

# **Abstract**

## **Introduction**

The division of power between the state and cities dates back to ancient times, though it has evolved significantly over the centuries. In practice, however, many countries are still searching for the proper balance between their federal and municipal systems. Local governments ostensibly enjoy full independence: their managers are directly elected by the residents of the municipality, and are in charge of all municipal matters. Despite this, the ties with, and dependence on, the central government are very pronounced at all levels—from involvement of national parties in local elections to state intervention in municipal affairs.

Dependence on the central government stems largely from the lack of financial independence in many of the municipalities. In most cases, their socioeconomic level is low, and they are incapable of providing their residents with a reasonable level of services based on their own sources of funding, forcing them to rely on the central government. But along with the lack of economic independence comes diminished governmental autonomy—from the monitoring of municipal expenditures, to limits on local tax collection, to the replacement of local elected representatives with those of the central government when the former are not functioning properly in the eyes of the central administration.

Even municipalities that enjoy full economic independence are not immune from central government intervention in their affairs: first, there are government decisions that are tied to location, such as highways, ports, airports, army bases, etc.; second, the municipalities serve as contractors of public services, primarily education and social welfare; and third, the government affects the intensity of competition between municipalities by

\* Translated by Karen Gold.

dictating taxation regulations and the financing of public services, “bailing out” competing municipalities in crisis, and so on.

Obviously, the greatest blow to representativeness involves municipalities whose economic independence is low, or those in a state of crisis. This raises the question of whether central government intervention in the running of municipalities actually contributes to greater efficiency. This issue is addressed in chapter one of the book, in which we examine the effectiveness of massive intervention by the State of Israel in the management of municipalities between 2004 and 2010. During this period, the Ministry of the Interior engaged in three primary forms of intervention, representing different levels of administrative subordination of local politicians to the central government: (1) appointing an accountant who oversees and approves every expenditure of the municipality, reporting directly to the Interior Ministry; (2) dictating a recovery plan tailored to the specific municipality that stipulates, among other things, the targets for property tax collection and the number of employees to be discharged; (3) dismissing the head of the municipality and the council members, and replacing them with a centrally appointed committee. Since the start of the massive intervention plan in 2004, these methods have been implemented in more than half the municipalities, with the aim of reducing their expenditures and their budget deficit.

Based on an analysis of all municipalities in Israel, we found that state intervention in the running of local authorities had a significant effect on key variables in the budget, such as total outlay, wage costs, and rate of tax collection. But the entire statistically significant effect of “administrative subordination” is attributable to the appointment of an accountant who reports directly to the Ministry of the Interior. (The sole significant effect of a recovery plan is a substantial increase in the grants transferred by the Interior Ministry to the municipalities included in the plan.) We can therefore conclude that it is possible to influence the performance of municipalities via relatively mild methods of administrative subordination, which are generally preferable to invasive political intervention.

The second chapter of the book focuses on the election of municipal representatives. The electoral system can also have an impact on the

efficiency of municipalities. For example, the shift to two ballots in 1978—one for the municipality head and the other for the local council—greatly increased the splitting of city councils among various factions. Two-ballot elections weaken the power of the municipality head, forcing him to pay a heavy price to his coalition partners. According to our findings, the smaller the size of the council head's faction, the higher the budgetary deficit and municipal debts.

The study also addressed the key question in elections: Why do people vote, given that the impact of a single voter on election results is negligible? Many researchers have provided a variety of answers on this topic. Municipal elections in Israel gave us the opportunity to explore one of the more intriguing theories in the literature, namely, the argument that belonging to a certain social or ethnic group affects voter turnout and election outcomes.

The typical Arab community is divided into several *hamulot* (an extended family or clan, defined for the most part by blood ties). Members of a *hamula* maintain varied social relationships, such as marriage between family members. Numerous findings suggest that belonging to a *hamula* is an important aspect of the self-definition of many Arab citizens. We found that the residents of communities characterized by a centralized *hamula* structure tend to have higher voter turnout rates than do communities where the structure is more decentralized. Moreover, we present direct evidence that voters from a certain *hamula* are more likely to vote for their clan's candidate, though a sizeable portion opt for the rival candidate. Compared with voters in a large *hamula*, the members of a small clan are less inclined to vote for their *hamula*'s candidate. The study also found the rate of voter participation in Arab municipalities to be significantly higher than in Jewish ones, even after adjusting for differences in financial status, population size, and extent of political competition.

The impact of campaign spending on election results is also a source of fascination for researchers and decision makers around the world. The interest in this question stems, first and foremost, from its implications for the fairness and integrity of the election process; but the issue also influences

the effectiveness of the electoral system. The question of whether financial resources in fact have an effect on election outcomes is addressed in chapter three, which closes the book.

Despite the major public importance of this question, researchers do not offer a clear answer. Scholars confront three primary difficulties when assessing the true impact of campaign expenditure: First, a top-notch candidate with better chances of winning an election will have an easier time attracting contributions. Second, a tight race leads to greater spending, and would seem to indicate that easy, decisive victories entail smaller financial outlays. Third, the actual economic resources of candidates are unknown, particularly in the case of incumbents, due to their ability to use funds already at their disposal as a result of their position.

Among the ways of contending with these difficulties is to study run-off elections between the same candidates. Elections for municipality heads in Israel offer ample opportunity for making use of this method. In municipalities where none of the candidates wins 40% of the vote, a second election is held two weeks later between the two candidates who took first and second place. Public financing for the first round of elections is determined by the relative strength of the faction headed by each candidate. By contrast, the funding for a second round of elections is divided equally between the two candidates, regardless of their factions' share of the municipal council. This financing structure allowed us to isolate the impact on election results of the difference in resources between the two rounds. For purposes of the study, we looked at all run-off races with available data in four elections for municipality heads in Israel. Our findings showed that campaign spending has little to no effect on election results—another aspect of poor efficiency in Israel's local government.

To summarize, this book examines a range of issues in which we encounter the dilemma of representation versus efficiency. The three studies detailed in the chapters below indicate that assigning priority to representation at times entails a loss of efficiency, and vice versa. It is therefore important to constantly consider the interplay between the two, and the underpinnings of each, so as to find ways to minimize the encroachment on either one.

## Chapter One

**Efficiency of Centralized Administration  
of Municipalities**

Avi Ben-Bassat, Momi Dahan, Esteban F. Klor

The purpose of this study is to examine whether subordinating local authorities to the central government is an effective way of handling those municipalities who repeatedly rely on transfers from the central government when their expenditures greatly outstrip their sources of income (and by doing so create the problem of “soft budget constraints”). The measures that the government has implemented since 2004, based on a new system, include appointing an accountant to oversee municipal expenditures, as well as recovery programs that grant financial assistance in exchange for meeting spending targets and tax collection goals. In certain exceptional cases, elected representatives have been replaced with a centrally appointed committee.

The findings indicate that appointing an accountant contributed substantially to increasing property-tax collection and lowering spending, compared with the control group of municipalities where this policy was not implemented. In particular, salary expenditures were substantially reduced following the appointment of an accountant. By contrast, recovery programs did not aid in improving the budgetary status of the municipalities over and above the contribution of the accountant. These findings led us to conclude that an effective policy for addressing the problem of soft budget constraints can be based on a moderate and direct form of administrative subordination of the municipalities to the Ministry of the Interior, without the need for more invasive political measures such as recovery plans.

The findings with regard to budgetary performance following the introduction of a centrally appointed committee are mixed. In tandem with an appreciable reduction in per-capita spending by the municipality, there was a considerable increase in the level of debt and no effect on the municipality’s income from property taxes.

Chapter Two

## **Why Do Residents Vote in Municipal Elections?**

Avi Ben-Bassat, Momi Dahan

This is a revised version of our article entitled “Social Identity and Municipal Elections,” which appeared in the book *The Political Economics of the Municipalities* (Ben-Bassat & Dahan, 2009). It includes a reworking of the data based on the results of the 2008 municipal elections and a discussion of the causative factors and economic ramifications of political splits in municipalities.

The fact that people vote in general elections is surprising from the standpoint of the rational choice model, since the ability of a single individual to affect the outcome of elections is negligible. In practice, however, the overwhelming majority of citizens in developed countries vote in parliamentary and presidential elections. This gap between theoretical prediction and reality has earned the name “the paradox of voting.” In recent years, a new line of research has developed that reconciles this paradox by adding group affiliation to the factors affecting the individual’s decision on whether or not to vote. This study utilizes the unique social structure of Israel’s Arab population to examine the validity of this theory, presenting the first quantitative assessment of the impact of voting along clan lines in local elections for Arab municipalities. Belonging to a *hamula* affects not only voting patterns (whom to vote for) but also the rate of voter turnout. In keeping with the theory of social identity, it was found that voter turnout in Arab municipalities is markedly higher than in Jewish ones, even after controlling for differences in income level, extent of political competition, and population size. The study also revealed an inverted-U relationship between the size of the group or *hamula* (as measured by the percentage of people with the same last name) and the rate of voter turnout. This finding is consistent with theoretical models that include social identity among the factors affecting voter participation, in an effort to resolve the paradox of voting.

## Chapter Three

**Do Candidates' Spending Levels Affect  
Election Results?**

Avi Ben-Bassat, Momi Dahan, Esteban F. Klor

This study makes use of data from run-off elections to demonstrate the impact of campaign spending on electoral outcomes. An examination of all the available data from the municipal run-off elections in Israel indicates that the amount spent by candidates had a small, not statistically significant effect on election results. Note that expenditures in municipal elections are high, standing at \$11 per potential voter. This conclusion contrasts with recently published findings that spending has a significant effect on electoral outcomes, but is in line with earlier studies, which demonstrated only a limited impact. Our study was less susceptible to the biases that characterized the earlier studies, owing to the use of data from run-off elections that took place a very short time (14 days) after the regular elections.