The Political Market Framework and Policy Change

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The Political Market Framework and Local? Policy Change

This paper provides an overview of the political market framework as applied to local policy change and adoption. The political market framework conceptualizes policy change as the outcome of an exchange between government policy supplies and interest group policy demanders. Political institutions structure this exchange relationship by determining the transaction costs of searching for mutually beneficial agreements, bargaining over outcomes, and monitoring and enforcing. Political institutions also affect the resulting distribution of policy benefits across different types of interest groups. The primary empirical implication of the political market framework is the necessity of looking for interaction effects that show how influence of different variables on policy change (e.g; interest group strength) are conditional on the structure of political institutions.

(Then say how it has intellectual roots in comparative studies The study of sub-national policy adoption and policy change has its roots in comparative analysis of state and local policy outputs. By exploring commonalities and difference among systems, comparative policy studies offers important clues about how policies are generated and changed (Mayer 1989). Early work emphasized internal characteristics of jurisdictions including socioeconomic conditions, fiscal capacity and party competition and sought to identify the relative explanatory importance of political versus economic explanations for variations in policy outputs (Lineberry and Fowler 1967; Hofferbert 1974). Although the theory underlying this work centered on policy change, the analyses were often limited to incremental spending changes. For example, the Dye-Sharkanski-Hofferbert approach was based on systems theory and focused on external influences of political systems on welfare spending. The work of Berry and Berry in the early 1990s expanded both the theoretical and methodological scope of the study of policy change (1990, 1992). Theoretically it linked policy change to the larger question of diffusion of innovation and advanced a more integrated explanation that included external as well as internal determinants.

The last two decades have seen the ascendency of new institutional theories in the social sciences. A central focus of this work has been to develop explanations for institutional development and change (Alston 1996; Eggertsson 1990; Ostrom 1990; Knight 1992; North 1990). Nevertheless, this work has had only a modest influence on the research and writing on policy change. This may be the result of the sharp distinction that is often made between institutional choice on the one hand policy choice on the other. As applied to collective action problems, institutional choice means selecting the set of formal rule and informal norms that minimize the transaction costs of cooperation, or more broadly economic exchange. Policy choices are often thought of the promulgation of some type of legislative or administrative rule targeting a problematic policy issue.

We argue that institutional and policy choice are theoretically the same decision—choosing a set of rules that minimizes the transaction costs associated with solving some type of social problem that has economic consequences. The political market framework adds to this argument by considering how the collective-choice rules embodied in local political institutions shape the interaction between policy supply and demand and ultimately influence policy outcomes. Instead of economic exchange, the political market framework focuses the exchange between government officials and interest groups, and political institutions affect the transaction costs of political exchange as well as the distribution of benefits.

After outlining the contours of our the political market framework, we illustrate its application by reviewing recent research projects investigating an array of policy issues related to growth, development, sustainability and land use.

(Do we need a whole section that is basically a literature review that points out intellectual roots? I would nominate the comparative studies mentioned above, diffusion of policy innovation, institutional economics, and the local government structure literature (e.g; mayor vs manager). Also don't Buchanan and Tullock talk about political supply and demand? Original public choice literature?

Institutional and Policy Choice

A complete understanding of the political market framework requires examining the relationships between economic and economic institutions, political institutions and exchange, transction costs, and policy choicess. These concepts ultimately combine to determine the institutional arrangements governing economic activity in a given society, including the aggregate size and distribution of economic benefits.

It is easiest to begin with economic exchange and institutions. Neo-institutional economists like Douglass North (1990) view economic exchange as a cooperation problem because there is always a chance that exchange partners will cheat one another—this temptation to defect makes economic exchange a collective-action problems with a Prisoner's Dilemma structure. There are also other types of collective-action problems involved with public good, common-pool resources or any choice situation where individual self-interest leads to collectively inferior outcomes.

From this perspective, the key to economic welfare is choosing economic institutions for governing individual economic and resource use behavior in ways that increase cooperation and minimize transaction costs. Transaction costs are the information costs of finding potential mutually beneficial solutions, bargaining over that set of solutions, and monitoring and enforcing any resulting agreement. For example, North (1990) analyzes the importance of secure property rights to allow for the existence of contracts and economic exchange. Property rights backed up by strong judicial system significantly reduce the transaction costs of economic exchange.

The question is where do these economic institutions and property rights come from? The answer is they are a product of collective-decisions made within political institutions. In other words, economic institutions are policy choices made by government officials, interest groups, and other stakeholders bargaining within legislatures, bureaucracies, and other policy forums. Economic institutions and policy choices are in fact synonyms. This view of the relationship between economic political institutions and collective-choice within political institutions is exactly the same as Ostrom's (1990) discussion of the relationship between collective-choice rules

The question now becomes what happens within the political institutions? The political market framework borrows from Horn (1995) and analyzes collective choice as a process of exchange between political officials (legislators, administrators, etc) and interest groups. Political officials supply policies and economic institutions in exchange for political support from interest groups in terms of votes, money, and other political resources. The crucial link with economic institutions is that the demands of interest group are driven by the welfare consequences that come from policy choices made by the government. Thus there is a direct relationship between economic institutions, policy choices, and dynamics of political market.

Just like with economic exchange, political exchange involves mutually beneficial agreements between political officials and interest groups. The political market also faces transaction costs of political exchange, including searching for mutually beneficial policies, bargaining over the solutions set, and monitoring and enforcing any agreements. Political institutions structure the collective choice process that occurs in political markets, and thus have a direct effect on these transaction costs. Political institutions also have a direct effect on the resulting distribution of policy benefits. For example, two of the key structural choices in political institutions is who is allowed to be involved in a collective process, and how group preferences are aggregated through voting or some other process.

Horn (1995) and Heckathorn and Maser (XXX) describe some of the transaction costs associated with policy choices. They also describe some of the institutional choices that are made that affect these transaction costs. (I don't know if you want to put in more here about Horn and Heckathorn and Maser or not since you have some later)

The Political Market

The market metaphor is frequently employed in the policy literature, but application of equilibrium models is much less common. Our framework takes an equilibrium approach by considering the interaction of policy supply and demand. We start from a property right approach. Property rights theories argue that institutions emerge in response to scarcity and changes in relative prices (Libecap 1989; Alchian and Demsetz 1973; North 1990). The political market conceptualizes policy change in a similar manner as the result of a dynamic contracting process between the suppliers and demanders of change in a society (Alston 1996; Libecap 1989).

In its simplest form the "political market" focuses on the exchange between elected officials and constituents or interest groups. Local government officials supply units of effective support for polices in exchange for instrumental political resources from groups that benefit from those policies. Policy outcomes reflect the relative political powers of the demanders, and the willingness of government authorities to supply favorable policies to various interests (Alston 1996). Thus, the political market supplements existing work by simultaneously considering policy demand, governmental policy supply and equilibrium policy outcomes under different institutional arrangements.

(I would put more here on the institutions—our key insight is how institutions affect this supply demand equilibrium)

Policy Demands

The property rights literature provides one of the clearest applications of economics to institutional choice. Demand for property rights is generated by the potential efficiency gains of internalizing externalities (Alchian and Demsetz 1973). This line of argument is frequently used for common-pool resources because the lack of property rights leads to over-exploitation and conflict. Eggertsson (1990) calls these approaches “naïve” because they only consider the gains from economic effiency and do not address political aspects of property rights such as distributional conflict among groups and interests in society or collective action problems involved with articulating demand..

Eggertsson (1990) uses the term “interest group theories of property rights” to describe more sophisticated accounts of institutional change that explicitly take into account the efforts of private interests to secure favorable outcomes in the political arena. Interest group demands are driven by the local economic changes described by the property rights perspective, such as land scarcity. In return for political resources, elected officials will alter institutional rules that affect the utility of different social interests. Some interests are better at organizing for collective action than others, and therefore better able to articulate policy preferences and participate in political decision-making (Riker 1982; Eggertsson 1990).

At the local level demands for policy change come from diverse interest groups, including individuals and businesses, development and environmental interest groups, and neighborhood and homeowner interests each with its own demand function. Since additional support beyond that necessary to achieve supply of the desired policy is of less value, there is a decreasing marginal willingness to pay for the local government officials policy support. The medium of exchange is instrumental political resources that can support reelection such as monetary and other contributions, political endorsements etc.

Demanders face uncertainties and transaction costs in political exchange. (more stuff needed here from the Maser papers?) Commitment problems result from the uncertainty of long-term benefit flows from policy decisions and threats to durability of policy benefits result from the potential of future leaders to amend or repeal policy legislation (Horn 1995). Agency costs occur if administrators may not comply with the intentions of the policy intent in the implementation process.

> Voluntary investment requires that the expected returns have to be higher than the risk. Prospective returns may have to be very high to encourage private investors to risk their capital in an enterprise that owes its continued profitability to special privileges extended to it by the government. The greater the uncertainty about the durability of these privileges, the greater the privileges have to be. (Horn 1995: 143)

Governmental Supply

Political transactions are characterized by elected official's efforts to deliver durable benefits to supporters. Frant (1996) argues that this type of exchange is characterized by high power incentives--the public sector equivalent of profit in market transactions (Williamson 1985). In this case, electoral support and other political resources are exchanged for the private benefits that result from a policy. Opportunities for government officials to gain electoral support through these political exchanges are limited by several types of transaction costs. The government supply function has three components: (1) the opportunity cost of time and effort to provide to reach agreement on policy details; (2) the psychic benefit or cost of supporting a particular policy based on its consistency with the official's own ideological beliefs; and (3) benefits or costs resulting from the policies consistent with his or her constituents' positions as well as other political principals that hold local government accountable. This third component of a local official's supply function reflects change in the probability of reelection due supporting a specific policy favored by one's electoral constituency. This effect can be either direct in the form of votes from constituents or the support or opposition of interest groups. The overall individual marginal cost is the summation of opportunity costs of effort, ideological costs, and constituency costs.

Since each elected official supplies units of policy support, the individual officials supply functions combine to yield an aggregate supply function at the level of the local government. A competitive equilibrium is given by the intersection between the aggregate policy-support supply function and the aggregation of relevant demands. Levels of policy support by individual local government officials are thus equivalent to the amounts they are willing to provide at the competitive equilibrium "price," i.e. the points of intersection of their supply functions with the demand they face. Aggregate support is simply the sum of their individual levels of effective support. The policy outcome thus depends upon the relative degrees of support generated for various policy alternatives.

So are we going to put our foot down and agree with Horn basically, that the exchange is about political benefits and costs experienced by the supplies and demanders, and you want to know what types of political institutions will maximize benefits, miminize transaction costs, and how they affect distribution of benefits?

Political Institutions

Both naive and interest group property rights theories treat political institutions as largely transparent to underlying economic or political forces driving change. In contrast, our political market perspective adds political institutions as crucial mediators of these political and economic forces (Feiock 2002; Lubell et al. 2005; 2009). The political market extends property rights theories by assigning a central role to structure of local government institutions as the arena in which political contracting occurs (Feiock 2002; Lubell et al. 2005, 2009). Political institutions combine with the structure of interest organization and the economics of a particular policy arena to determine the outcome of political contracting. Different types of political institutions will favor different types of interests, either enhancing or reducing the ability of interests to influence institutional (and policy) decisions. (the political institutions also affect transaction costs)

There are often multiple policy equilibria, and each distributes the costs and benefits of policy change in a different way. The aggregation of diverse policy demands is made complex by the possibilities of free-riding because of the nature of public goods. Specific political institutions can influence the barriers to collective action or advantage groups with specific types of resources. For example, district based electoral representation may advantage place based-interests such as neighborhood and homeowners association while at-large representation system favors functional interests such as developers.

How do individual levels of support for a policy translate into governmental outcomes? The description of policy supply suggests total support is simply equal to the sum of the individual levels of equilibrium support. Nevertheless, the aggregation process in not simple and may be determined by political institutions that define differences in powers, responsibilities and transaction costs for different local actors.

Institutional processes that translate individual levels of support into a collective decision such as various kinds of voting mechanisms involve very different sorts of aggregation. For example the importance of support from the mayor in collective decisions may depend on the scope of her powers and whether she is elected at large or selected from the council. For example, Knott and Miller (1987) chronicle how civil service reforms resulted from the ability of powerful economic actors to lock in distributional advantage through "reformed" institutions. In general, institutional features of the legislature will influence the nature of the appropriate aggregation. Thus, local officials vary greatly in the effectiveness of the support they can supply for a given policy.

Four Local Policy Examples

Local decisions regarding growth management, policy instruments, climate protection and land use provide an excellent laboratory for studying policy change. Development and environmental policy issues encompasses collective choice and operational rules which define the property rights governing land-use and development (Ostrom 1999). Hence, local growth decisions help determine who gets what, when, why and where—the essence of politics. Moreover, local governments do not simply create a static system of property rights that never changes. Rather, these decisions represent policy choices made in the context of local political institutions and they are likely to be altered in response to the changes in economic and political conditions over time.

Despite the fact that Ostrom and others explicitly include policy choices within the institutional change framework, this perspective has only recently been systematically applied to the study of local policy. The political market encompasses existing theories of land-use politics by focusing on the role of private interests in shaping development decision making. Much of this work concludes that land based development interests either dominate the local agenda or are able to build governing coalitions to overcome opposition to development (Molotch 1976; Stone, 1989; Lewis and Neiman 2002).

The political market account is consistent with the popular explanation of local policy as the product of a "growth machine." Groups that are better able to deliver political resources to local elected officials are more likely to receive their preferred policies. Growth machine politics is ruled by political alliances between local government officials and development interests (Molotch 1976; Logan and Molotch 1987). Development interests have the upper hand in local politics because they receive concentrated benefits for pro-development policies, and are better organized than diffuse public interests. Of course, public entrepreneurs can often organize diffuse public interests to effectively participate in local political decisions, and local governments are certainly capable of pro-environmental policies (Elkins 1995; Goetz 1994; Feiock 2002).

Conceptualizing local policy choices in terms of institutional choice allows us to bring insights from institutional theory to bear on the broader topic of policy change. We illustrate the application of institutional change theory to public policy with examples taken from several recent studies. We first examine the adoption of impact fees as a mechanism to finance infrastructure for new development. Second, we examine choices among specific policy instruments to contain urban sprawl. Third, we describe investigations of local climate protection policy adoptions. Fourth, we examine the provision of environmental public goods that restrict the supply of developable land.

Impact Fees as a Relational Contract

Maser (1998) argues that, like constitutions, city charters operate as relational contracts that delineate how to make decisions and allocate rights that safeguard participants' interests. In long-term relations, a relational contract reduces uncertainties by stipulating procedures to cope with unforeseen events. Under established rules and norms, actors build stable and reliable expectations in a relationship of mutual exchange.

Jeong and Feiock (2006) applied the political market approach to investigate adoptions of development county impact fees and their consequence for economic growth. They build on the contractual approach by focusing on the transaction costs of political exchange. This work departs from the standard political economy model of growth management policy in which regulation is assumed to adversely impact economic development by increasing private production costs. Instead, impact fees are hypothesized to reduce uncertainty in project approval and development permitting leading to positive development impacts. Transaction costs in land development are high because of risks private actors confront during the legislative and administrative process to approve and permit new development. Delay or rejection of development permits can force developers to incur substantial economic losses (Feiock and Jeong, 2002; Nelson and Moody, 2003).

Maser (1998) describes how local charters safeguard the interests of citizens and various groups from governmental actions that could harm them. The institutions defined in the charter create reliable expectations in a relationship of mutual exchange. Impact fee adoption can function as an implied contract between local governments and development interests (Jeong and Feiock 2006) because implicit in development interests consent to impact fees is an understanding that development groups should bear in part the costs of infrastructures or public facilities that benefits the development. In return, local governments are less likely to delay or disapprove new development and its permits. For example, earmarked funds from the private sharing of infrastructure costs can work to reduce citizen opposition to new development, relieve financial burdens of local governments, and increase probability of development approval and permits.

In other words, impact fees reduce the risk and uncertainty of permitting and approval for development (Nelson and Moody, 2003; Burge and Ihlanfeldt 2005) while compensating for potential loss of other groups in forms of sharing the costs of infrastructures or public facilities. The costs resulting from delay and disapproval may be considered transaction costs in this ‘contractual’ relationship. Impact fees provide a safeguard to secure property rights, reduce uncertainty, and reduce potential transaction costs for private investment.

On the other hand, building up contractual relationship is, by no means, a simple procedure because diverse channels of interests and resources are melded in local policy choice. The complexity is mediated largely by local political institutions and the role of and interaction between local interests groups and public authorities should be taken into account in both theory and model. Political market approach emphasizes the conflicting local interests and an intermediating role of local political institutions on local policy choice and change (Jeong and Feiock 2006; Jeong 2006).

Policy Instrument Choice

The public policy and welfare economics literatures pay direct attention to the policy instruments or tools that governments employ to purse policy goals rather than specific policy choices (Salamon, 2004; Weimer and Vining, 1999; Peters and van Nispen, 1998; Salamon and Elliott, 2001). Salamon (2004) contends that policy tools share a set of essential features and are generally used to accomplish the same goals. In other words, the tools are alternative means of accomplishing similar governmental policy ends.

Research on the tools of government action classifies a variety of instruments available to address policy problems (Linder and Peters, 1989; Salamon, 2001; Weimer and Vining, 1999). While policy typologies sometimes apply different labels to the various strategies, each describes a limited set of generic instruments used to address failures of markets or governments to deliver goods or services. A growing body of literature explores how context can affect the choice of policy instruments, particularly comparisons of market-based policies with public agencies. By framing policy decisions as a choice of a tool or instrument, this framework is quite compatible with a political market explanation for policy change.

An array of policy instruments is available for pursuing growth management goals. At the aggregate level, land use management combines various generic policy instruments and reflects the interests of multiple constituencies. Certain growth management instruments have been characterized as mitigating production costs by reducing the risk and the uncertainty of private investments (see Feiock and Stream, 2001). A political market model explains choices among growth management policy tools by differentiating these policy instruments according to their economic and political characteristics. Policy tools differ economically in terms of the benefits and costs accrued to the median taxpayer, thus Pareto-optimal outcomes would require local actors choose the policy instrument or combination of instruments producing the largest marginal benefit. Policy instrument choice, however, cannot be reduced solely to an economic criterion. Political and distributive interests are involved so that policy makers choose the policy tool or combination of tools which minimizes their political transaction costs.

When considering political transaction costs, alternative policy instruments are not neutral means of accomplishing the same objectives. Specific choices may help local officials to maximize the accomplishment of their political goals and to deal with contradictory goals among their constituencies. Given their limited time and resources, local officials will prefer to enact a small number of policies that bring political benefits at minimum visible cost. In this sense, distributive pork-barrel type policies targeted at influential interest groups in the community are often preferred because they produce large net benefits and avoid large scale redistribution. Community composition, particularly homogeneity in terms of income, education, and race affects the degree of uncertainty and commitment costs of instrument choice. The relationship between officials and citizens is typically characterized by uncertainty, commitment problems, and asymmetric information with respect to the benefits and costs of the instruments available to solve a given policy problem.

Empirical analysis provides evidence that transaction costs in local politics affect environmental policy instrument choices made by county governments (Tavares 2003; Feiock and Tavares 2003). Specific policies and programs fall within two contrasting instrumental approaches or tools for land use. The first tool is commonly referred to as growth control or first-generation land use policy. First-generation policies include zoning, restrictions on housing supply, population caps, and containment policies such as urban service boundaries. The second-generation policies encompass development impact fees, comprehensive planning, and market approaches such as incentive or density bonus programs (Navarro and Carson, 1991). The adoption of growth controls is particularly sensitive to both economic and political transaction costs. Consistent with property rights explanations, growth control adoption is linked to growth rates of a community (Neiman and Fernandez, 2000; Bollens, 1990) as well as income and wealth, social status, and tax minimization (Ellickson, 1977).

Supply and demand factors in the political market also shape the political transaction costs of growth control. Officials balance their preferences regarding growth control with the provision of political benefits to constituents (Dawkins and Nelson 2003). Environmental interests have strong preferences for growth control tools (zoning ordinances, building and population caps, and urban service boundaries etc) but are often strongly opposed by builders and development interests in favor of less restrictive policy tools (Bollens, 1990). Adoption of growth controls entails large administrative costs, not only because command-and-control regulation involves monitoring costs, but also due to rent-seeking costs (deadweight loss) generated by the local interests seeking preferential treatment. Because growth controls are often exclusionary in nature, local officials find it politically beneficial to adopt them to the benefit of local residents and detriment of newcomers.

Many of the same relationships have been confirmed at the municipal level. Kang and Feiock (2006) found supply side and demand side of transaction costs influence choices between first-and second-generation policy instruments. In particular, demand side factors represented by socioeconomic status have a significant impact on the choice of growth management policy programs. In addition, choices between these two policy instruments are constrained and intermediated by political institutions including form of government, system of election, and home rule status as well as state level constraints. Feiock et al. (2008) also apply political market approach to show that local government's specific choices of policy instruments reflects the configuration of political institutions and conflicting interests as well as responses to political and economic pressures. In fact, there exists tremendous variation how local governments carry out local growth management plans and in the restrictiveness of the growth management regimes they institutionalize (Anthony 2003). This study of Florida counties finds the evidence that county commission form of government is linked to a preference for urban containment boundaries to control growth, perhaps as a response to adverse effects of regulatory intervention for housing markets and affordability, whereas the commission-administrator form of government encourages more frequent use of incentive systems since county managers' insulation from growth management pressures are supported by the possibility that incentive approach accommodates growth in exchange for new infrastructure financed by developers and, ultimately, by new residents (Feiock et al. 2008).

Climate Protection and Sustainability

Additional evidence for the mediating effects of institutions in a political market has been produced in the study of local climate protection and green house gas reduction. High levels of observed city involvement in energy and climate initiatives indicate that free-riding has been much less of a barrier to local climate protection efforts than suggested by theories of collective action. This begs the question of why local governments have adopted various energy and climate change policy instruments despite the non-excludability of climate benefits. Several recent papers have begun to answer this question. Feiock et al. (2009) argue that climate protection can provide selective benefits to the governmental suppliers though localized benefits or compliments local environmental, development or growth management efforts. Energy and climate protection efforts can generate selective benefits to elected and appointed officials in local governments that advance their career interests depending on the existing configurations of political system institutions. Their analysis of adoptions of climate protection agreements by Florida cities indicates larger cities, highly educated populations, and district elections increase the likelihood of climate policy adoption. Moreover, economic development rather than growth management or environmental policy is linked to climate initiatives.

More recently Sharp et al. (2010) apply a framework that draws from the political market work to investigate whether city commitments to greenhouse gas reductions are influenced by the pressures of organized interests and fiscal stresses facing cities and then identifies how these forces are mediated by political institutions, problem severity, and governmental fragmentation. Their insightful analysis probes the mechanisms by which various groups within the community influence climate policy. Consistent with a property rights approach, cities that are more fiscally strapped are more likely to commit to energy reductions, presumably because of the potential for cost savings. However, they find that council-manager cities are more responsive to pro-climate change pressures--a puzzling result. Feiock and Francis (2010) add another piece to this puzzle by investigating local climate protections based on the incentives and constraints that local institutions impose on governmental suppliers. Their survey based measures of climate protection differentiate carbon reduction efforts within city government from efforts within the community. They find a similar mediating effect with form of government, council manager systems are more responsive to climate protection interests but the positive effect found by Sharp et al. (2010) applies only to city operations not efforts in the larger community.

Regulation of Land Use

The provision of local public goods has been a central focus of the urban political economy literature since Tiebout (1956; see also Schneider 1989; Peterson 1981). Zoning decisions and land use rules define property rights over resources by identifying permitted, required, and prohibited behaviors. Land use regulations are not static and can be frequently amended in response to interactions between political actors in the context of local political institutions. Conceptualizing land use decisions as products of decision-making in local political institutions allows us to bring insights from institutional theory to bear on the broader topic of local government policy change.

Lubell et al. (2005) advance an understanding of the role of local political institutions on the local provision of conservation policies. In the language of empirical models, the structure of local political institutions is the central independent variable. Local political institutions determine the rules and procedures for making collective choices. These rules and procedures are embodied in the structure of local legislative and executive institutions, both of which exhibit substantial variance across local governments. Setting aside undeveloped land for conservation effectively reduces the supply of land available for development. Following Clingermayer and Feiock (2001), local political institutions are expected to influence the likelihood of land conservation.

Lubell et al. (2005) apply the political market approach to explain the circumstances under which Florida counties supply environmental public goods in the form of land use map amendments to county comprehensive plans to increase or decrease land protected by conservation land use designations. They find that the benefits of environmental public goods are related to the extent to which existing growth patterns increase the scarcity of local land and infrastructure resources. This result is consistent with both "need-based" explanations for policy (Steinacker 1998; Lewis and Neiman 2002) and property rights theory. As growth pressures intensify, citizens begin to demand policies that preserve environmental resources. Thus, population pressure and urbanization lead to conservation amendments. Sentiment for growth management often becomes louder when population density strains public infrastructure, thus congestion and long commute times are anticipated to increase demand for restrictions on the supply of developable land.

They also find that the structure of local political institutions can facilitate or impede the influence of specific demands and community interests on land use decisions. Political institutions affect the ability of interests to articulate their demand in the political market, and the willingness of elected officials and bureaucrats to supply preferred policies. County manager government structure encouraged conservation, but as development interests grew they put more restraints on the discretion of county administrators and push them away from pro-environmental policies. As a mediator of competing policy demands in a political market, manager form of government was found to be vulnerable to growth machine pressures because managers have to respond to development interests. However, managers were also capable of more sustainable growth policies when they are not influenced by a strong development sector.

Lubell et al. (2009) also demonstrate that political market approach provides sufficiently sophisticated framework to explain the land-use policy changes and the impact of political institutions on policy changes. Their recent study of Florida cities advance political market framework theoretically and methodologically even further by investigating direct and indirect influence of city political institutions and demonstrating that different types of local institutions can increase or decrease the influence of different interest group constituencies.

Mayors have a strong connection to interests of higher socioeconomic status in a community. As mayoral power increases, higher socioeconomic status shifts the balance of land-use change to be more pro-environmental, but at the same time favors development interests represented by the rate of building permits. In both cases, mayors appear more responsive to socioeconomic status, but the empirical findings indicate a potential tension between the preferences of wealthy communities. City managers, on the other hand, play a more straightforward role in terms of the development interests. This supports growth machine explanation that city managers are primarily driven by economic development incentives and thus more open to influence from concentrated development interests.

These empirical findings generally confirm that there is an interaction effects between indicators of interest group strength and the structure of political institutions, which suggests that there is a variety of institutional arrangements that shape the balance of power between mayors and city managers. And they also demonstrate that political market approach opens up the possibilities to generate a much broader understanding of institutional dynamics with respect to policy change.

Discussion

The projects described here illustrate the usefulness of a political market approach to local policy that builds upon interest group and property rights theories but emphasizes mediating role of political institutions. Across each of the policy arenas examined here, the interests of groups seeking particular policies and the interests of government officials who supply these programs are central to policy change, but the outcomes reflect thow institutions influence the transaction costs of political exchange, not just the interests of the actors. Political institutions shape the dynamics of the political exchange and the distribution of benefits and transaction costs in political markets.

The larger implication of the arguments advanced here is that the study of sub-national policy should not be divorced from the study of institutional change. Policy theories can be revised to account for institutional settings, with an eye towards identifying how political dynamics are conditional on institutional structures and transaction costs. This approach is evident in some theories of policy adoption and change, but is not made explicit (for examples see Sabatier 1999). There are several advantages to treating policy change as a form of institutional change. First, to the extent that transaction costs similar to those encountered in constitutional choice are present in crafting specific policies, this approach promises to provide a richer understanding of the dynamics of policy change. Second, such an approach would not require a radical break with more conventional explanations and tests of state and local policy change. In fact, some of the factors that that shape the transaction costs for demanders and suppliers of policy change constitute the usual suspects in empirical models of policy adoption. Third, such an approach may facilitate more positive approaches to policy analysis that incorporate formal models with empirical data analysis. Fourth, by integrating theories of policy change into the new institutional approaches to institutions and institutional change enhances its relevance to the discipline as a whole. Furthermore, the methodological and theoretical innovations in the policy change literature may provide new insights to those studying constitutional change.

Finally, it is also important to note that examples reviewed here are not exhaustive and do not fully capture the broad role of political institutions. Application of the political market framework to additional policy arenas is needed to accumulate knowledge and generate a richer understanding of dynamics of local policy choice and change. In particular, political dynamics conditional upon institutional structures and transaction costs should matter for local policies other than land use and growth management policy. As Peterson (1981) points out, there are important differences in political dynamics across policy types and exploring both commonalities and differences among policy arenas may be helpful to offer much broader understanding of how local policies are generated and changed. (different policy issues, different levels of government, different comparative studies in other regions of the US and other countries. What are the structural characteristics of institutions that matter, under what conditions?)

Like all theoretical frameworks, Tte metaphor of the market will in the end be an imperfect simplication description of political behavior. But there are real advantages of considering policy decisions within this framework, and from developing more fully the details of the political market metaphor and its implications. In particular, it provides a framework within which it is possible to systematically examine the consequences of different institutional arrangements. The ultimate test of the usefulness of such a framework will be the extent to which it enables reliable predictions of the choices governments make. The examples included in this essay suggest that explanations based in the political market have substantial explanatory power and can provide novel insights into sub-national policymaking.

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