a transfer of functions to a Provincial Government (most notably in New Brunswick). They

7. Summaries of the reorganisations are provided in many places. For a recent one, see Higgins (1977).

sometimes take the form of an expansion in the territory of central city municipalities (most notably in Alberta). Most often, they take the form of a transfer of functions to regional governments, with the territory and powers of smaller local governments modified and/or abolished (most notably in Ontario, Manitoba and Quebec). An economic or efficiency rationale is usually attached to such changes or advocated changes. Thus, for example, Professor Harvey Lithwick (1970, pp. 220, 221) was able to write:

"We would seek to reallocate delivery functions - spending as well as legislative power - among levels of government in line with the 'degree of publicness' of the various functions ... This is theoretically the ideal solution. It seeks to establish the relevant political roles on the basis of purely functional analysis."

The dominance of scale considerations in the evolution of institutional arrangements for urban Canada is both curious economics and unfortunate for the maintenance of urban public goods. The reason is that the reorganizations take the form of re-establishing or establishing the monopoly of one level of government (local, regional or provincial) in providing a particular function or service.⁸ This point deserves further elaboration.

8. The short lived existence (1971-79) of the Federal Ministry of State for Urban Affairs is, of course, congruent with this statement

Economists, planners and practitioners of government stress the fact that small municipalities in larger urban communities are unable to provide public goods and services at optimal and cost-effective levels. Jurisdictional spillovers and the diseconomies of small scale provision of many urban services limit the capability of small municipalities to respond efficiently to solutions for urban bads. But evidence such as that presented in the previous section of the paper, and also from experience with reorganized urban governments in a number of different countries⁹, shows that monopoly solutions in the urban public sector lead to the erosion of public goods into public bads. Monopolies in both the private and public sector lack incentives for efficient and responsive performance.

The question of appropriate institutional arrangements for urban communities becomes, then, is there a way out of this dilemma? Must we trade off institutional solutions to solve spillover and economies of scale problems with the disadvantages of public sector monopoly governments? Must we balance the advantages and disadvantages of more centralized or decentralized forms of government for urban communities?¹⁰

9. The best reviews of foreign experience with reorganized local governments are: (1) for the U.S., California: Governor's Task Force on Local Government Reform (1974); (2) for Sweden, Birgersson (1977); (3) for West Germany, Gunlicks (1977); and (4) for Britain, Benjamin (1977).

10. This is Feldman's view (1974) after a re-evaluation of Canadian experience.

Recent theoretical analysis, supported by an increasing volume of empirical studies, suggests that the dilemma can be resolved.¹¹ The key institutional change is to separate the demand side from the supply side in the provision of urban public goods and services. Governments at all levels are jurisdictions to which citizens articulate their demands for different levels and kinds of public goods and services, and through which decisions are made to provide these goods at particular tax levels. (Sproule-Jones and Hart, 1973; Sproule-Jones, 1974; Orbell and Uno, 1972; Lucas, 1976) Governments, of course, differ in their capabilities to assess and aggregate citizen demands.

Governments are also involved in the production or supply of services. Sometimes the services are produced by their own departments and bureaucracies. On other occasions, the services are produced by the public bureaucracies of other levels of government, by special district bureaucracies, or by private sector organizations under contractual agreement for each function. Local government reorganizations have consistently favoured the production or supply of urban public services only by the bureau-

11. Recent summaries of the theoretical work are provided in Sproule-Jones (1975); Bish and Ostrom (1973); Rich (1977); and Bish (1978). Leading empirical studies include E. Ostrom (1973, 1978); Ahlbrant (1973); Savas (1977); and Sproule-Jones (1978, No. 34)

cracies of each tier or level of government.¹² They have strengthened or established monopoly solutions in the supply of urban public goods.

A separation of the demand and supply side in the provision of urban governmental functions can yield efficiency and responsiveness advantages. First, performance contracting offers incentives for the producing organisation to respond to the preferences of "demand articulating and aggregating unit" of government on pain of substitution by rival organisations. It also offers elected officials, in this regard, choices among alternative programme levels at different costs.¹³ Secondly, it offers opportunities for large and small governmental units to exploit economies of small or large scale production as the case may be. Thirdly, it offers opportunities for urban governments to enter into cooperative solutions for internalizing jurisdictional spillovers.¹⁴ Empirical evidence suggests that

12. The regional districts in British Columbia must now be included in this category since the abolition of the "opting out" clause in 1970. Municipalities are now unable to choose between contracted services produced through regional district bureaucracies or produced in other ways, once the function has been accorded to the regional level.

13. Incentives to offer such information is absent under typical public sector monopoly arrangements (Niskanen, 1971; 1975).

14. Such institutional reforms will require, in addition, a set of arrangements designed to resolve or arbitrate lengthy bargaining and decision-making efforts associated with interjurisdictional agreements, as well as ensure that the supply side market is not rigged by collusive agreements amongst potentially rival producers.

many urban public services (including schooling, policing, fire protection, waste collection, and even engineering and planning services) may be more efficiently and responsively produced by such arrangements. (Bish and Warren 1972). The overall effect of such an institutional reform will be differing organizational and governmental arrangements for differing public goods and services. Neither small governmental units nor large governmental units will be better for the provision and maintenance of all urban goods.

One aspect of this kind of institutional reform deserves mention. Possibilities exist for new forms of citizen participation in the conduct of urban public affairs. The term coined for these possibilities is "co-production" (Gregg, 1974). Citizen participation is usually limited to the articulation of demands, and the provision of information, to elected and appointed officials. Even this limited role is granted at the discretion of officials (Lucas, 1976). Citizens can, however, be directly involved in the production or implementation of urban policies under the terms of performance contracting. A small local example will help clarify this point.

Since 1975, the Municipality of Saanich has contracted out an environmental-recreational service to a private society. The Swan Lake-Christmas Hill Nature Society is contracted to:

"establish, operate, maintain, manage and preserve areas for research, nature study, observance of flora and fauna, instruction in natural history and other purposes of a like

nature for the advancement of public education, including the establishment of a natural history interpretation center dedicated to the use of lands in the vicinity of Swan Lake and Christmas Hill." (The Corporation of the District of Saanich, 'Societies Act' Swan Lake Nature Centre, 1975, p. 1)

The Society is able to provide biological expertise, a mix of professional and volunteer labour, and a high degree of personal efficacy in the rehabilitation of an urban bad (part of a drainage basin with massive cultural entrophication). The Municipality provides a large proportion of the operating costs in addition to budgetary controls.

The scope for "co-production" of urban services is only beginning to be realized - in "neighborhood watch" programmes for policing services or in environmental groups for the collection and disposal of solid wastes, for example. Apart from the financial benefits to urban communities, "co-production" offers possibilities for citizens to recapture local governments and prevent the erosion of public goods into public bads.

IV. Conclusion

Modern urban communities intensify and extend the interdependencies between and among individual persons and corporate persons. Many of these interdependencies require governmental initiatives as remedies. The public goods, that are provided by governments as a consequence, often erode.

One set of urban bads is replaced by another set of urban bads.

The thrust of changes in institutional arrangements for urban communities since World War II is to strengthen the monopoly powers of municipal bureaucracies through reorganisation. Monopolies tend, in the public as well as the private sectors, to be inefficient and unresponsive, and, it is suggested, lack the incentives to maintain urban public goods and prevent their erosion into urban public bads.

The key requirement for institutional reform is to separate the physical production or supply of public goods from the jurisdiction that articulates and aggregates the demands for such services. The economic benefits from reorganisation, in terms of internalizing jurisdictional spillovers and exploiting economies of large scale production, may then be harmonized with the advantages, both in economics and in responsiveness, of exposing urban bureaucracies to the threat of potential rivals in production. This reform also offers the potential of enlisting citizen participation in the implementation of public policies, from which they have been largely excluded.

The political feasibility of such an institutional reform rests on the relative power of public officials to maintain the monopoly status of their organizations. It would be sanguine to believe that such a reform could be instituted without a struggle.

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