

“Elected Decision Makers and Budgeting Practices in Small Towns and Rural Areas: Rational Choice or the Political Imperative ?”

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ABSTRACT

This study investigated the differences of budgeting practices in rural and small town areas. The budgeting practices were classified as the “Political Model” and the “Rational Actor Model”. These models were tested with data from a regional email survey contacting elected city, town, and county officials in Southern North Carolina. The findings suggested that smaller and less bureaucratized jurisdictions with fewer employees, a constant turnover of elected officials, and public officials with a very modest amount of educational and professional experience would fit in more to the politicized model than the rational model in budget practices. However, this research also suggested that rural jurisdictions with the council-manager form of government or employees taught in professional Master’s Programs in Public Administration were moving toward the rational model in budget practices.

Introduction

Local governments in the U.S. have a long history of working hard to make government more productive and efficient (Tyler 2000). The emphasis on strategic planning and management, performance measurement and budgeting, and the use of more sophisticated budgeting techniques and practices appears to be growing and progressing (ibid). As one budget expert has said:

“At the local government level, as at all levels, the trend has been for legislators to acquiesce to chief executives and administrators on budget matters (Gargan 1984)”.

Despite the consensus of experts about this historical progress, recent national surveys of local governments reveal that while changes are being made in the development and utilization of these “rational” decision making concepts and tools, a majority of local jurisdictions in the U.S. still do not have these “ systems” in place (Dluhy 2006). And as most of the budgeting literature indicates, without “rational systems” in place, the political imperative of incrementalism, bargaining and compromising at the margins, and the continuous modification of goals and objectives to accommodate political interests and power remain dominant (Giannatasio 2001).

In this discussion, the “Rational Actor Model” of Decision-Making developed by Graham Allison (1971) many years ago suggests that rationality is maximized when technocratic methods dominate decision-making processes (Allison 1971). As the argument goes, bureaucrats and administrators dominate the development of goals and objectives, designing alternatives, examining consequences and choosing the alternatives. In addition, and importantly, rationality in this context means that analysis focuses more on the means rather than the ends in the decision-making

process.

At the local governmental level, “rationality” can mean using strategic planning and management concepts and tools, introducing and using performance measurement and performance budgeting, and regularly using more sophisticated revenue and expenditure analysis and forecasting (Bloom 2001; Clynch 1988; Lane 2002; Smith 2004). This will be referred to as the “Rational Actor Model” of decision-making and budgeting below.

In contrast, the alternative in many local government contexts is the use of a model called the “Governmental and Political Model”. Streib (1992) has argued persuasively that local governments who try to use the more technocratic and rational choice approach to decision making and budgeting, will find it simply too demanding to use effectively. Thus, if they try to use it, they may find it frustrating because the expectations are too high, knowledge insufficient to make rational choices, and overall the outcomes will be disappointing. In the end, many local governments who have been unable to fully integrate the “Rational Model” into their government processes have gravitated back to the use of the tried and proven “Governmental and Political Model” (ibid).

The “Governmental and Political Model”, among other things, allows: experience to accumulate (incrementalism); issues to surface in the political process that need solution; and compromises and bargaining around goals and objectives to take place as needed. In the end, this “bottom up” approach encourages strategies and compromises to emerge from the political process and this fits well in communities where powerful elected leaders are available to facilitate compromises among fractionalized interests (Streib 1992). The “Governmental and Political Model” does not try to drive out strategic thinking but rather it tries to keep technocratic systems

and tools from dominating decision-making and budgeting at the local level.

Empirical Evidence on Decision Making and Budgeting in Small Towns and Rural Areas

In order to test out some of the ideas discussed above in terms of which Model, “Governmental and Political” or “Rational Actor” is dominant at the local level, a study of small towns and rural areas in southeastern North Carolina was completed. The results of this email survey will be looked at in light of the predominant practices being used in decision-making and budgeting at the local level. These kinds of studies can test out theories like those discussed above and look at them in light of actual empirical practices being used. There is no argument being made here that the “Rational Actor Model” is preferable to the “Governmental and Political Model” or vice versa. Rather, this analysis is an attempt to focus in on small towns and rural areas that, on the face of it, would be considered either a “sometime” or “part-time” government. Here, we try to accurately describe what type of practices are dominant in these governments and what the future for these kinds of local governments is likely to be in terms of budgeting and decision-making.

Some Characteristics of the Email Survey, Fall 2006

A regional email survey was completed contacting all elected city, town, and county officials in Southeastern North Carolina (referred to as the Wilmington Metropolitan area). The regional population is 329,281 and there has been a regional growth rate of 20.5% over last decade. The Wilmington area is very close in growth rates to the Raleigh and Charlotte areas in North Carolina. Included in the survey were elected officials from communities of all sizes as noted below. (<http://www.uncw.edu/pls>).

The Survey was emailed to all elected officials in 4 counties and 39 cities and towns and the response rate was 39.4% after four follow ups. (N=60 cases). The population size of the jurisdictions responding were 30% under 1000 in population, 40% between 1000 and 5000, and 30% over 5000.

Looking at the jurisdictions responding, the number of government employees (FTE's) showed 61 % of jurisdictions having less than 50 FTEs. Therefore, the jurisdictions were, on average, quite small. Only the city of Wilmington at 75,000 could be considered large and 70% of the jurisdictions were under 5000.

As to form of government, 57.8 % reported that they used the Council-Manager form of government so there was some expectation that a majority of the communities would at least have been exposed to more sophisticated budget practices.

As far as elected officials, 33.3% had served a year or less in elective office while 60.6%

had served less than 4 years. This leaves about 40% of the elected officials more experienced with four or more years of experienced. Still 60% served a short time or one term or less.

Elected officials reported that 43.2% were born and raised in North Carolina while 56.8% came from outside the state. This ratio of outsiders is somewhat higher than other Regions in the state. The large percentage of outsiders is attributed to the fact that this region is on the coast and has attracted many people migrating from outside of North Carolina. The Coast is not only fast growing but it is attracting people from outside the state especially the Atlantic Coast States north of North Carolina and the Mid-West states.

In addition, the elected officials reported that 84.1% of them were are over 50 years old and 57% are over 60 years old. Therefore, these officials are somewhat older than in other parts of the state and this is attributable to the large in migration of outsiders who have recently retired and moved to the North Carolina coast. In addition, 33.3% of the elected officials were college graduates or had other professional training. The median value of the homes in their jurisdiction was \$200,000. Finally, the elected officials reported that their self perception of social and economic class was: 2.3% lower; 52.3% working; 31.8% middle: 13.6 upper middle or upper.

On some other issues, from a different 2003 survey covering the region, respondents said that their areas were 31% a great place to live (31%). Only 5% rated it as a poor place to live. An earlier 2003 survey results indicated that 28% thought that the financial state of their government was better than last year but 28% thought it was worse than last year. [Http://](#)

www.uncw.edu/pls.

In sum, most of these communities were under 5000 people and the elected officials were older, middle class and very likely to have moved from outside of the region either from the Atlantic Coast or the Mid-West. Even though these officials did not have a lot of experience, on average, their education levels were above average. Given this profile, it would be safe to assume that they would be supportive of the city manager form of government,

Major Results of Survey

Fiscal Stress--In terms of the overall budget environment, 62.3% of the elected officials reported that there had been limited fiscal stress over the past year. A very small amount, 11.3%

indicated that fiscal stress had been considerable. In fact, 24.5 indicated there had been no fiscal stress at all in the last year. From the perspective of the elected officials, fiscal stress was not one of the dominant features of the larger budget and fiscal environment for decision-makers and certainly this kind of stress was not driving their decision-making.

Budgeting and Decision Systems in place- In order to understand the framework decision-makers used when they were in the budget process, they were asked whether they used strategic planning as a guiding framework and whether performance measurement was used in a regular basis. In the case of strategic planning, 62.0% of the officials indicated that strategic planning was the general framework used and 38.4% indicated that they used performance measurement. Together these responses suggest that elected officials in this region have at least been exposed to the more contemporary frameworks offered in modern budgeting.

How do Decision Makers make up their minds- It is also important to find out the approach decision-makers use when they making budget estimates. The actual question asked:

How are revenues for your budget estimated each year? Below are some of the ways that revenues are usually estimated. Which approach comes the closest to how you do it in your.....?)

The responses of elected officials indicate that 49.2% leave it to professional staff. While 32.2% use consensus forecasting where major stakeholders all contribute to the decision. Another

13.6% indicate that they rely on Time series or trend analysis. These responses suggest a willingness to defer to professional s when trying to determine the best budget estimates.

Description of how they make annual budget expenditure decisions- One of the most important questions in the survey had to do with how decision-makers actually make up their minds in the annual budget making process. Below are the four different ways that decision makers make up their mind.

Zero-based budgeting.....54.7%. (*Start over every year but process is extremely political. Every year is a new year. We start from scratch. Every department must make their case again. We make no assumptions about the past but require information from everyone. Some programs and departments will be eliminated but others increased and still others significantly increased. None will receive an automatic or incremental*).

The Rational Model..... 13.2%. (*Cut budgets based mainly on the effectiveness and evaluations of the programs. We try to reward efficiency and effectiveness whenever possible*).

Give programs incremental increases each year.....9.4% (*we usually adjust each department's budget and programs as well as the overall budget incrementally every year.We like to be fair to everyone*)

Could not characterize the features of the process.....22.6%

The most interesting thing about how they make their annual budget decisions is

that a majority thinks that they start over each year and use a modified zero based budgeting approach. This perspective would seem to minimize the importance of incrementalism.

These decision makers did not want to admit that incrementalism might guide their thinking as much as starting over each year and building a budget from scratch and one based on the needs of that fiscal year.

Approach to budget cutting—Elected officials were also asked about how they made budget cuts. The most common response was that they downsized the poorest performers, and gave everyone else last year's amount (61.5%). Another 19.2% indicated that they used an Across the Board approach. And finally, 19.2% indicated that they “right sized” the budget and looked at everything. Again the respondents suggest a very rational and mostly non-incremental approach with performance being the major criteria used for budget cutting. In sum, —Local decision makers are more likely to rely on professionals or experts for their estimates. They also describe decision-making processes surrounding the budget allocations and cuts as more rational where they are using approaches like Zero Based budgeting, Right-Sizing, and Efficiency and Effectiveness analysis. Most importantly, they claim to not be using a process dominated by incrementalism or the Political Model (or will not admit it). This is a surprising finding and suggests a major change in the way local budgeting should be viewed.

What Information do Decision Makers say they need for decision making and budgeting (and from whom)- When you are trying to make up your mind about whether to fund a service or program in your community, what type of information is the most important to you?

Respondents say:

Information from department head.....33.9%

Performance measures for the program.....30.4%

Comprehensive program evaluations.....16.1%

City Manager's recommendation.....12.5%

It is consistent with other questions in the survey but elected officials are more interested in information from department heads and particularly information on performance measures. Again this reflects a more professional model of budgeting than earlier thought and less of a commitment to a more political and incremental model of decision-making.

When you are making budget decisions, indicate how important the following type information is to you? In a very similar question, local officials were asked about the importance of certain kinds of information opposed to whom it was coming from (the previous question)

They responded that in order of importance---

Performance Measures.....41.3%

Comprehensive program or service evaluations.....37.0%

History of performance over last 10 years.....34.0%

Citizen surveys or direct inputs.....22.9%

Information comparing program to a program in another city.....20.0%

Formal complaints from citizens.....14.6%

Again, this question, demonstrates the commitment of elected officials to performance

measurement and program evaluations which is a surprise for local budgeting where it was thought that the political model of decision-making is predominant. The Rational Actor Model appears to be more descriptive here.

Who do they listen to when they are making decisions? In another related question elected officials were asked about whom they listen to when they make up their minds in decision-making surrounding the budget. The responses were:

Finance officer.....67.3%

City manager.....57.4%

Budget director.....51.8%

Department head.....43.9%

Mayor.....35.2%

Citizens.....29.1%

Business and other groups.....27.5%

In further support of the Rational Actor Model, they indicate a preference for listening to experts for advice like the finance officer, the city manager, budget the director, etc. (but not citizens)

The most serious obstacles to more efficient and effective decision making and budgeting. As the responses below indicate elected officials want more performance measures and less political infighting. This lends further support for the Rational Actor Model and less for the Political Model.

Not enough performance measures.....42.0%

Too much politics, infighting.....40%

Not enough citizen input.....30.6%

Not enough program evaluations....20.0%

Poorly presented information presented by staff.....18.4%

Clearly decision makers see the trade-offs between more technocratic information and political information. They are frustrated by the politics of the process but they also say they want more performance measures and more citizen input. Thus the paradox of local budgeting. They want and need citizen input but they also want more technocratic information like performance measures. How do decision makers reconcile these two somewhat contradictory needs?

Recommendations or Changes for improving Decision Making and Budgeting.

About 49.1% of the local officials would like a little change in the process and another 18.9% want a lot of change while another 5.7% would like a great deal. Thus about 75% want some kind of change and the rest, 25% want to leave the budget process alone.

On the very important question, what changes are needed in the budget process and in the decision-making surrounding the process in the future, the respondents indicated:

Performance measures.....63.5

More program evaluations.....48.0%

More expert forecasting....30.6%

More citizen input.....28.0%

More power point presentations on revenue and expenditure data trends.....22.0%

More professional staff.....19.6%

More open budget hearings for the public.....10.0%

More use of expert budget consultants.....10.0%

There is a clear preference for changes like utilization of more performance measurement and program evaluation that support the “Rational Actor” model of decision-making although they did acknowledge the need for more and better forms of citizen input.

However, the most traditional form of citizen input, the open public hearings, receives little support from these decision makers.

Discussion and Implications for Practice

This analysis of the survey of local elective officials in small towns and rural areas in Southeastern North Carolina began by exploring the extent to which budgeting and decision-making in these smaller jurisdictions were explained better or more accurately by using either the “Rational Actor Model” or the “Governmental and Political Model.” On the face of it, smaller and less bureaucratized jurisdictions with fewer employees, a constant turnover of elective officials, and public officials with a very modest amount of educational and professional experience should be more accurately described by the more politicized model of decision making. One should expect

“sometime governments” with part-time elective officials to eschew more technocratic approaches to budgeting which require more knowledge and training and a greater time commitment to the process.

However, what emerges from the Survey is a paradox---on the one hand, decision makers describe decision making processes in their jurisdictions as being frustrating with a lot of in-fighting and a lot of politicization. On the other hand, they express a clear preference for the more technocratic approach best described by the “Rational Actor Model”. Thus, 75% of the decision makers are frustrated and want changes like the use of more performance measurement, program evaluation, forecasting, and even power point presentations. Interestingly, they indicate less of an interest (less than 25%) in the development of more budget hearings or creative ways to involve citizens in the decision making process.

It is impressive to hear that local officials who are largely part-time and who come from “sometime governments” are also more willing today to listen to technocrats and experts than they are to citizens and other interest groups in the community. It appears that the reform of government budgeting and decision-making is in the midst of a major shift in the budgeting processes being used. Even our smaller local governments in the U.S. appear to be a part of that evolutionary change from political to technocratic. In North Carolina, as in other states, the majority of cities and towns now have the council-manager form of government where the dominant approach to budgeting is more technocratic where there is more of a commitment to things like forecasting, performance measurement and budgeting, strategic planning, and comprehensive program evaluation.

So the future for small towns and cities appears bright if this cross section of one Region is

representative of what is happening at the local level. The overall conclusion is that while the process may still be politicized, the elected officials are moving slowly or at least incrementally toward the budgeting practices taught in most professional Master's Programs in Public Administration around the country. In North Carolina alone there are 10 fully accredited MPA programs feeding MPA graduates into towns and cities around the state.

In conclusion, even though we are seeing a movement or shift from the "Political Model" to the "Rational Actor Model" over time as seen in the survey results presented on local governments, we should not forget that public participation is at the heart of a Democracy (Walters, et al. 2000). If elective officials are listening or wanting to listen less to citizens and more to technocrats presenting information on performance measures, forecasts, and program/service evaluations, then someone needs to remind elective officials that an important challenge in the future is to develop a more proactive role in the public participation process. An appropriate question and challenge for the future is to seriously consider the complexities and the design of more successful strategies for public participation.

For example, why not explore some of the following ideas to link and connect the public with budgeting and decision-making (Dluhy 2006; Dluhy and Swartz 2006). These are ways of reaching out and giving citizens a chance to participate in something more than the conventional and tedious open budget hearings that most communities use to satisfy the "Good Government" constituencies.

Some ideas for the future:

- ♣ Maintenance of interactive web-sites
- ♣ Use electronic town hall meetings to solicit advice from citizens
- ♣ Run regular focus group sessions with various sectors in the community and social and economic groups
- ♣ Involve citizens and citizen groups in the design and construction of performance measures
- ♣ Report and gain feedback annually from citizens through surveys of service satisfaction
- ♣ Present results of surveys, performance measurement monitoring, program evaluations, and forecasts regularly to the community or during a “State of the Region” Conference. Market the important information and get it in the hands of the public on a regular basis.
- ♣ Subject data sets and program monitoring information to citizen seminars for their input and critique.
- ♣ Compare all measures used with peer communities around the state so that peer comparisons can be made. How are we doing as compared to....?

The main idea of this analysis has been that the “Political Model” and the “Rational Actor Model” each have their own advantages and disadvantages. In a Democracy, elective officials may want both kinds of information before they decide---the best data, measures, and projections available from the technocrats but they may also want the best analysis of citizen input and public opinion. From Wildavsky (1988), we all know budgeting is inherently political but we also know

that complex budget decisions also require a considerable amount of analysis, forethought, and information on trends and needs. We should be able to move forward both politically and analytically simultaneously without sacrificing political accountability and responsiveness (Box 2007).

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