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A TALE OF TWO CITIES: BUREAUCRATISATION IN MAYOR-COUNCIL AND COUNCIL-MANAGER MUNICIPALITIES

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Abstract

The aim of this paper is to explain why the organization of some US local administrations resembles the organization of private hierarchies while in others 'chief executives' (elected local politicians) have bureaucratised their administrations in the sense that they have delegated the powers to hire, fire, and promote public employees to autonomous bodies (Civil Service Commissions). The paper presents a New Political Economy model which predicts under which circumstances self-interested politicians will bureaucratize their public administrations. The model shows that the more concentration of powers a polity has, the more prone politicians will be to delegate staff policy to an autonomous bureaucratic body. The model is tested with data on US municipalities and results confirm the main hypothesis: municipal governments with more concentration of powers (mayor-council ones) exhibit higher levels of bureaucratisation (more numerous and more active Civil Service Commissions) than municipal with more separation of powers (council-manager ones).

1. The Puzzle: The Bureaucratisation of Local Administrations

The aim of this paper is to explain why the organization of some local administrations resembles the organization of private hierarchies and, on the contrary, why some other municipalities have peculiar organizational features which I define here as bureaucratisation characteristics. Probably, the *"most striking"* difference between private sector and public sector principals are *"civil service personnel systems, meaning personnel systems in which some important decisions about hiring, firing, and promotion are routinely made by a external commission that is not under the control of the chief executive"* (Frant, 1993: 990). In spite of introducing internal rules constraining employers, private organizations always give ultimate discretion to the chief executive. This is not the case in many public organizations (Frant, 1993: 990). In the latter, chief executives – the politicians that are running the public administration – are very limited in the selection, promotion and dismissal of employees and frequently delegate staff policy to autonomous bodies. The question addressed in this paper is: *Why do some local elected politicians – principals in the municipal administrations – not possess the discretion in managing employees enjoyed by principals in the private sector?* In other words, why principals in the local public sector cannot choose their agents?

Those limits to the discretion of politicians are considered as one of the defining characteristics of bureaucracies (Holdaway et al. 1975, Rainey 1976, Frant 1993). Williamson (1990) distinguishes three main forms of governance: two of them have been extensively analyzed in the transaction-costs literature -market and hierarchy- and the third one remains mostly overlooked –bureaus. Although Williamson admits that it is not clear what the contract law in bureaus is, he gives a provisional answer: civil-service law in combination with administrative law. Following Williamson, this paper considers that *the more behaviourally constrained –by civil service laws- elected local representatives (the 'principals of municipal administrations) are, the greater the level of bureaucratisation of a municipality is.* Therefore, the question addressed in this paper can be set also in these terms: *Why some municipalities are more bureaucratized than others?*

The purpose of the transaction-costs literature is to answer the so-called Coasian question: *"Why organize economic activity one way (e.g., procure from the market) rather than another (e.g., produce your own needs: hierarchy)?"* (Williamson 1990: 80). In particular, the task of this literature has been basically to assign transactions to markets and hierarchies so as to achieve a most preferred (usually least cost) result, where this is judged principally in terms of transaction costs (Williamson 1975: 369). The aim of my research is moving the Coasian question from the dichotomy market vs. hierarchy to the dichotomy hierarchy vs. bureaucracy: Why organize activity in bureaucracies (with civil-service laws constraining principals) rather than in hierarchies (principals free to hire, fire and promote employees)? If Coase (1937) asked the question 'why do firms exist' given the fact that markets – according to neoclassical economy – should work efficiently, I am asking here the question: *Why do bureaucracies exist if hierarchies - according to transaction-costs economics – should work efficiently?*

One may observe differences in the level of bureaucratisation across the US local governments. There are municipalities whose employees are selected, promoted and dismissed by the administration 'chief executives' (either council members, mayors or citiy-managers); and, on the contrary, there are local governments where those functions are partially or totally delegated to an autonomous body called Civil Service Commission –which remains isolated from the main organizational line of command that flows from elected politicians to public employees (Tolbert and Zucker 1983, Frant 1993, Ruhil 2003).

This paper presents a New Political Economy theoretical model to explain those differences across municipalites. The aim of the model is predicting under which circumstances self-interested politicians will bureaucratize their public administrations. The driving force behind the model is that politicians face a problem of credibility in their relationships with public employees because politicians cannot credibly commit themselves to reward employees properly. Public employees do not trust politicians when the latter are too powerful to renege on their promises (for example, about higher salaries, future promotions, or permanence of the office in the short-medium term). On the contrary, politicians are more credible in the eyes of public employees when they do not have a high

degree of decisiveness[1] –for example, when politicians face other agents with veto power. In those cases, politicians do not suffer a problem of credibility. If there is no separation of powers within a political system –in other words, when politicians have a lot of decisiveness or, what it is the same, when there is only one principal- *politicians who are interested in the efficiency of the policy implementation, in order to offer credible promises to public employees, will have to bureaucratize their public administrations.*

Such a theory is difficult to test across countries because there is a lack of reliable comparative data on characteristics of public bureaucracies. In particular, there are few studies that try to measure cross-country differences in the structure of bureaucracies, such as what I defined above as bureaucratisation -the degree of delegation, from politicians to autonomous institutions, of the powers to hire, fire, and promote public employees.

In spite of the fact that there are only some bureaucratisation indicators for contemporary countries with few observations each (such as Kai-Uwe Schnapp 2002, or Evans and Rauch 1999), important correlations between high concentration of powers and high bureaucratisation of the public administration across contemporary countries have been found (Lapuente-Gine 2005). In this paper it is argued that US local governments provide a unique setting for testing this theory. First, proxies to the degree of bureaucratisation can be built for US local governments, because there are municipalities which have a Civil Service Commission (CSC) and municipalities which lack it. More importantly, there are municipalities where the CSC plays a minor role in the selection, firing and promotion of employees and municipalities where staff policies are more extensively delegated (from the Chief Executives of the municipality) to a CSC. Second, the number of observations is larger than in cross-country comparisons, thus allowing a more comprehensive quantitative analysis. And third, contrary to cross-country comparisons, where the probability of omission of relevant variables is higher, US municipalities share a common denominator in cultural and historical terms. For these reasons, an empirical test based on data from the survey 'Local

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[1] I am using here the terminology of Cox and McCubbins (2000), who consider that one of the main trade-offs political systems face is the one between 'decisiveness' –the capacity to take political decisions, which decreases with the level of separation of powers existing in the polity- and the 'resoluteness' –the capacity to show a long-term commitment to the policies enacted in a concrete moment, which rises with the polity's level of separation of powers.

Government Human Resources Functions 2000' by the International City-Manager Association (ICMA) is deployed in this paper. The empirical contrast confirms the predicted relationship between concentration of powers and bureaucratisation.

The paper is organized as follows. Section 2 makes a brief summary of the main explanations of the bureaucratisation of US municipalities. Section 3 develops the general theoretical model of bureaucratisation based on politicians' problems of credible commitment. Section 4 applies the theoretical model to the case of US local government and generates the theoretical predictions which will be subsequently tested in section 5. Section 6 concludes.

2. Existing Explanations of Bureaucratisation in US Municipalities

The conventional explanation of the extension of bureaucratisation across the US municipalities sees it as the victory of 'good government' forces led by Progressive Era reformers (Hoogenboom 1961; Schultz and Maranto 1998). The problem with this explanation is that the reformist sentiment alone cannot explain why some cities established CSCs in 1880s while other municipalities followed suit more than half a century later (Ruhil 2003:159). Besides, the 'good government' explanation argues that the introduction of CSCs was hand in hand with the expansion of other municipal reforms such as the expansion of city-managers. However, as it will be shown in section 5, that assertion does not stand empirical scrutiny and the contrary seems to be true: municipalities with city-manager are less prone to have CSCs.

Several authors have developed political explanations to fill the gaps of the conventional cultural views. For Frant (1993), the existence of a popular election of the chief executive is what explains the introduction of civil service arrangements replacing a patronage system. If the key purpose of civil service were preventing nepotism or corruption, as some theories suggest, we would expect to see it in private corporations, since corporate managers certainly might engage in nepotism at shareholders' expense (Frant 1993:996). The

essential feature that distinguishes public from private corporations is the existence in the former of executives that are popularly elected. In the public service, patronage systems can be used for electoral malfeasance, a problem that does not arise in corporations. If there is no a politically independent civil service, the control over hiring and firing gives to the elected CEO (the mayor) access to public funds with which to reward supporters. The mayor and her party obtain an unfair electoral advantage in relation to other candidates thanks to mayor's control of patronage. This is the reason why in directly-elected-mayor cities –where the elected mayor supervises public employees- there is more pressure to limit mayor's appointment powers through the establishment of civil service commissions. In a council-manager municipality, on the contrary, the executive authority is vested in a city-manager who is appointed by a board made up of elected councils. Thus this local government looks like a private corporation, where managers are appointed by a small board and, therefore, the use of patronage for electoral malfeasance is not a problem, because it is useless for the city-manager to retain office. Therefore, independent civil service commissions would be less necessary in council-manager cities.

Although the theory is appealing, Frant does not gives us the microfoundations of the decisions that substituted merit-based systems for patronage ones in elected mayor cities: if the person who may take the decision of holding back patronage is the same who obtains benefits from patronage in terms electoral malfeasance, why does he prefer an autonomous civil service? Frant offers two non convincing answers: the citizens would persuade politicians to choose a bureaucratic civil service, what seems quite unlikely; or the councilors of opposing parties would try to limit the patronage scope of the elected mayor, what seems more likely, but Frant does not offer empirical support of this latter mechanism.

Another general argument within the political explanations is that there was an increase in the 'patronage pressure': a decrease in the number of available patronage resources or an increase in the number of potential applicants per job. CSC turned into a feasible alternative to patronage because it allowed politicians to shirk patronage demands when such demands were becoming increasingly difficult to fulfil (Ruhil 2003:161). The main problem with this argument is his empirical intractability: how to measure patronage pressure? On the demand side, authors use rough proxies such as the percentage of certain foreign populations (mostly

Irish and Italian) and the results they obtain are contradictory. For Tolbert et al. (1983), the more "percent foreign-born", the more the middle-class Anglo-Saxon classes react and try to defend their interest by imposing CSCs, because political machines of patronage are immigrant-dominated. Exactly the contrary is true for Ruhil (2003): the more immigrants – because they want more patronage- the more they will tend to veto merit reforms, and the less CSCs we will see in those cities. Surprisingly, both relations are corroborated empirically.[2] A further problem is that those explanations do not take into account the supply side: maybe increases in patronage demand were coupled by increases in the size of local administrations, which might be reasonable during the first decades of the 20th century, and then the entire explanation would not stand.

This paper follows the pioneering work of Maser (1998) who applies transaction costs economics to the design of municipal institutions. Nonetheless, there are three main differences between both works. First, Maser's dependent variable is all kind of procedural safeguards existing in municipal institutions, while mine is the extent of bureaucratisation. Second, while Maser focuses his explanation on the relationship between citizens and local politicians, the focus here shifts to the relationship between politicians and public employees. And third, while Maser analyzes several transaction-costs, this paper centres its attention in a particular transaction-cost: time inconsistency problems.

3. Time-Inconsistency Problems in Politics

> *Once upon a time on the banks of a great river lay a town called Hamelin. The citizens of Hamelin were honest folk who lived contentedly in their grey stone houses. The years went by, and the town grew very rich. Then, one day, an extraordinary thing happened to disturb the peace: a black sea of rats swarmed over the whole town. The terrified citizens flocked to plead with the town councillors to free them from the plague of rats. But the council had, for a long time, been sitting in the Mayor's room, trying to think of a plan.*

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[2] An explanation for these contradictory results may lie on the fact that Ruhil does not control for education, as Tolbert does, and foreign-born could be capturing the effect of education.

Just then, while the citizens milled around outside, a stranger proposed to the city council: "for a thousand florins, I'll rid you of your rats!" "A thousand florins!" exclaimed the Mayor. "We'll give you fifty thousand if you succeed!" Next day, by the time the sun was high in the sky, there was not a single rat in the town. There was even greater delight at the town hall, until the piper tried to claim his payment. "Fifty thousand florins?" exclaimed the councillors, "Never...". "A thousand florins at least!" cried the pied piper angrily. But the Mayor broke in. "The rats are all dead now and they can never come back. So be grateful for fifty florins, or you'll not get even that…".

Written by economists[3] the plot of this traditional tale could have been different: the pied piper would have rationally anticipated that, once the town was free of rats, it would not be in the interest of the Mayor and Council to reward him properly. Ex post, it would be more rational for the Mayor to divert the 50,000 florins to build hospitals or directly to his own pockets. Therefore, the pied piper would probably have stayed at home and the story ends right at the beginning. Anyhow, the Tale of the Pied Piper illustrates nicely the problem of time-inconsistent preferences that is inherent to politics and the tale has been used to show problems of credibility that arise in the relation between government and citizens (Sala-i-Martin 2005). But, ironically, it has not been used to shed light into the relationship between real-world Mayors and real-world Pied Pipers like local employees. And that is the purpose of this paper.
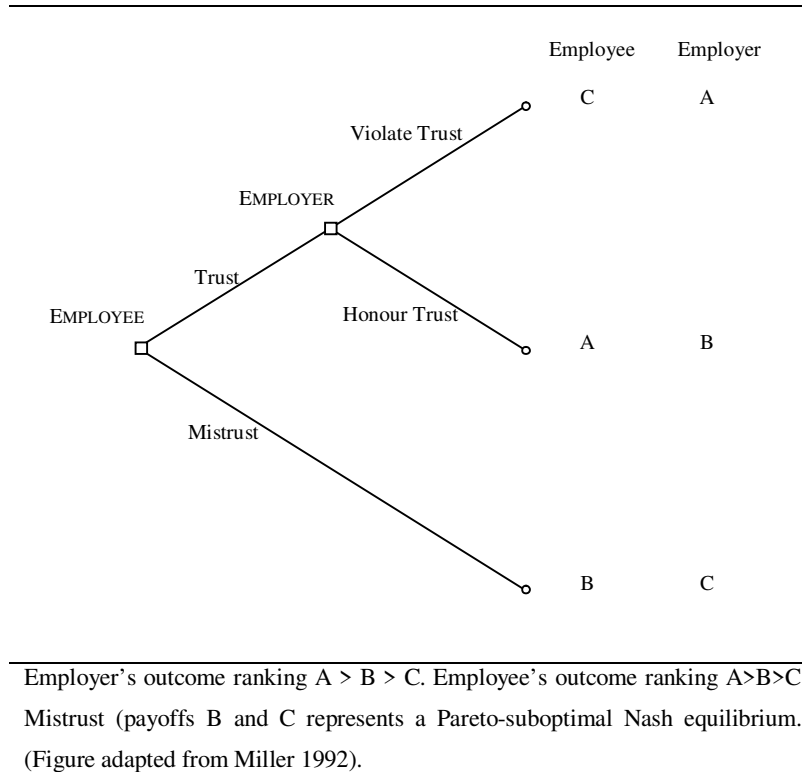
Time-inconsistency problems affect not only those transactions detailed in a written contract between a principal and an agent, but also those 'relational' transactions that cannot be established in a formal contract, as a stream within organizational economics has extensively showed: "*Every firm requires its employees to take actions that cannot be coerced —quality-improving suggestions, transaction-cost decreasing cooperation with other employees, customer-pleasing friendliness. These actions, by their very nature, cannot be induced by any formal incentive system*" (Miller and Falaschetti 2001: 406). For example, in any firm, if rational workers *believe* their manager will reward them as she promised, they will engage in higher levels of effort. Similarly, pied pipers or any kind of public employees need the confidence that they will be properly rewarded. This paper uses insights from the literature dealing with this problem — especially from the work of Gary Miller (1992, 2001, 2002)— to understand the relationship between governments and its public employees.

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[3] See for instance Kydland and Prescott (1977).

Gary Miller's *Managerial Dilemmas* (1992) analyses the relationship between employers and employees in private-sector companies. Although he explores the case of a "piece-rate" system, the underlying problem of credibility he shows can be extended to any kind of relation between a boss and her agent where the employer has incentives to ex post opportunistic defections — like asset specific investments, information flows, promotion or wage increase promises (Gibbons, 2001: 334). In the example of the piece-rate contract the employer pays the employee an amount based on the number of units, or pieces, the employee produces. In principle, this system of incentives is an ideal way of solving the principal-agent problem in production, because it aligns the self-interest of employers with organizational goals. However, as Miller recalls, the piece-rate contract is not used so often as standard principal-agent theory would predict.

According to Miller, there is an underlying game between the employer and the employee, whose essence is the issue of information asymmetry. Managers can never be sure about what the employee's marginal cost of effort functions are, and employees are systematically trying to protect that information asymmetry. With a price p for each piece produced, if the employee discovers a more efficient production technique or if she decides to work harder, she may start to earn more money than employer expected, and the employer has incentives to adjust piece rates downward (for example to $p - x$) in response to high salaries. Then, the employee has incentives to a strategic misrepresentation: not to implement new techniques and not to work hard. The result is inefficient: the employer fixes a lower piece-rate and the employee makes a lower effort than is socially desirable. It is a stable outcome, but it is not efficient, because there is range of outcomes in which both the employee and the employer can be better off.

Figure 1.– Commitment Problem

Employer's outcome ranking A > B > C. Employee's outcome ranking A>B>C
Mistrust (payoffs B and C represents a Pareto-suboptimal Nash equilibrium.
(Figure adapted from Miller 1992).

Therefore, Miller considers that the relation between employer and employee is similar to the "commitment problem" game developed by Kreps (1990). In Miller's adaptation of the commitment problem game (Figure 1), the employee moves first and has a choice of trusting the employer (work hard) or not trusting the employer (minimum effort). If the employee trusts the employer, the latter has a choice of honouring trust (proper reward) or violating trust (cut piece rates to a minimum or lay off excess employees). In this movement, the employer has an incentive to violate trust, because she obtains a benefit from adjusting piece rates downward, and this would leave the agent worse off than if she failed to trust the employer. Anticipating this violation of trust, the employee refuses to trust the employer, which results in an outcome of minimum effort, a Pareto-suboptimal Nash Equilibrium.

This paper contends that the commitment problem is as well important in local public organizations. The assumption of the model is that there are two sets of actors in the local government of a given city[4]: Principals and Agents. Principals are the people at the top of the administrative hierarchy: the Legislature who takes policy decisions and the Executive who controls and oversees policy implementation. Those are the actors with the capacity for introducing incentives and who, eventually, can renege on the promises given to employees. For example, if the Legislature decides to shift the budget abruptly from fighting rats to building hospitals, it creates uncertainty on those employees that have made an asset-specific investment in pipe training. At the same time, the Executive may make organizational decisions –related to hiring, firing, promoting, and introducing incentives to employees- that are subject to time inconsistency problems. In sum, the principals would be the ones capable of introducing the 'piece-rate' systems analyzed by Miller -or the Mayor/Council of the Tale of the Pied Piper. Agents are meant to be public employees in a broad sense of the concept. Agents are the ones who obey the orders, who can either trust or mistrust principal's promises of future rewards in Miller's game; in other words, the Pied Pipers.

Which are the preferences of Principals? The assumption –standard within the literature- is that principals search efficiency, but not an economic definition of efficiency. Principals desire what Moe (1984) calls "*political efficiency*": they want to remain in power through winning elections. For retaining incumbency in electoral contests, principals have two mechanisms. The most important one is to provide public goods to citizens –such as getting rid of the rats or building hospitals- during their term. However, principals, especially when the end of term is close, need also to provide private goods to the people who help them to mobilize voters, through, for example, giving them patronage-based posts.
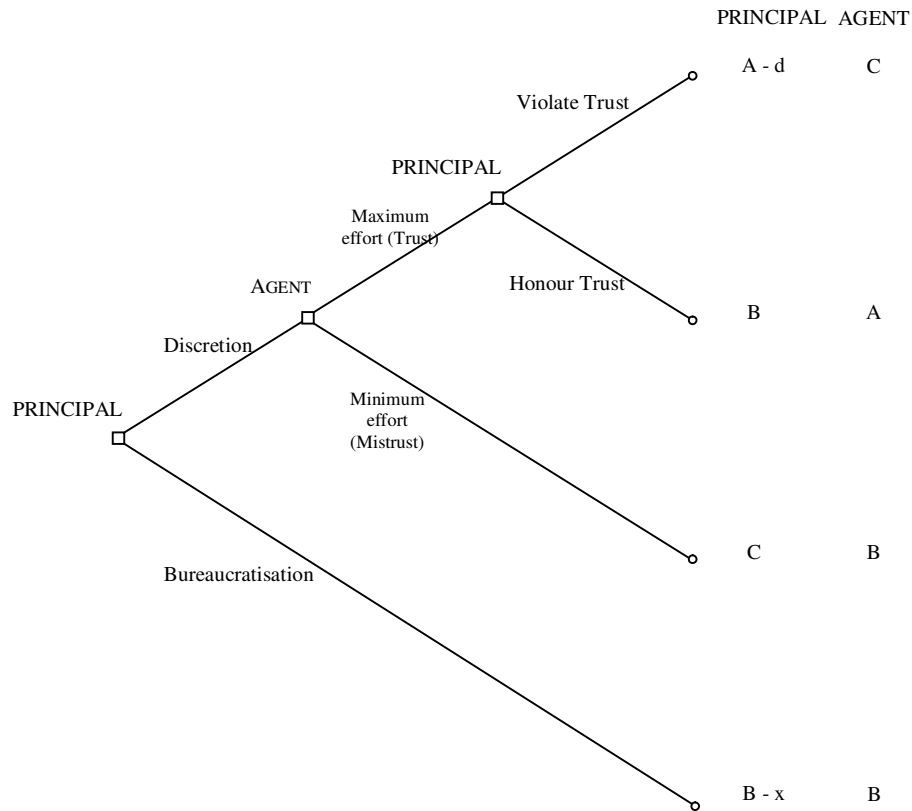
Which are the preferences of Agents? I assume that, like the pied piper, Agents in bureaucracies are primary moved by self-interest and they are interested in the rewards they

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[4] The theoretical predictions of the model might be extended to other spheres where the politicians' survival strategy mainly depends on the provision of public goods (i.e. getting rid of rats). That would be the case of central governments both in democratic systems and in those authoritarian regimes where the dictator is mainly focused on supplying public policies (e.g. Franco regime in Spain or many Asian *developmental* autocracies). On the contrary, this model could not be applied to those polities where, facing a plague of rats, the ruler would prefer to provide pecuniary private goods to his core supporters instead of eradicating the plague. For a clear conceptualization of this two type of rulers' survival strategies, see Bueno de Mesquita et al. (2003).

can obtain in exchange for their work. As Horn (1995) observes, it does not imply that employees do not care for others, but just that we cannot rely entirely in good nature to ensure that individuals act in the interest of others. It is possible to accept that people may be attracted to civil service by a desire to serve the public, but it does not contradict the fact that they are likely to devote greater effort to this service if they think that increased effort will enhance their chances of promotion. In fact, as Buchanan (2003) simply stated: bureaucracies are peopled by ordinary men and women, very little different to the rest of us.

The interaction between Principals and Agents can be modeled by a two person game such as the one shown in Figure 2. A simplification is done here: all elected politicians are reduced to a single actor, the Principal and, even worse, many employees (in some cases thousands) are reduced to another single actor, the Agent. Although a more comprehensive and more realistic approach would require including other actors in a more complex setting, the game representation used here is a heuristic device to depict the relationship between the two essential actors: the one who issue commands and the one who implements them. The game is similar to Miller's trust game between an employer and an employee depicted above, but now the principal (the employer) has the choice of playing the trust game –retaining *discretion* for hiring, firing, and promoting Agents- or not playing it and 'tying their hands' in personnel management through a process of *bureaucratisation*.

Figure 2.– The Positive Control Game

PRINCIPAL AGENT

A - d   C

Violate Trust

PRINCIPAL

Maximum
effort (Trust)

B   A

Honour Trust

AGENT

Discretion

PRINCIPAL

Minimum
effort
(Mistrust)

C   B

Bureaucratisation

B - x   B

Agent's outcome ranking A>B>C. Principals' outcome ranking A>B>C.

Politicians may tie their hands in the management of employees in two ways. First, bureaucratisation can be done through delegating the staff policy to a politically autonomous institution such as the Civil Service Commissions that we observe in different levels of the US public administrations or the Corps existing in the French and the Spanish Administration. Although principals may retain some extraordinary mechanisms in staff policy under certain circumstances, these institutions enjoy autonomy to manage the hiring, firing and promotion of agents under normal circumstances. Within the concept of bureaucratisation I also include those laws and statutes through which principals tie their hands in their relationship with agents. For example, when principals issue rules that guarantee secure tenure or automatic promotion in function of seniority, principals are

reducing their discretion in personnel management. Therefore, we can define that situation as a bureaucratisation of the administration.

Bureaucratisation gives predictability to the actors' payoffs. The assumption behind the model is that, instead of confronting relatively unpredictable rewards and incentives from political principals, agents will deal with predictable rules for establishing rewards and punishments –rules enforced by autonomous bodies such as Civil Service Commissions or Administrative Corps. Incentives also exist in bureaucratised institutions but they are low-powered. For example, because in principle there are more subordinates than superiors within organizations, there are almost always several candidates for a promotion in any kind of organization. The idea is that in a bureaucratised organization you must follow a more step-by-step promotion system, from one level to that right above it.

In absence of bureaucratic rules, the government could promote any employee to whatever position. In other words, incentives are high-powered, and faster promotions are expected. Instead of the high-powered (although less credible) incentives from governments, with bureaucratisation employees will have low-powered incentives (although more credible because they are made by non-political peers) which will be clearly issued in statutes and regulations. With bureaucratisation, employees will not obtain the maximum payoff (A) because governments will not be able to offer them high monetary rewards or fast promotions to the top levels of administration as a reward for maximum effort. But, at the same time, bureaucratisation also prevents the worst outcome for employees (C), because there is no option for being betrayed by governments in case of choosing a maximum effort. As a result, bureaucratisation induces employees to exert a *medium effort*, halfway between the maximum effort and the minimum effort. Employees will work harder than the minimum effort, because they know that if they work they will have some reward (like a slow promotion), but they will work less harder than when they expect high-powered rewards from government.

At the same time, governments do not enjoy the benefits of a high-powered system of incentives when they decide to bureaucratise, but they also avoid the worst payoff (C). If government could credibly promise it is going to honour trust with a fast promotion or with a big reward, it would obtain a higher effort than the medium effort it can obtain from

bureaucratised employees. However, if that is not the case, if governments are not seen as credible, employees will exert a lower effort than bureaucratised employees. In general, *bureaucratisation prevents best and worst outcomes for both players, and it can be seen as a second-best option that is preferred when the best solution involves too many risks for the actors*.

Before analyzing principals' decision about bureaucratisation, we should see the similarities and differences between Miller's trust game described above and my trust game (the decision of the agent of trusting or not trusting the principal and the posterior principal's decision of honoring or not honoring trust). To implement a public policy, the agent can make a maximum effort (trust) or a minimum effort (mistrust). What does 'maximum effort' mean? I am referring here to three types of effort, which are potentially subject to principals' time-inconsistency problems.

In the first place, any effort that implies an asset specific investment[5] for a concrete policy implementation that cannot be written in a contract and subsequently cannot be enforced by an external third part. For example, the agent can learn specific skills required for a better policy implementation, such as learning how to play the pipe if she is in charge of fighting against rats plagues. Once the asset specific investment has been made, the employee is in a weaker bargaining position vis-à-vis the employer, and the latter may abuse that position of power[6]. Second, the agent can devote an extra effort in order to develop innovative ways of implementing policies. Once the employee has explained the new project

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[5] In principle, public administrations are places were asset-specific investments are abundant given the fact that the public sector has a monopoly on many activities, so an investment in developing skills that allow the employee to work more efficiently may proof useless in case of leaving the public sector.

[6] Abraham and Prosch (2000) explore theoretically the situation where private-sector employees undertake asset specific-investments in their jobs. The high-tech German firm Carl Zeiss promised –at the end of the 19th century- to fulfill almost revolutionary social-welfare obligations to company workers. The reason for this apparently non-rational altruistic behavior is that, according to Abraham and Prosch, Carl Zeiss had the opportunity to realize a (short-term) gain by laying off employees who had done an extremely costly asset-specific investment. To incentive employees to make those investments, the employer posted a hostage *y* (a severance pay in case of dismissal) for cooperation that, in case of defection (laying off the employee for the sake of short term efficiency) transferred to the employee. Their study of severance pay as a "hostage", that employers use to create a credible commitment in their relations with employees, is very similar to my approach to the bureaucratisation of public administrations.

to the principal with the authority to develop it, the latter could steal the agent's project, presenting it as her own.[7]

Third, although we do not observe many piece-rate systems in the public sector such as the ones analyzed by Miller and described above, in any organization principals give explicit or implicit promises to their employees about rewards and particularly promotions. For example, at period t (i.e. the beginning of a term) a principal can promise to several agents that he will promote them if they make an extra effort. But at t+1, once the extra effort has been done, the principal may have incentives for promoting just one or two employees. For instance, if elections are close, she could have incentives to promote an employee who, irrespective of her working productivity, is able to mobilize voters for the principals. A similar problem arises when the principal has an incentive to stop the implementation of the policy in which the employee is working and shift the budget to another policy that is going to give him a greater short-term gain in the upcoming elections. These problems are worsened by the fact that, especially in democratic settings with four-year terms for politicians, when employees start an asset specific investment they do not know if the principal that promised some type of reward to them will remain in office. If a principal from another party takes over the incumbency in the meantime, the chances of not being rewarded properly raise for civil servants.

On the contrary, 'minimum effort' would mean not undertaking any of those three types of effort and exert the minimum level of effort enough to avoid being fired. For example, the agent would fulfill only those tasks specified in the labor contract. Like in Miller's game, if the agent chooses minimum effort, the result is an inefficient outcome: both actors would be better off with the other result (maximum effort/honor trust).

If the agent makes a maximum effort, the principal can honor trust, which in this case means rewarding the agent. And this probably happens very frequently in public administrations. Principals are not reneging on the promises –that they have given to agents- all the time. However, in all three cases of maximum effort depicted above, the principal has

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[7] This situation is also similar to the one analyzed for the private sector by Gibbons (2001).

incentive to violate trust, like in Kreps' or Miller's games. Either if the employee makes an asset-specific investment, develops a new project or carries out an extra effort in exchange for a promised promotion, the politician has incentives in t+1 to not to honor trust. In one sense or another, the principal has a strong interest, especially when elections are close, to use the 50,000 florins promised to the Piper to build up a hospital in a swing electoral district or paying the salary of other agents ready to mobilize voters for the incumbent.

Up to this point the game is identical to the one used by Kreps or Miller showed in Figure 1. However, the 'decisiveness' –using the words of Cox and McCubbins (2000)- or capacity for taking a decision that changes the status quo –such as reneging on a promise- is limited in some political settings. This limit to the decisiveness of principals is captured by the parameter d (constraints for of taking decisions) in the principal´s payoff. In some polities principals have limits to their capacity for taking decisions in their relationship with public employees. Those costs come from the existence of separation of powers within the polity: there may be other principals with known different interests from those of the principal who wants to violate trust. For example, the principal –or her political party- may be the only relevant political actor, and then she is entirely free to violate trust. She does not have to pay any cost. However, the principal can also be only one of the several relevant political actors in a polity. In this case, the principal will need an agreement with other veto players –using the terminology of Tsebelis (1995, 2002)- in order to break a promise given to the employee. Veto players are the actors whose agreement is necessary to introduce a change in the status quo of a political system. The more veto players, the more costly for the veto player interested in violating trust to do so, given the fact that she needs to convince the other veto players that violating trust is also Pareto efficient for them. For instance, the other veto players –especially if they have different electoral interests- may find that violating trust does not provide them with a higher payoff than honoring trust. At the same time, as Tsebelis (1995, 2002) has extensively shown, the more veto players, the more policy stability, because it is harder to move the policy from the status quo when we increase the number of decision-makers. As a result, it will be much more difficult for the principal to suddenly shift the budget from a department to another, creating a 'violation of trust' situation in the former. In other words, a mayor in a context of several veto players will have more problems to move the 50.000 florins from the pied pipers' department to the department which builds hospitals.

Very decisive principals (d < A - B) –those who do not face counterbalancing powers-will have always a higher payoff for violating trust than for honouring trust (A – d > B). On the contrary, in those polities where the costs are high enough (d > A – B) because there are counterbalancing powers, the principal will prefer honor trust rather than violate trust. The existence of a politician with *limited* capacity of decision –because she is facing very high costs (d > A – B)- can thus paradoxically solve the problem of trust behind the model. The choice for the agent in the previous movement has changed in relation to Miller's Trust Game. Now the options are choosing minimum effort, which gives the agent a sure payoff of B or choosing maximum effort, which gives her the highest payoff A.

Therefore, if we look at the initial politician's decision over to bureaucratize or not, we observe that when the costs of decision are high (d > A – B) –in other words, a situation of relative separation of powers or many veto players-, as the agent will make a maximum effort, the principal always obtains a higher payoff by choosing 'No Bureaucratisation' over 'Bureaucratisation'. The payoff for the principal in case of 'No Bureaucratisation' will be B. On the contrary, in case of 'Bureaucratisation', the principal will obtain (B – X), which is always a lower payoff. Thus, when there is enough separation of powers, the principal does not need to bureaucratize the public administration. When the costs for taking decisions are low for the principal (d < A - B) –in other words, a situation of relative concentration of powers-, as the agent will make a minimum effort, the principal must balance the payoff C of 'No Bureaucratisation' against the payoff B – X of 'Bureaucratisation'. If [(x < (B – C)] (if the costs of Bureaucratisation are not very high), the principal will prefer Bureaucratisation. To sum up, the game shows that *there is a substitution effect between the separation of powers and the bureaucratisation of a public administration.* In order to be trustworthy in the eyes of their employees, politicians must either possess a system of separation of powers or delegating staff policy to autonomous institutions.

4. A Tale of Two American Cities

Once upon a time in the US there were two types of cities: mayor-council cities (MC)

and council-manager ones (CM).[8] Both types of cities were full of rats. A pied piper with magic powers must decide which type of city he would like to work for. Would he choose a mayor-council or a council-manager city? In order to take a decision, he should analyze which the consequences of each type of city for the Credible Commitment Game are.

Who are the 'principals' in **mayor-council (MC) cities**? As a general rule, it can be argued that the council acts as the legislature and the mayor fulfils the role of the executive. Which is principals' degree of decisiveness in MC cities? In theory, the MC form of government is the form that most closely parallels the American federal government, with an elected legislature and a separately elected executive -although the literature further distinguishes two kinds of MC cities –the *weak mayor-council* plan and the *strong mayor-council* plan- in function of the relative power seized by the mayor (Adrian and Press 1970, Svara 1990). One should expect a low decisiveness in a city government consciously designed as a separation-of-powers system (Stone et al. 1940; 6). Nevertheless, *if we analyze the actual relationship between incumbents and public employees,* one can see how both weak MC and strong MC cities are polities with high concentration of powers (low "d" in the Credible Commitment Game). Powerful politicians are the direct superiors of public employees in both subtypes of MC local government.

In the weak MC city, the council has more powers than the mayor. The mayor plays a minor role both in legislative and executive functions and the council members take policy decisions and control their implementation. It has been contended that this MC type is a product of Jacksonian democracy and it reflects the spirit of frontier, when people were afraid to give powers to a single executive (Adrian and Press 1977; 153). Weak MC cities may be defined as government by amateurs acting without coordinated leadership, and, once local services grew all the way through the 19th century, this organizational scarcity produced unintended consequences such a generalized use of the spoils system (Adrian and Press 1977; 157).

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[8] Although, as Adrian and Press (1970; 152) remark, there are probably no two cities in the US that have *exactly* the same structure of govern, MC and CM are the two overwhelmingly prevalent categories of city government nowadays. The other types –Commission, Town Meeting and Representative Town Meeting- are very limited to particular regions or have dwindled a lot during the last decades, so, nowadays, they are present in a small amount of municipalities (Hayes and Chang 1990).

With regards to the relationship between incumbents and public employees, instead of a situation of multiple players controlling each other and vetoing the measures that could give short-term gains to politicians, the local government is divided into small sectors, each of which is controlled either by a small board or by a single councilman. Within each area, a councilmember (called aldermen if they represent wards) may personally direct the policy implementation and have considerable control over selection of the employees of the office. Therefore, instead of having multiple veto players as principals, public employees in a given administration sector are frequently at the mercy of one single elected politician (or a small board) who may remove employees on political basis at any moment (low value of d in the Credible Commitment Game). Besides, since many of these sectors (such as the park board) are a law into themselves and they are not answerable to either the mayor or the rest of the council, the council members in charge may move the policy in the direction they like most. That makes any employee's asset-specific investment even riskier. The summary might well be that *"the weak-mayor plan is the most easily corrupted and bossed because of the confusing pattern on organization"* (Adrian and Press 1977; 157). The municipality is a series of many little governments and within each little government a boss legislates and executes policy with very few restrictions (Adrian and Press 1977; 1958). In other words, with regards to the relation principals-agents, the weak MC plan would resemble more a fiefdom than a copy of the American federal government.

Partly to solve the lack of administrative coordination, the strong MC city plan was developed in the last centuries of the 19th century. The role of the mayor was empowered with this plan and, while the policy-making remained a joint function of the mayor and the council, the administrative control was concentrated in the hands of the mayor. In regard to staff policy, the strong mayor is the only ruler in town. She appoints and dismisses employees, often without council approval (Adrian and Press 1977; 159). This high mayor's decisiveness is further increased by the fact that, in practice, most mayors have an almost total control over policy-making. Thus, not only can they remove employees at pleasure, but mayors can also change the policy and, for example, shift resources from one agency to another, raising the level of uncertainty of the public employees. The council hardly counterbalances mayor's prerogatives in the strong MC city and normally *"the mayor's recommendations, backed as they are by the greater focus of public attention, by constant*

oversight of the city administration, and by the [mayor's] *veto power, will be dutifully enacted by the council, perhaps after insignificant changes or after a symbolic show of independence"* (Adrian and Press 1977;160). Although the council's opposition is inherent to the system, the strong mayor is usually in a position to keep the council agent. The strong MC is the clearest example of mixing politics with administration in the same hands (Adrian and Press 1977; 161) and that fact, in the Credible Commitment Game developed above, means a very high level of decisiveness, which is potentially threatening for public employees.

In sum, both subtypes of MC government imply a high level of decisiveness in Principals' hands. That does not imply that they are eager to 'violate trust' in the game, but certainly they are capable to do so without many costs. If elections are approaching, for instance, principals (individual council members in weak MC cities and mayor in strong MC ones) can easily remove non-partisan qualified employees –like the pied piper- and change them for partisan non-qualified ones that will help politician in the upcoming campaign. Besides, principals in MC cities may try to pursue short-term electoral benefits and shift budgets from long-term to more myopic policies. In this sense, the employees who are making an asset specific investment –like a pied piper that needs a long time of training to play pipe properly- are in a weak position. As a result, a pied piper –or any kind of employee that makes an extra effort under the promise of a promotion, invests in an asset-specific training or develops an innovative way of implementing policy- will tend to choose 'minimum effort' in the Credible Commitment Game.

Then, the only available way to principals in MC cities for inducing employees to work above the minimum-effort level, is delegating staff policy to an external body outside the line of command of the administrative hierarchy, such a Civil Service Commission. In other words, those principals in MC cities who are interested in implementing long-term public policies, will tend to bureaucratize their administrations.

Who are the principals in **council-manager (CM) cities?** In CM cities, the council provides legislative direction while a manager -appointed by the council- is responsible for day-to-day administrative operation of the city based on the council's recommendations. This

governance system is thus much like that of a corporation: executive authority is vested in a manager who is appointed by a board made up of elected officials (Frant 1993; 996). The principals are, in the first place, the elected officials (council members) and, in the second place, the appointed professional manager that acts as a Chief Executive Officer. The first town which acquired a CM city plan was Staunton, Virginia, in 1908[9] and since then it spread with great speed all around the US, becoming in a few years the most successful form of government among middle-size cities (Adrian and Press 1977; 169).

Which is principals' degree of decisiveness in CM cities? The literature disagrees in relation to which role council and manager actually plays. Some argue that there is a strict dichotomy: the city council does not get involved in the administration and the city manager has no involvement in shaping policies (Montjoy and Watson 1995; 231). On the contrary, for other authors such dichotomy does not exist and they remark that there is much more interdependence between councils and managers. Councils and managers interfere with each other's responsibilities: the former perform (and oversee) some executive tasks and managers perform (and oversee) legislative duties.[10] As a matter of fact, the writings of the political reformers -before and for several years after the endorsement of the CM form by the National Municipal League in 1916- recognized the interdependence of council's and city-manager's roles. They stressed the importance of council government with broad authority for elected officials including administrative oversight and, at the same time, clearly accepted the policy role of the manager (Svara 1998; 52). For others, the boundary line between the council and the city has changed over the last decades and nowadays it would be increasingly blurred and shifting to include more administration and management in the council's sphere and more mission formulation in the city manager's (Svara 1999; 44).

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[9] Although the origin of the idea of the CM plan is not known with certainty and the claim for having the first CM city is sometimes disputed between Staunton and Sumter, South Carolina (Adrian and Press, 1977; 169). Where there is no disagreement is on naming CM plan's founding father: Richard S. Childs, a business man who was at that time the secretary of the National Short Ballot Association and who later was to become president of the National Municipal League. Childs wrote of *"the resemblance of the plan to the private business corporation with its well-demonstrated capacity for efficiency"* (quoted in Frant (1993; 996). For further details, see East (1965).

[10] Svara makes on devastating critic to the dichotomy model in *The Politics-Administration Dichotomy as Aberration* (Svara 1998).

Irrespective of which point of view one embraces, what is relevant for the purposes of this paper is the relatively low decisiveness that Principals have in their relationships with public employees. In CM cities one can observe how, if one of the principals (council or city-manager) has temptations to renege on the promise given to employees (in other words, if she has incentives to 'violate trust' in the Credible Commitment Game), the other principal will usually veto the violation of trust.

The first question one could ask is: what happens if the city-manager has temptations to violate trust? The main reflection in this sense is that this is an infrequent situation, because, as the literature on local government points out, city-managers tend to be more focused on long-term policies than elected officials.[11] While elected officials face electoral contests on regular basis, managers tend to stay longer in office.[12] There are several studies providing evidence of how managers are perceived by employees as less keen on violating trust. For example, Stone et al (1940), after analyzing the relations between principals and agents in those cities which moved from a mayor-council plan to a council-manager one, conclude that the attitude of workers toward their jobs changed. Compared to the previous mayor-council plan, under the council-mayor plan employees believed that *"the tenure of their job and the opportunity for advancement depended upon the quality of their work rather upon the outcome of the next election"* (Stone et al 1940; 93).[13]

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[11] One of the main city-managers' complains is the different time horizon they perceive there is between their priorities and the elected councilmembers. For example, Svara finds that seven in ten managers consider that the council focuses too much on short-term problems and gives too little attention to long-term concerns (Svara 1996).

[12] The available data is not conclusive, although Stone et al. (1940; 61-66) offer some data that seems to consistent with that statement. In any case, what is relevant here is that the manager does not have a pre-established time horizon. The agreement within the literature is that the normal way for managers to stay in office is developing a reputation as efficient professionals who weight short-term and long-term policy benefits on technical grounds.

[13] Stone et al (1940; 109) accurately describe how the first city-manager of Austin, Texas, built morale among local employees: *"the fire chief of Austin told of an audible sigh of relief that arose when, at a meeting of all city employees, the first city manager announced that no one who did his work well would be discharged. After the change in the form of government, which brought in an entirely new council, the employees fully expected to be thrown out of their jobs. Realizing their fear, the manager immediately started to build up an atmosphere of stability that would permit employees to put their energies into work instead of into worry. When this manager turned the position over to his successor six years later, Austin had a hard-working, loyal force of employees".*

Not only city-managers do seem to be less keen on violating trust, but it also seems that city-managers have traditionally shown a tendency towards developing trust among employees: *"Most managers inspired confidence in their employees. The door to the office of the majority of managers was open to an employee who wanted to unburden himself of a difficulty or to make suggestions for the improvement of city services. Managers were sincerely concerned about the welfare of their employees, and they showed their interest by recognizing and rewarding good work, by encouraging professional growth, by giving attention to hours and conditions of employment and to the employees' health and safety, and by establishing equitable rates of compensation"* (Stone et al 1940; 113).

Although they probably constitute a small proportion of the total, it is also possible to find city-managers who decide to violate employees' trust. There may be managers not interested at all in developing a reputation as fair professional managers.[14] However, the literature tends to underline that managers overwhelmingly tend to build up reputations of good professionals, mainly through observing International City Managers' Association's (ICMA) Code of Ethics (Adrian and Press 1977, Stone et al. 1940).

One could argue that, if, at some point for whatever reason, a manager is keen on violating employees' trust, she would face the opposition of the council who can dismiss the manager at pleasure. Nonetheless, it could also be argued that, because of the close city-manager's dependency on the council, some authors argue that managers may develop a rational interest in violating trust and thus please council members. There might be managers so accountable to the body that elects them that they become mere executors of council's will. In words of Norton Long, managers should be viewed as "politicians for hire" (Long 1965; 119), selected to fulfil council's desires. Long's or Bosworth's (1958; 216) image of the manager is strikingly different from that of the traditionally autonomous professionals subject to an independent code of ethics, peer group review, and their own standards of

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[14] The reputation is valuable for working as a city-manager, but it is not a necessary condition such as it is the case with other professions. Contrary to what happens with the American Medical Association or the American Bar Association, you do not have to be a member of the International City-Manager's Association to work as a city-manager (Stillman 1977; 664). Thus, your work may –but not must- be subject to peer review.

expertise (Stillman 1977; 658). A politician-for-hire manager would strictly obey council's orders and, for example, she would fire some employees for electoral reasons.

Obviously, one cannot reject the existence of some politicians-for-hire managers. As a matter of fact, in some cities, when a party (or faction) comes to power dismisses the manager hired by the opposition and finds one loyal to itself. However, that is the exception rather than the norm. Empirical studies show that council usually appoint managers without partisan or factional affiliations, and tenure for the manager is, in most cases, not interrupted by considerations other than administrative competence (Stone et al 1940: 70; Adrian and Press 1977: 177).

Therefore, generally speaking, we do not find support for the hypothesis that managers are politicians for hire and, on the contrary, it has been shown that managers' preferences seem to be building up reputations of autonomous professionals subject to independent standards of expertise. They seem to be mostly worried on long-term policies and they give a lot of attention to building confidence or trust with employees. Consequently, given that the preferences of the manager would be 'honor trust' in the Credible Commitment Game, the relevant question one should ask is: what happens if the council –or any of its members- has temptations to violate trust and the manager opposes it?

There are several studies that demonstrate the high level of resistance managers can exert to prevent a violation of employees' trust. In fact, council's attempts to interfere with manager's decisions on hiring, firing and promoting employees are normally pointless: *"if the council is displeased with a staff member (e.g. they would like to have the police chief removed), the council can only attempt to persuade the manager to make the change and, if unsuccessful, either accept the situation or fire the manager"* (Svara 1990; 52).

The city-manager is not intended to be merely a clerk to the council. Since the beginning of the city-manager movement, the manager has meant to exercise broad discretion in the administration of policies (Stone et al. 1940; 17). Indeed, several cities included in their charters provisions forbidding the council as a whole, as well as individual members thereof, to interfere with appointments of the city-manager. These provisions included penalties of

fine, removal from office and even imprisonment for the council members who tried to influence city-manager.[15] At the same time, the ICMA embodied in its Code of Ethics – adopted in 1924- that a city manager should resign rather than to permit councils to interfere with their administrative functions (Stone et al. 1940; 21).

Obviously, as it has been pointed out above, the city manager is appointed by the council, so if the former does not perform the latter's desires, it is easy to see that the council can dismiss the city manager.[16] Nevertheless, dismissing a city-manager is quite costly for the council. In the first place, the council member interested in city-manager's removal (because, for example, the city-manager refuses the council member's recommendation for an appointment) needs to overcome the collective action problem of getting the support of the members of the council (a number that normally ranges from 5 to 9) –or a wide majority of them. In the second place, the council member needs to fulfil a costly dismissal procedure – for example, many city charters include provisions guaranteeing the city manager a public hearing on written charges before dismissal. And, third, it is rather difficult to find –among the available pool of potential candidates to become the new city manager- professionals ready to accept council members' interference in appointments. As we have seen before, although the affiliation to ICMA is voluntary, its Code of Ethics is widely respected by most city-managers and it is not straightforward to recruit a city manager willing to risk her reputation as an independent administrative manager.[17] There are exceptions to that general rule of appointing non-partisan managers, but in those exceptions, once in office, managers

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[15] The provision of St.Augustine, adopted in June 1915, read as follows: *"Neither the council nor any of its committees or members shall dictate the appointment of any person to office or employment by the city manager, or in any manner to interfere with the city manager or prevent him form exercising his own judgement in the appointment of officers and employees in the administrative service"* (quoted in Stone et al. 1940; 20). Besides, in order to insulate staff from political interference, some cities have prohibited direct communication between council and staff members (Svara 1990; 52).

[16] As Howard L. McBain wrote in 1917, *"you cannot write into a law a precise division of function between two authorities where the tenure of one is absolutely at the mercy of the other"*.

[17] As has been argued before, city managers lack the professional cohesion existing in other profession such as medicine or law. However, from the earliest years of the city manager plan, managers thought of themselves as professional people and they regarded the ICMA as their professional organization. No manager was admitted to full membership unless his professional conduct conformed to the code of ethics of the association (Stone et al. 1940).

usually drop their political affiliations and strive to become non-partisan administrators (Stone et al 1940; 70).

According to the arguments deployed here, the level of decisiveness remains at very low levels for principals in CM cities. This observation matches the main conclusion within the literature: in spite of being depicted as a system of unification of powers (because it centralizes previously dispersed administrative units), actually "*the CM form carries the separation of powers a step further*" (Banfield and Wilson 1963; 81). In fact, the Progressive Era reformers who created the city manager structure sought the efficiencies of business in a model of separation of powers between the owners and the managers which would be later formalized by Fama and Jensen in 1983 (Maser 1998; 550). Elected officials in CM cities, in general, cannot overcome manager's opposition to elected official's attempt to violate trust. And managers very infrequently wish to violate employees' trust.[18] Contrary to the MC form where all organizational principals share the same political nature and incentives, the CM plan presents a mixed structure of principals –some elected and some professionals- with different incentives and that increases the possibility they have for counterbalancing each other. As a result, in a CM city a pied piper –or any kind of employee that makes an extra effort under the promise of a promotion, invests in an asset-specific training or develops an innovative way of implementing policy- will tend to choose 'maximum effort'. Or, at least, she will choose 'maximum effort' more frequently than if she was employed in MC city, where the degree of principals' decisiveness is much higher. Therefore, the costly bureaucratisation (delegation to an autonomous Civil Service Commission) will tend to be absent in CM cities.

The prediction developed in this section can thus be stated as follows*: because there are more problems of credible commitment –in the relationship between principals and*

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[18] It has been shown that managers very rarely risk their reputations as good professionals by violating employees' trust at politicians' request. However, there is another possibility that has not been explored here. The manager may desire to violate trust, irrespective of (or even against) politicians' will. In that case, it would be the council who could veto the violation of trust with the threat of dismissing the manager. Like in the modern American corporation the board of directors is able to counterbalance manager's temptation of cheating on employees through its capacity to dismiss her (Miller and Falaschetti, 2001).

agents- under the mayor-council plan than under the council-manager plan, one should observe more bureaucratisation in mayor-council cities than in council-manager cities.

According to this prediction, the case of Hamilton, Ohio, would not be -as Stone et al. (1940; 101) state- an exception difficult to understand but a rational strategy. After adopting the council-manager plan, Hamilton abolished the Civil Service Commission which had existed under the previous mayor-council government. In the light of the hypothesis developed here that seems to be a perfectly even-handed change: a movement from a less credible government (mayor-council) to a more credible one (council-mayor) makes bureaucratisation (civil service commission) less necessary.[19]

5. Empirical Evidence

In this section an empirical contrast of the theoretical hypothesis is offered. The data are from the survey 'Local Government Human Resources Functions 2000' by the International City-Manager Association. The survey was sent to 2885 municipalities across the US and the response rate was 45.5% (1312).[20] The survey contains information of the two relevant variables: the independent variable -the governance structure of the local administration (mayor-council versus council-manager)- and the dependent variable –the rule structure (degree of bureaucratisation) of the local administration.

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[19] The movement observed in Hamilton may constitute an exception, because, once in work, bureaucratic rules are difficult to remove. Right after their enactment, bureaucratic rules tend to create vested interests. For example, the employees who enjoy secure tenure develop an interest in keeping them. Similarly, governments that have tried –under the label of New Public Management reforms- to undermine bureaucratic rules, and replace life tenure contracts for more private-like ones, have faced fierce opposition by public employees (Guy Peters 1995). If one observes less Hamiltons in real life is probably due to these corporatist resistances. Nevertheless, the main prediction in this paper is not that we should see *de-bureaucratisation* processes where there has been a change from a less to a more credible polity, but that we should observe more bureaucratisation processes in the less credible polities than in the more credible ones.

[20] Similar to Frant's (1993) analysis of another ICMA survey, one must conclude that there is no obvious selection bias in these kinds of surveys. Council-manager cities are somewhat overrepresented (65% in Frant's and 70% in this work), perhaps because the survey was conducted by the ICMA, but, as Frant (1993; 998) remarks, that in itself should not bias the results.

Which are the proxies to the level of bureaucratisation available in the data? Similar to Frant (1993; 998), I estimated logit equations using responses to different questionnaire items as indicators of the civil service status (see Table 1). These responses capture the level of delegation of staff policy from the local administration principals to an autonomous Civil Service Commission. The first dependent variable analyzed is simply the existence (or not) of a Civil Service Commission (**CSC**: one if there is a Civil Service Commission; zero otherwise[21]). The second dependent variable captures if a key question in staff policy –the adjudication of appeals and grievances- is a competence of the CSC (**Appeals**: one if CSC adjudicates appeals and grievances; zero otherwise). The third dependent variable collects whether CSC has the power to modify or overrule disciplinary actions made by administration principals or not (**Overrules**: one if CSC modifies or overrules disciplinary actions; zero otherwise). The fourth dependent variable captures the CSC's capability for reinstating employees (**Reinstates**: one if CSC reinstates employees; zero otherwise).

The explanatory variables are: the independent variable in the theoretical model of this paper (**Council-Manager**: a dummy variable with value one if the form of government is a council-manager; zero if it is a Mayor-Council) and some control variables that have been found as relevant in the literature on the adoption of civil service systems (**Population size,**[22] **Region,**[23] and **Metro Status**[24]).

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[21] The dummy variable has been built up from this question in the ICMA survey: Which of the following forms of human resources administration most closely resembles that used by your local government?
a. Human resources department/director with no separate commission or board.
b. No one official body is responsible for human resources administration; human resources functions are decentralized among individual line departments.
c. Human resources department/director with an independent commission or board acting as an advisory body.
d. Human resources department/director with an independent commission or board performing specific functions (e.g., appeals, approval of rules) but without general advisory authority.
e. Independent civil service commission, human resources board, or similar body (without a separate human resources department/director).
f. Other.
I coded as 1 (CSC) the categories c, d, e; and as 0 (No CSC) the categories a, b, f.

[22] Population size is a variable with the following categories: 9 = Over 1,000,000; 8 = 500,000 - 1,000,000; 7 = 250,000 - 499,999; 6 = 100,000 - 249,999; 5 = 50,000 - 99,999; 4 = 25,000 - 49,999; 3 = 10,000 - 24,999; 2 = 5,000 - 9,999; 1 = 2,500 - 4,999; 0 = Under 2,500.

[23] Region contains the standard categories defined by the U.S. Census Bureau: *Northeast* (New England and Mid-Atlantic); *North Central* (East North-Central and West North-Central); *South* (South Atlantic, East South-Central, and West South-Central); and *West* (Mountain and Pacific Coast).

Table 1. Bureaucratisation of US Local Governments

	CSC	Appeals	Overrules	Reinstates
Population size	.361***	.310***	.441***	.352***
	(.081)	(.082)	(.080)	(.080)
Region[1]				
Northeast	-.287	-.967***	-.736**	-.118
	(.270)	(.300)	(.282)	(.270)
North Central	.031	-.122	.148	.407
	(.215)	(.211)	(.204)	(.216)
South	-.283	.089	.238	.488*
	.(211)	(.204)	(.200)	(.212)
Metro Status[2]				
Core City	.483	-.370	-.594	-.030
	(.274)	(.300)	(.282)	(.280)
Suburban	.348	.255	.020	-.030
	(.211)	(.204)	(.191)	(.201)
Council-Manager[3]	-.523**	-.752***	-.804***	-.907***
	(.171)	(.169)	(.161)	(.160)
Constant	1.105*	.606	1.507**	.625
	(.506)	(.507)	(.490)	(.494)
Pseudo-R2	.098	.062	.085	.086
Observations	897	1258	1258	1258

* Significant at .05 ** Significant at .01 ***Significant at .001
Standard error between parenthesis

Reference category: 1 West
2 Independent (City Not Located in Metropolitan Statistical Area)
3 Mayor-Council

Source: 'Local Management 'Local Government Human Resources Functions 2000' by the International City-Manager Association (ICMA)

Studies of different types of administrative reforms have found population size to have a varying and non-consistent impact on the adoption of those measures (Keswell 1962, Schnore and Alford 1963). However, as Tolbert and Zucker (1983) point out, studies that have specifically examined civil service reforms have found a simple positive relation between city size and CSC adoption (Wolfinger and Field 1966, Tolbert and Zucker 1983).

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[24] Metro Status indicates whether municipality is located within an MSA (Metropolitan Statistical Area) as defined/designated by the U.S. Office of Management & Budget (OMB): *Core City* (city centre), *Suburban*, and *Independent* (not located in MSA).

Ruhil (2003; 166) shows that population size exerts a direct effect on the adoption of municipal civil service reform for the period 1900-1940. The reason is that the larger a city, the more costly for the elected politicians is to control the patronage machinery and, therefore, the higher the relative benefits of moving to a merit system and adopting a CSC. Very similarly, I find that the more population size, the higher the probability of having a CSC, the higher the probability that the CSC adjudicates appeals and grievances, that the CSC modifies or overrules disciplinary actions and that the CSC reinstates employees. The population size coefficients are highly significant in the four logit regressions. The standard prediction within the literature seems to be confirmed here: the larger a city is the greater incentives politicians have to install a CSC and to give it important competences in staff policy.

On the contrary, the explanatory power of regional location over municipal adoptions of CSC is a long-standing cause of disagreement among scholars of urban politics.[25] The results in this paper do not shed much light into the debate, and the impact of the region over the different dependent variables is not conclusive. CSCs existing in Northeastern municipalities seem to be less powerful in some aspects (with less capacity for adjudicating appeals and overruling disciplinary actions), but in the other two aspects there seems to be no relevant effect of being located in the Northeast. These findings are similar to Frant's (1993; 1004) who also finds that Northeast cities delegate a little bit less functions to CSC.[26]

Another demographic variable that may have an effect on the bureaucratisation of a local administration is the metropolitan status; in other words whether the municipality belongs to a metropolitan area (and within this category, whether it is the core city or a suburb) or not (an independent municipality). One might expect that the kind of local public services and the sort of relations between elected politicians and public employees - developed in each of these three different types of municipalities- could affect the degree of

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[25] For a summary of the debate, see Ruhil (2003:163).

[26] One reason for the relative weakness of CSCs in the Northeast may be the historical pervasiveness and endurance of strong party machineries in that region (Shefter 1983:459; Ruhil 2003:163).

delegation to the CSCs. Nonetheless, no significant effect of the metropolitan status is found here.

In relation to the independent variable predicted by the theoretical model, the data indicates a strong relationship between the form of local government (council-manager vs. mayor-council) and the degree of bureaucratisation. In first place, council-manager governments have significantly less CSCs; and, second, under a council-manager government, the CSC significantly tends to be less involved in the adjudication of appeals, the modification or overruling of disciplinary actions and the reinstatement of public employees.

This strong correlation does not indicate *on its own* the existence of a causal relation and, eventually, the direction of such causal relation. This is the main critic that Ruhil (2003; 160) makes to Frant's (1993) discovery of the same kind of relation as the one shown here. From a cluster of variables collected at the same time, it cannot be argued that city-manager causes the disappearance/weakening of CSCs; or, that the existence of a mayor-council type is the driving force behind the establishment and empowerment of CSCs. In order to show the existence of a causal relation –and its direction- one needs to provide a theory with the microfoundations that link those macro variables (government form and degree of bureaucratisation). However, section 3 of this paper has offered such mechanisms: *compared with mayor-council ones, council-manager cities have less problems of credible commitment in their relations with public employees and, therefore, they do not need to bureaucratize their administrations (delegating staff policy to an autonomous body).* And Section 4, using accounts from different studies on urban politics, has provided examples of those mechanisms: council-manager plan –with its structure of checks and balances between elected and non-elected principals- prevents elected officials from violating employees' trust.

6. Conclusions

The conflict between rulers' self-interest and social efficiency is one of the more

inclusive and compelling generalizations to be made (North 1981, Miller and Hammond 1994). There are two sides of this problem. On one side, there is the *policy-making conflict* between ruler's interest and social interest: the ruler will take advantage of her privileged situation to take those policy decisions that best serve her interests and social efficiency might not be achieved. On the other side, there is the *policy-implementation conflict* between ruler's and organizational interest: the ruler will take advantage of her privileged position and organizational efficiency might not be achieved. A lot of attention has been given to analysis of the policy-making conflict (the relationship between rulers and citizens) while the relationship between rulers and public employees remains vastly overlooked in spite of being extensively analyzed by organizational economists for the private sector.

One example of the former is Miller and Hammond's application of the Groves theorem to policy-making. Miller and Hammond (1994; 20) conclude that the irony is clear: the implementation of a mechanism that would give incentives to citizens for investing in public goods, at the same time, would, unavoidably, require the decision-maker itself to withstand a constant temptation to lie and make inefficient decisions. A partial solution to this policy-making problem would be to create plural decision-makers with *known* different interests (Miller and Hammond (1994; 22). This solution has been explored in this paper but not for the policy-making conflict but for the relation between politicians and employees within a public administration. Plural decision-makers with known different interests (council vis-à-vis managers) may reduce the conflict between politicians' interest and organizational efficiency of the administration. If we do not have plural decision-makers with known different interests, this paper states that politicians will have to tie their hands: enacting civil-service laws and delegating staff policy to a body which remains outside the line of command of the administration.

This paper has addressed a modified version of the Coasian question: why organize activity in bureaucracies (with civil-service laws constraining principals) rather than in hierarchies (principals free to hire, fire and promote employees)? The provisional answer offered here lies on the problems of credibility that principals face in all type of organizations: bureaucratic rules will be necessary when a known separation of powers

among the principals does not exist. In other words, within an organization, if you do not have a *government by men* with different interests, you will have to *govern by rules*.

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