Participatory Budgeting and Tax Compliance in the US: What Factors Elicit Citizens' Budget Preferences?

Yaerin Park and Joseph Cordes
1. Introduction

Participatory Budgeting (PB)\(^1\) has been recognized as an exemplary case of public sector reform practice in the public policy and administration arena. PB is a process through which citizens directly get involved and participate in making public budget decisions (Participatory Budgeting Project, 2017). The aim of PB is to enhance transparency in the public sector and enlarge the base for civic and community participation in public policymaking. It has first started in Porto Alegre, Brazil in the late 1980s, and now has spread to different locations in other continents. It later arrived in North America beginning in the late 2000s including major cities the United States and Canada, such as New York City, Chicago, Seattle, Toronto, and Greensboro, North Carolina. Normally it has been implemented at a local or municipal level, but some countries like Portugal, has announced that it will implement it at the national level. New York City has put PB in the ballot to make it a citywide process in the Midterm Elections in November 2018, and the voters approved. Likewise, PB has become widely recognized throughout the world as a policy platform that encourages various stakeholders to reflect their budgetary and policy preferences (Khagram et al., 2013). According to several current research, PB has produced tangible outcomes, such as enlarging the base for community participation in public policymaking, increased accountability in the public sector, and improved public service delivery, and increased local tax revenues (Sintomer et al., 2008; Cabannes, 2015; Beuermann and Amelina, 2014).

\(^1\) We will use the acronym PB for “Participatory Budgeting” from now on.
My motivation to work on this research project stems out from PB’s positive impact on raising tax revenues in the regions where it was implemented. Although a number of studies identified the positive association between PB implementation and increased tax revenues, these studies seem to lack rigor and systematic evidence that PB actually contributed to raising tax revenues. That is, there exists a gap that deserves more focus to examine what factors induce PB to promote tax compliance that ultimately leads to increased tax revenues. Also, although several municipalities in the United States have adopted PB as latecomers in the late 2000s, it has now become more institutionalized in many US localities. However, there are few academic studies conducted on the US PB cases, particularly on the PB’s potential contribution to revenue generation. In addition, there is a need for more in-depth exploratory examination on which factors are critical in the US model for individual participants of PB to voice their policy and budget priorities.

Concurrently, the academics and practitioners of tax issues have sought ways to address fiscal transparency through promoting transparent tax administration, the effectiveness of tax policies and raising tax morale among taxpayers. With regards to establishing a healthy tax system, different measures and approaches have been used to encourage or urge taxpayers: tax enforcement, provision of taxpayer services, voluntary compliance through tax credits, and so forth. As with research on the effectiveness of tax enforcement measures, such as deterrence and penalties, there has been mixed evidence (Slemrod, 1992; James and Alley, 2002; Slemrod and Gillitzer, 2013). Recently, there is a shift in the focus of tax research on voluntary tax compliance and tax morale. Some studies find that the more taxpayers are given opportunities to voice their opinions and participate in tax contribution and distribution processes, the more they are likely to be willing to be compliant to tax payments (Casal et al., 2016).
Thus, we find how citizen participation through PB can help to change the taxpayers’ identity and motivation for enhanced tax compliance as a promising theme for further research. Participation in budgetary-decision making can be an incentive for PB participants to adhere to tax payments by encouraging them to witness how their money is allocated and spent. Hence, we aim to first of all, explore how people’s budget preferences and policy priorities are formulated and elicited, and second, to examine how public participation through PB impacts the level of taxpayers’ tax morale and compliance to get a better understanding of how PB can contribute to revenue generation.

To fulfill the research objectives and purposes, we pose the following research questions for this study: 1) How does PB elicit individuals’ budget and policy preferences? What are the mechanisms and factors that best elicit taxpayers’ policy needs and budget preferences; 2) What are the implications for management practices and administrators in the public sector?

This research is conducted as part of a sequential exploratory mixed methods study that aims to examine the possible association between PB experience and one’s willingness to pay taxes. This paper is based on the first stage of the mixed methods study based on qualitative methods of in-depth interviews and document analysis on the exploratory examinations of PB procedural elements and mechanisms that help to formulate and elicit participants’ budget preferences and policy needs.

2. Literature Review

Through the literature review, we grouped the current PB research into several themes. The current PB literature deals mostly about its definition and contextual background as to why and how it emerged. The next most commonly discussed theme was PB’s strengths and
weaknesses. The majority of the literature talks about PB in alignment with the evolution of
democracy and governance, particularly in the perspective of deliberative and participative
democracy (de Sousa Santos, 1998; Fung and Wright, 2001; Baiocchi, 2001; Aragones and
Sanchez-Pages, 2009; Baiocchi and Gauza, 2014). Several works discuss PB and how it
diffused around the world (Goldfrank, 2012; Gauza & Baiocchi, 2012) and also among local
governments (Krenjova & Raudla, 2018). Also, several works discuss how PB has produced
positive impacts on the areas such as public service delivery and local fiscal performance in
different geographical locations (Sintomer et al., 2008; Cabannes, 2014; Beuermann &
Amelina, 2014).

We construct a theoretical framework using a number of theories and concepts. For
the first question, we find Ansell and Gash (2008)’s framework on the success factors of
collaborative governance helpful in building hypothesis and methodology design. The
authors suggest that institutional design, which includes procedural transparency, clarity of
rules and regulations, and procedural inclusiveness, and facilitative leadership influence the
collaborative process. The collaborative process includes face-to-face dialogue, shared
understanding, commitment, intermediate outcomes, and trust building. As scholars suggest
(Ackerman, 2004) that PB is an example of collaborative governance, we view that Ansell
and Gash (2008)’s framework provides clues in examining detailed mechanism, tools and
factors of PB through which the participants’ voices are heard. Another important theory is
Ebdon and Franklin (2006)’s theory of procedural design and mechanisms of citizen budget
participation. Their theory does not directly mention PB, but they talk about key elements of
effective citizen participation in budgetary decision-making. Procedural design includes
timing and types of budget allocation, representativeness and numbers of participants.
Mechanisms include specific tools such as public meetings and budget advisory committees.
We also build the theoretical framework using empirical findings from the previous studies that have mainly examined the linkage between direct democracy and tax morale. Many studies find that direct democracy positively impacts people’s voluntary willingness to pay taxes (Cabannes, 2004; Torgler, 2005; Zamboni, 2007; Torgler & Schneider, 2009; Lederman, 2017). For instance, Torgler and Schneider (2009) find that institutional quality determines the level of tax morale and compliance. It is because when the taxpayers feel that their preferences and interests are appropriately represented in the political or economic institutions, their willingness to comply with tax obligations and payments increase.

Based on the theoretical frameworks above, we suggest the following key that PB has various mechanisms and tools through which taxpayers’ preferences and policy demands are elicited and reflected.

**Figure 1. Theoretical Framework**

3. Methodology
To explore answers to the research questions, we have conducted in-depth interviews and document analysis on the PB models of New York City and Chicago. As PB started as a pilot in 2009 in Chicago, and in New York City in 2011, the above-mentioned two major cities in the US have implemented PB for years and therefore, have accumulated experience and data on how PB works. Also, the two cities implement PB at the district-level\(^2\). We have conducted 13 in-depth, semi-structured interviews with PB subject experts, public officials and field practitioners, and PB participants to obtain answers on through what mechanisms, devices, and factors of PB encourages its participants to express their policy needs and preferences. We conducted the interviews from late-February until early-May 2019. We conducted interviews via phone or in-person. Each interview took in average 45 minutes. Before we began with each interview, we gained verbal consent from the interviewees and their permission on being audio-recorded. We transcribed the interviews within three days upon completion in order to prevent the interview data becoming outdated. Upon the completion of transcription, we extracted the emerging themes through thematic development and coding strategies. We applied a number of coding strategies referred by Saldana (2015), which include, structural coding and descriptive coding strategies, which are critical in identifying key terms or nouns, and responses that are directly related to the research questions. We also used affective coding method (Saldana, 2015) to see how participants assess the values and challenges of the PB process.

We also applied document analysis to triangulate the findings from the in-depth interviews. The documents that we viewed and analyzed include, policy briefs, rulebooks and guidebooks of PB for each region, white papers and progress or annual reports, city council

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\(^2\) For NYC, the voters have approved PB to become a citywide process in the Midterm Election in November 2018. Therefore, the scope of the investigation on NYC PB case is limited up to the current cycle of 2018-19.
websites on PB, reports and websites of nonprofit organizations, academic journal articles, and so forth.

4. Findings

4.1. Key Procedural Elements and Factors of PB Implementation

PB Procedural Elements and Mechanisms

PB processes implemented in NYC and Chicago follow basic frameworks of procedural elements and mechanisms stated in PB Rulebooks. The rulebooks are developed and crafted by the PB citywide steering committees, which not only provide guidelines on how to operate PB processes, but also provide resources and set shared values and goals. According to the resources and interviews we have conducted, the PB procedural elements where participants’ budget preferences and policy needs are formulated and elicited, can be grouped into several steps: 1) Outreach and engagement; 2) Idea Collection and Generation; 3) Idea Development; 4) Voting; 5) Implementation and Monitoring. In the outreach and engagement phase, PB administering coordinators and officers in the council district or ward do outreach towards community members through mainly word-of-mouth, and online and mobile technology. Before the actual idea collection for budget proposals and community brainstorming sessions begin, PB participants usually volunteer to a certain role they want to engage in the process. Budget delegates, are recruited on voluntary basis and they gather ideas from the community members, conduct desk and field research on the community needs, and develop budget proposals that may go onto the ballot towards the end of the cycle. Therefore, it is a relatively time-intensive role and engagement. Facilitators promote awareness on the community members of the upcoming procedural steps in the PB process, and facilitate meetings and events for the process.
In the idea collection and generation step, community members gather together and brainstorm ideas, raise their voices or concerns in the neighborhood assembly meetings. These neighborhood assemblies take place in public facilities or community centers, where community residents can easily get access to. Residents can submit ideas online as well. In the next idea development phase, the budget delegates develop and write out budget proposals based on the shared ideas of community members. They convene in budget delegate meetings hosted several times throughout the procedure. The delegates dedicate from at least a month to several months of time to research on certain areas such as the construction of public facilities or public transportation systems, and finalize proposals that would proceed onto the ballot. In this process, budget delegates collaborate with district PB staffs and city government officials. Normally, with district staffs mediating, budget delegates and city officials discuss and exchange opinions on the scale of the project, and whether the working proposals are eligible for PB funding.

After the budget proposals are finalized and selected ones go onto the ballot, there is the voting procedure. The interviewees all have agreed that voting is the key mechanic for the PB process. Normally, the Voting Week for PB in each city runs one week on average, and the voting procedures are done either offline or online. The voting results are announced after a month of the completion of the voting procedure. The administrators provide trackers, quarterly updates or separate sections of the information on the project status after voting, and some city agencies post updates for community residents to check the pipeline of the projects.

**Key Drivers or Enabling Factors of PB Procedural Elements**

The key enabling factors or drivers of PB procedural elements or what factors make PB processes work, were identified mainly through the interviews. There are several key
drivers of PB processes which include: 1) the level of discretion of each council district or ward that operates PB process; 2) political will or leadership; 3) operational factors such as lead time of a process cycle.

Primarily, interviewees pointed out to the importance of the discretion exercised by the council district or ward where PB is implemented. The level of discretion is determined by the availability of resources such as money and personnel, local expertise, and the presence of networks of community members and organizations. Depending on the availability of these elements, the PB administrators can “shape” the process beyond what is stated as the basic procedural frameworks in the city PB rulebooks or guidelines. For instance, a council district or ward can host additional outreach events or hold extra community meetings on various topics or areas based on community demands. Secondly, public officials’ political will or a genuine commitment to implementation is a critical driver for PB. One interviewee said an attempt to make PB process beyond an experimental process and to institutionalize and routinize the process, are dependent on political will and leadership. Also, this political will can be best demonstrated by the PB process design to make it a forum for every voice including the traditionally marginalized population such as women, youth or non-English speaking immigrants, or the degree of interaction they make with community members, intermediary organizations, and other bureaucratic machines. Lastly, the interviewees have noted the importance of operational factors and in particular, lead time of the process. That is, the development of budget proposals that reflect shared community goals and priorities is reliant on the amount of time given to the participants to brainstorm ideas, research on relevant topics, and interact with key stakeholders to develop the proposals. At the same time, the results of the voting should be fast-tracked and streamlined into the
implementation process, so that the participants can check and assess how their voted projects are being implemented and whether they are getting the tangible results they needed.

**The Values and Challenges of PB**

We have conducted thematic development on the values and barriers of PB through affective coding strategies (Saldana, 2015). The best values or merits of PB that interviewees find most associated with PB were transparency and inclusion, and community building through face-to-face interaction and civic education. Primarily, transparency and accountability were the best values of PB pointed out by the interviews in that PB has a voting mechanic that documents people’s will and have public officials to be held accountable to that will. Also, PB has a structural design where people can participate and directly witness and decide on how their tax dollars should be spent. Inclusion and promoting representation are other critical key values of PB. In particular, interviewees note that through enfranchisement and empowerment, PB offers a structural design in which traditionally marginalized population or people who have never had experience with established political practices can also come together and raise their voices. For example, over the years, PB in NYC has lowered the minimum voting age from 16 to 11, and also lifted restrictions on the types of identifications that voters have to suggest to demonstrate their residency. In addition, there is a high level of community building happening through civic education and face-to-face deliberation and interactions. Through these mechanisms, community members not only share their ideas, but also learn about other peoples’ ideas and priorities, and undergo a learning process on how to come up with a consensus on the preferences and priorities. Also, through available open forums and meetings, community members engage in active discussions and discourse on how PB is supposed to work to support their needs and preferences by bringing the body of evidence. One interviewee emphasized that PB is an
important training ground for people to learn more about how they can impact policies, how to influence officials and how government works.

On the other hand, there are barriers or challenges to PB implementation. The barriers include lack of resources and capacity to run PB effectively, insufficient budget cap available for PB, and bureaucratic constraints and institutional resistance to PB. First, as resources and capacity being the core determinants to discretion in implementing PB, low level of support or resources given to the administrators who operate PB, is a critical challenge. At times, there is not enough money allocated for running PB processes, or there is a lack of personnel and staff dedicated to PB. Even if there are human resources, they often face challenges due to multitasking. Next, the budget cap available for PB funding for each district or ward every year should be increased in order to encourage participants to “think big.” In addition, bureaucratic or administrative constraints put challenges to implementing PB, particularly to the eligibility of projects that can be funded through PB. For example, in many cases, PB funding is limited to capital budgets that fund infrastructure or public facilities, or the budget proposals developed by community members on a certain public building might face restrictive conditions of lease agreements. Last but not least, there can be institutional resistance to PB due to a lack of consensus on the importance of PB between agencies or other stakeholders involved, and a lack of shared understanding on its values. As a result, there may not be an active interaction and communication between PB administrators and agencies involved and the community members, which may lead to frustration and skepticism towards PB practice.

**How do Findings Relate to Existing Theories?**

The findings from the interviews and document analysis can closely be aligned with the existing theories on the success factors of collaborative governance (Ansell and Gash,
2008) and citizens’ budget participation (Ebdon and Franklin, 2006). First of all, PB process has procedural elements and mechanisms, and key enabling factors that elicit people’s budget preferences and policy demands as suggested by the existing theories. As suggested by Ansell and Gash (2008), transparency and a high level of inclusion of the process design are the key drivers of making PB effective. Also, community building through civic education and face-to-face interactions in PB processes can be closely connected to collaborative elements that promote shared understanding and values among participants of the collaborative governance (Ansell and Gash, 2008). The procedural elements such as neighborhood assemblies and budget delegate meetings are aligned with the mechanisms such as public meetings and focus group meetings, and advisory committees suggested by Ebdon and Franklin (2006). Second, beyond the existing theoretical framework on mechanisms of budget participation, PB process has its unique mechanics and features. The foremost one is the voting procedure, which according to the interviews, documents participants’ will on how to spend public money and establish consequential agenda setting power. Also, PB is a context-specific process of which the successful implementation is reliant on the resources, capacity and local knowledge of the people who run it, and the level of interaction between the communities.

However, the last important point in alignment with existing theories and findings is that the impact of these mechanisms and factors still remains a critical question. Some interviewees have pointed out there should be more rigorous tools for citizen input in the PB process such as budget simulators. Others have noted that there should be institutionalized and rigorous tools and mechanisms through which citizens can oversee and check the progress of the implementation of the voted projects and see the pipeline of the projects. There should also be procedural facilitation through which the projects can be fast-tracked
and streamlined into implementation. These may be critical tasks as the PB processes get mature, routinized and institutionalized.

4.2. Implications for Public Managers

From the interview and document analysis findings, we draw several implications for public managers. First, a sufficient level of support should be provided to the council district staffs who administer the PB process with regards to personnel, money, and time. Second, administrators should set clear targets and goals at the beginning of each process cycle in terms of the scale of the budget and the dollar amount of projects, and types of funding. Third, there should be increased interaction between community members, elected officials and council staffs, and city government employees who are responsible in each topic area in which budget proposals are developed and presented. Most interviewees who are PB participants, mentioned and emphasized that there should be more in-depth communication and interaction with city government employees when developing budget proposals so that they would have clearer understanding what projects are feasible for PB, and what to expect. Fourth, public managers should establish more institutionalized and tangible feedback loops for PB processes. Last but not least, there should be more interactions and shared understanding among bureaucratic machinery of the municipalities in order to reduce institutional resistance towards PB.

5. Discussions

This research has limitations in that the PB models studied in this study are too region and context-specific. That is, there are PB models throughout the United States which are run at the city-level, other than being operated at the council district or ward-level. Also, particularly in the New York City case, the city voters just approved the PB to be a citywide
process in the midterm elections of November 2018, implying that this research can be also
time-specific. These threats to external validity or transferability of the study can be
addressed by future studies on the institutional arrangements of PB in different settings and
places.

Moreover, further inquiry can be done on PB implementation in close alignment with
public management theoretical elements such as Public Service Motivation (PSM). For
example, one promising linkage between PB and PSM would be examining how PSM
changes or be influenced by the PB platform and environment where public sector
accountability and transparency are the best virtues. This proposition may well fit Bozeman
and Su (2015)’s argument on the implications of future PSM inquiry that PSM needs to be
more carefully studied as an independent variable, meaning various factors and circumstantial
conditions which may affect the degree of PSM can be identified and clarified. Particularly,
building on and expanding from the previous findings that scholars have drawn,
organizational, social, and other institutional factors along with the implementation of PB
process that may influence the level of PSM, can be studied more in the future. More in-depth
inquiry can be conducted on how bureaucratic constraints or administrative burden in the PB
process influence people’s motivation to participate in the process as well.

6. Conclusion

PB is recognized as one of the best public sector reform practice which aims to
promote community empowerment and accountability. This study aims to look in-depth into
what aspects and elements of PB formulate and elicit people’s preferences and priorities that
may lead to change their perceptions on how government works and activities such as tax-
related activities. We find that PB has basic procedural elements, mechanisms, and values
which are emphasized in the theories of collaborative governance and people’s budget
participation. However at the same time, PB has its unique mechanics such as the voting process that consequentially gives people the agenda setting power, and the way each process works is dependent on the level of discretion exercised by administrators, community networks, political will, resources and capacity, and time. Also, the actual impacts of these procedural elements of PB processes are worth examining more deeply. Lastly, PB process implementation and its success factors give public management practices and administrators important implications on transparency, efficiency, and accountability issues.
References


