Are City Managers Greedy Bureaucrats?

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ARE CITY MANAGERS GREEDY BUREAUCRATS?

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INTRODUCTION

William A. Niskanen’s (1971, 1975) theory of bureaucracy has been a source of much debate and research.¹ The theory assumes that utility-maximizing bureaucrats will seek to maximize their agency’s discretionary budget. A central implication of this theory is that bureaus will supply output inefficiently or in quantities greater than that desired by citizens.

The authors test Niskanen’s hypothesis by examining the decision of cities to contract out for services. Their premise is that city managers fit the characteristics of the greedy bureaucrat Niskanen describes. If his theory is valid, then city managers should be expected to avoid contracting out because it would expose their discretionary budget and make it more difficult to use for their own purposes.

At odds with Niskanen’s theory in this case is the municipal reform literature that argues that professionalism in city management will seek to perform services in the "best" or most efficient way, presumably, a manner in which the discretionary budget is minimal or zero. In this case, the authors might expect to observe contracting out in professionally managed cities. These opposing hypotheses thus allow for a test of two competing theories of bureaucracy.

Contracting out is one form of privatization. Privatization increases the service production and delivery options available to government managers. Contracting out may enhance cost-efficiency and service quality (Kettl, 1988) or it may lead to cost overruns, shoddy workmanship, and corruption (Hanrahan, 1983). While there has been much debate about the merits of contracting out, there is little evidence about the propensity of different cities to contract out for services. In this article, the authors examine the difference in contracting out between city manager cities and cities with other
forms of governance.

THE GREEDY BUREAUCRAT HYPOTHESIS

Niskanen derives a model that assumes the bureaucrats maximize utility based on their income and their perquisites. These, in turn, are based on a bureau's output and its discretionary budget. Niskanen (1975: 618-619) defines discretionary budget as "the difference between [the bureaucrat's] total budget and the minimum cost of producing the expected output." It is not the total agency budget. In the first case, where it is assumed that utility is totally based on the discretionary budget, the result is that the bureau will produce the optimal output inefficiently. In the second case, where utility is based only on output, the bureau will produce output at twice the optimal level but will provide it at the efficient cost. More recently, Niskanen (1991) argued that the behavioral assumption should be changed to assume that bureaucrats act to maximize only their discretionary budget.

Other empirical tests have focused on various results of the model—that output will be oversupplied or that it will be provided at too high a cost. This research focuses on the role of the discretionary budget in the bureaucrat's utility function. If the discretionary budget is important to the bureaucrat, then it is expected that he/she will do what he/she can to obfuscate the size of the discretionary budget. Specifically, here the assertion is that bureaucrats who follow Niskanen's model will not wish to establish contracts for services. In these cases, the total cost of the output is easily observable (in the amount of payment to the firm or other government) and hence, in the discretionary budget, the amount remaining after these costs will also be observable. Exposing this amount to the scrutiny of the bureaucrat's political sponsor will defeat the bureaucrat's objectives in this model and thus his behavior that would not be expected. Therefore, contracting out for serviced will expose the discretionary budget to public scrutiny while providing the service in-house with city employees and resources will not. While the discretionary budget is the motivating factor for the bureaucrat's behavior, the observable activity is the propensity to contract out which is the dependent variable in the model developed here.

Niskanen specifically recommends greater use of private or nonprofit agents to provide services as one alternative. Niskanen (1975:637-638) writes, "Inefficiency is not necessarily a characteristic
of the supply of government services. For a given output ... costs can be reduced by contracting with private firms, by reducing the size of bureaus, and by increasing the competition among bureaus."

The next question then is, in the context of local government, who is expected to be a greedy bureaucrat? That is, which type of officials would be expected to behave in this manner. Niskanen speaks specifically about the greedy bureaucrat as one who is an administrative appointee with a political sponsor. The bureaucrat has enough power over information to operate as a monopolist who presents the less-informed sponsor a budget and output combination.

While these characteristics may describe many types of bureaucrats at the local government level, they certainly describe city managers. These managers are professionally trained and often work with city councils (political sponsors) who are part-time and often not trained in technical matters involved in producing local public goods. City managers have been found to be politically influential in part because "of their ability to control critical information in the local political system" (Henry, 1987:305). In other forms of city government, elected officials and employees may have relationships that are similar to that described by Niskanen but, generally speaking, the elected official does more direct supervision of employees on a full-time basis, making the hypothesized behavior less likely.

Niskanen specifically discusses local government bureaucratic behavior. Conscious of residents' ability to "vote with their feet" in certain metropolitan areas, he argues that, because the cost for residents to move among local governments is much lower than moving among states or nations, the elasticity of demand for local goods will be higher and therefore "... the combination of services will be responsive to the preferences of residents and that the services will be supplied at near the minimum cost" (Niskanen, 1971:155).

If so, then the greedy bureaucratic behavior will be less likely among local governments where the costs of moving are lower. This describes cities in metropolitan areas with numerous municipalities, little racial discrimination in housing, and little fiscal zoning. However, in rural areas there are significantly higher costs to moving and thus the hypothesis would predict greater presence of greedy bureaucratic behavior in these cities, all things being equal.

Niskanen's model is simple. This is the virtue of a theory if that theory applies generally. Whether it applies to city managers is the
question here. City managers may well be motivated by other factors besides bureau output and their discretionary budget. Some of these factors may appeal to personal or "greedy" motives and others may be more altruistic. Because of the limitations of the econometric test performed, only two theories are tested. This article tests Niskanen's model against an alternative hypothesis from the municipal reform literature. It does not present evidence on the motives of city managers.

Dunleavy (1991:210) has written:

Over time, the appeal of the budget-maximizing view seems to have grown apace so that economists, conservative politicians and media commentators now cite it routinely, as an uncontentious part of the conventional wisdom. Yet this view has rarely been subjected to critical attention or systematic empirical testing. Even when relevant evidence has been collected, the budget-maximizing model has almost never been tested comparatively to see how it performs vis-a-vis rival approaches in analyzing empirical phenomena.

The authors seek to fill this gap in the research by explicitly testing this theory in comparison to a rival hypothesis.

To summarize then, the form of the greedy bureaucrat hypothesis that the authors test here is that city managers, especially in rural areas, will seek to maximize their discretionary budget and in so doing will attempt to avoid contracting out for the delivery of public goods and services.

PROFESSIONALISM IN GOVERNMENT HYPOTHESIS

An alternative hypothesis to Niskanen's theory can be derived from the municipal reform literature. This literature argues that public officials have the power to exercise their discretion in influencing public opinion and building support for programs they favor. However, rather than seeing bureaucrats as self-serving, this literature argues that there is "a correspondence between the decision of bureaucrats and the preferences of the community" (Rourke, 1969:3). Carl Friedrich (1972) and Frederick Mosher (1968) have each argued that municipal reform that attempts to strengthen professionalism among public officials will help form the proper set of values among city officials.

The municipal reform literature stresses that bureaucrats should
ignore self-interested alternatives in favor of serving the larger public interest. It relies on the concept of democratic responsibility. Denhardt and Hammond (1992:25), citing Marshall Dimock, Paul Appleby, and Steven Bailey, argue that public officials need to have certain qualities among them loyalty, honesty, courage, fairness, charity, and "a special attribute of public responsibility."

Research more specific to city management fits this perspective. Protasel (1988) points out that many city managers and the International City Management Association (ICMA) itself see the role of a city manager as providing professional leadership rather than acting as a neutral administrator. Svara (1990:175) describes the style of a "responsible professional" in city management as "providing professional leadership without independent political power resources, on the one hand, or political dependency on all elected officials, on the other."

In the language of this article, this literature would argue that it is the city manager's responsibility to discover and adopt the community's "true" utility function (which may or may not be perceived by the community) as his/her own in his/her professional life. We certainly would not expect these managers to behave like greedy bureaucrats in the Niskanen model; instead, we would expect them to minimize rather than maximize their discretionary budget to get more services for the tax dollar. Therefore, the hypothesis is that professional city managers are more likely to contract out if in fact there are systematic savings to be made or there will be no difference if there is no advantage to contracting out.

DATA

The data used here are drawn from a 1988 survey of alternative service delivery approaches collected by the ICMA. The survey includes responses from 1,313 cities profiling eight alternative service delivery approaches: contracting with a private firm, contracting with another government, franchises, subsidies, vouchers, volunteers, "self-help," and regulatory or tax incentives. This study focused only on city contracting with private firms and other governments. Complete information is available for 1,173 cities.

There are five forms of government represented in the data set: mayor-council, city manager, commission, town meeting, and representative town meeting. The city manager type was taken as the "professionally managed" form of government. While some of the
other forms have certain degrees of professionalism, the key distinction is that these forms of government are less likely to have the independence, professional ethic, and socialization that city managers have.

Examining the incidence of contracting by these cities is instructive. Overall, 89.6 percent of these cities contract with a private firm for one or more services while 79.8 percent contract with another government for services. City manager cities contract out slightly more frequently than the average; 90.6 of these cities contract with a private firm for one or more services and 81.6 percent with another government. The difference between the two subsets is not significant in the first case but is significant in the second case. For all cities the mean percentage of the 66 service areas that are contracted with a private firm is 21.1 percent and 14.3 with another government. For city manager cities these figures are 22.0 percent and 14.2 percent, respectively. The difference between the two subsets is statistically significant in the first case but not in the second case.

Thus, most of these cities contract out with both public and private agents, more often with private firms. City manager cities are slightly more likely to contract out. This general pattern of contracting out is more in line with the professionalism in government hypothesis than the greedy bureaucrat hypothesis.

**MODEL**

The model for this study is drawn from one developed by Korosec (1993). That comprehensive model explains the decision of cities to contract out with a private firm. The relevant literature on contracting out suggested five categories of variables which affect the decision to contract out: legal, political, economic, organizational, and demographic. Korosec found that economic and demographic variables were the most important factors explaining variation in the decision to contract out with private firms.

The variables used in this analysis were taken from the survey responses. Questions about the reasons why each city did or did not contract out were asked for each service delivery area. Most of the questions were "yes/no" questions, therefore many of the variables used here are dichotomous.

As mentioned, this study examines both contracting with private firms as well as local governments. The focus here is on the difference in contracting here between professionally managed cities and
others. The dependent variable, CONTRACT, represents the percentage of the service areas arranged by the city that involves contracting out with private firms or other local governments. As discussed above, this is the behavior that can be observed that allows researchers to test the competing hypotheses.

The central independent variable of interest, MANAG, indicates whether the city is a professionally managed form of government. If the greedy bureaucrat hypothesis is supported, then the coefficient for this variable should be negative, indicating that, all other things being equal, professionally managed cities contract out less than other cities. If the professionalism in government hypothesis is correct then this coefficient will be either zero or positive.

To create a more fully specified model, several other independent variables were drawn from the Korosec's model. Two dummy variables, SUBURB and URBAN, indicate the metropolitan location of the government. The other cities are in rural areas; no dummy variable is included for these cities to avoid singularity. It is expected that SUBURB and URBAN will have a positive influence on the propensity to contract out because of the greater number of potential contractors and their customers in metropolitan areas. These variables act as a measure of the availability of actual and potential service suppliers. The variable POP is the population of the city in 1980. It is expected to have a positive influence on contracting out because larger areas should have larger markets of contractors and thus more competitive contracting prices.

Several economic and organizational variables are relevant to explaining contracting out. The variable COST indicates that contracting out was, in part, pursued in response to internal pressures to decrease the cost of service delivery. The authors expect that this variable will have a positive influence on the dependent variable. The variable NUMBER indicates that the government perceived an insufficient number of competent private deliverers. This variable should have a negative influence on the propensity to contract out.

MONITOR indicates that the government systematically monitors contracting. It is expected to have a positive influence on CONTRACT because through monitoring these cities can reduce the uncertainty of their agreement. The variable EXPEREN indicates that the government perceived either institutional rigidities or a lack of precedent to contracting out. This variable was expected to have a negative influence. CONFIDEN indicates that the government perceived a lack of evidence on the effectiveness of private
alternatives and its impact is expected to be negative. FISCAL indicates that external fiscal pressures spurred the government's decision to contract out and its expected impact is positive. All of these variables are dummy variables.

Two political variables and a set of legal variables are included in the analysis. The variable CITIZEN indicates that opposition from citizens was perceived to be a potential obstacle to contracting out. It is expected to have a negative influence on the dependent variable. The variable LABOR indicates that the government perceived that restrictive labor agreements are a potential obstacle to contracting out. This variable should have a negative influence on contracting out. The perceived presence of legal constraints on contracting out is measured by LEGAL which is expected to have a negative coefficient.

Again, all of these are dummy variables. Also, 46 dummy variables for states are included to reflect variation among states in laws governing contracting out. A state may either mandate, allow or prohibit contracting out in various instances. While data are not available on the scope of these laws, the dummy variables for states will, in part, reflect this variation.

RESULTS

To estimate the impact professionalism has on contracting out, the variable MANAG is included in the equation and tested for statistical significance. Later the data are broken into two subsets to examine the differences between the subsets.

Initial testing of this model indicated the presence of heteroskedasticity. This result was adjusted using a weighted least squares approach. Table 1 presents the results of this adjusted model. It indicates that the coefficient for the dummy variable for city manager cities is negative but not significant at the 95 percent confidence level. This then does not support the Niskanen hypothesis, rather it is consistent with the professionalism in government hypothesis.

Certain of the other variables performed as predicted. Among the demographic variables, both URBAN and SUBURB were significant and positive as predicted. POP was positive but not significant. These results are generally consistent with the hypothesis that market access affects contracting out. The economic and organizational variables gave mixed results. COST was significant and positive as predicted and indicates that perceived cost savings leads to
TABLE 1
REGRESSION MODEL OF CITY CONTRACTING OUT

Dependent Variable: CONTRACT

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Parameter Estimate</th>
<th>Standard Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANAG</td>
<td>-0.076</td>
<td>1.374</td>
</tr>
<tr>
<td>POP (in millions)</td>
<td>14.948</td>
<td>7.940</td>
</tr>
<tr>
<td>URBAN</td>
<td>6.814**</td>
<td>1.790</td>
</tr>
<tr>
<td>SUBURB</td>
<td>15.190**</td>
<td>1.254</td>
</tr>
<tr>
<td>COST</td>
<td>2.815*</td>
<td>1.289</td>
</tr>
<tr>
<td>NUMBER</td>
<td>2.461</td>
<td>1.412</td>
</tr>
<tr>
<td>MONITOR</td>
<td>4.557**</td>
<td>1.166</td>
</tr>
<tr>
<td>EXPEREN</td>
<td>1.805</td>
<td>1.508</td>
</tr>
<tr>
<td>CONFIDEN</td>
<td>0.403</td>
<td>1.392</td>
</tr>
<tr>
<td>FISCAL</td>
<td>2.285</td>
<td>1.253</td>
</tr>
<tr>
<td>CITIZEN</td>
<td>8.061*</td>
<td>3.201</td>
</tr>
<tr>
<td>LABOR</td>
<td>-0.978</td>
<td>1.587</td>
</tr>
<tr>
<td>LEGAL</td>
<td>1.496</td>
<td>1.630</td>
</tr>
</tbody>
</table>

N = 984
R-squared = .8177
Adjusted R-squared = .8061
F = 70.345

Note: 46 dummy variables for states are not listed here. The intercept was removed because of these dummy variables.

* Significant at 95% level
** Significant at 99% level
contracting. The variable MONITOR was also significant and positive as predicted, consistent with the hypothesis that contracting out is more likely when there is an ability to monitor the contract. NUMBER, EXPEREN, CONFIDEN, and FISCAL were not significant. The political variables did not perform as predicted. LABOR was not significant and CITIZEN was significant but positive rather than the anticipated negative sign. For the legal variable, the variable LEGAL was not significant; however, all but two of the state-specific dummy variables were significant. This indicates an important part of the variation in CONTRACT was coming from differences unique to the states, some of which may be attributable to the legal environment.

Separate regressions were also run for rural, suburban, and urban cities. In all three cases the coefficient for the city manager dummy variable was not significant. In the suburban city equation it was positive but not significant (t-statistic of 0.144). In the urban and rural equations the coefficients were negative and also not significantly different from zero (t-statistics of -0.159 and -0.957, respectively). As discussed earlier, the manifestation of greedy bureaucratic behavior might be repressed in urban and suburban areas where city managers are forced to compete but this behavior should be present in the more isolated rural areas where the city manager can behave more as a monopolist. However, there is no evidence of this behavior.

Finally, the equations were also estimated in two subsets, one for city manager cities and the other for all others. An F-test to test for structural differences between these two regressions did find a significant difference. The differences help shed further light on the earlier results. Comparing the city manager regression to the "other" city regression, the variable MONITOR was larger and more significant in the first, although it was significant in both, suggesting that city managers place more emphasis on their ability to monitor a contract. The variable CITIZEN, positive and significant in the city manager regression, is not significant in the other. Strictly speaking, the interpretation is that citizen opposition stimulates city managers to contract out. More generally, this may indicate that city managers are more willing to go against public opinion to contract out than other cities. Finally, the variable URBAN is not significant in the city manager regression but is significant and positive in the other regression, indicating that, in city manager cities, market access is less of an influence.
The presence or absence of a city manager, by itself, does little to explain variation in contracting out either in general or for rural cities that have the best opportunity to behave as the greedy bureaucrat hypothesis predicts. However, city manager cities do behave somewhat differently than other cities in ways that appear consistent with the professionalism in government hypothesis. The results paint a picture of a city manager who is more responsive to economic forces than political and demographic forces, perhaps willing to assert leadership when necessary. Therefore, the authors conclude that the results are more consistent with the professionalism in government hypothesis and not with the greedy bureaucrat hypothesis.

CONCLUSION

This article has tested the proposition that the institutional context within which city decision-makers operate may affect the efficiency of their actions. An implication of Niskanen's theory is that city managers would be more likely to avoid contracting out for local services to hide their discretionary budget. None of the evidence presented here supports that proposition. Even the test of this proposition for rural cities, which are most likely to be able to behave as Niskanen predicts, does not find supportive evidence. Rather, the evidence is consistent with the professionalism in government hypothesis, suggesting that city managers choose the most efficient method of service delivery which may or may not involve contracting out, depending on the specific circumstances. In their decisions regarding contracting out, city managers appear to focus less on political variables and more on economic forces.

Blais and Dion (1991:360) have written that "the proposition that bureaucrats are all-powerful in their relationship with politicians must be dismissed." Dunleavy (1991:247-248) has concluded that "[t]he existing empirical support for budget-maximizing models is scanty in the extreme ... [these models] clearly have considerable difficulty in accounting for the emergence and strength of ... privatization and deinstitutionalization." Finally, Peters (1991:346) has written that "the power of the bureaucracy apparently is exercised differently, and perhaps for different purposes, than is assumed in many of the rational choice approaches to bureaucracy."

Lack of empirical support for Niskanen's model poses the question of what is the appropriate alternative model. One possible starting point is a positive version of the professionalism in government
hypothesis in which the utility function of the bureaucrat is altered to include the utility of city residents or other actors. Another alternative is to maintain the assumption of utility maximization of the bureaucrat but to change other assumptions about his/her environment.

Two post-Niskanenian models are particularly attractive. First, Miller and Moe (1983) have shown how different assumptions about the role of legislative oversight and the representativeness of the oversight committee can affect the output of a bureau managed by a utility maximizing bureaucrat. They demonstrate that Niskanen's model is a special case that relies on strong assumptions about oversight, representation, and strategic interactions.

Second, Dunleavy's (1991) "bureau-shaping" model is also promising. He assumes that rational and self-interested bureaucrats seek to enhance the comfort of the bureau's position and environment. Their ability to do so will depend on their rank in the hierarchy, the bureau type, and the costs, benefits, and probability of achieving personal goals. Niskanen's model is again a special case of this model occurring only under extreme assumptions. This model is broader and seems to explain a wider range of bureaucratic behavior.

One advantage of Niskanen's model, compared to the professionalism in government literature, is that it is a positive model with clear predictions that can be applied to study the actions of government managers in the supply of public output. However, the authors think that the emerging positive models are more promising than the Niskanen model and need to be elaborated and tested.

In particular the authors suggest first, reformulation of the bureaucrat's utility function so it can include non-pecuniary objectives such as the status and atmosphere of the work environment and the bureaucrat's discretion. Second, varying the degree to which the bureaucrat's utility function corresponds to that of his/her constituency may be fruitful. Third, the assumption that bureaus have monopoly power and operate in a strictly hierarchical system should be relaxed. Finally, the authors believe that assuming the bureaucrat has a great deal of informational power over his/her political sponsor is not realistic; instead, the model should incorporate the costs and benefits of information gathering for both parties. Bendor and Hammond (1992) argue that future models of decision-making need to take into account strategic interactions, including the information available to the decision-maker. As Miller and Moe (1983) have
shown, these modifications can be productively applied to models like Niskanen's.

Testing the Niskanen model and the reform model is important because they have shaped the ways many scholars think about bureaucratic behavior and the supply of government output. Future theoretical work should examine and expand upon the implications for both models of changing assumptions about the information, power, and representativeness of the actors. Future empirical research about contracting out and other privatization options should test these modified versions of the Niskanen model and the reform model to examine how professional managers differ from other officials in their consideration and use of alternative service delivery options.

NOTES

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REFERENCES


