
How to Rebuild the Quality of Public Services at the Local Government Level During the Covid-19 Pandemic from the Transaction Cost Theory Perspective

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Abstract:

Purpose: The objective of paper is to consider transaction cost theory to analyse and improve local government operations during the SARS-COV-2 pandemic.

Design/Methodology/Approach: The article was prepared according to a neo-institutional approach, combining systemic, institutional and comparative methods.

Findings: Public forms of performing public tasks (budgetary establishments and budgetary units) at the local government level during the Covid-19 pandemic enable the restoration of the quality of public services and counteract speculation in the market of public goods and services.

Practical Implications: The paper presents a universal mechanism for selecting organisational forms of performing public tasks based on transaction cost theory that can be used by local authorities, civil servants and public sector experts alike during the Covid-19 pandemic.

Originality/Value: The comparison of public task forms with private ones highlighted the important role played by local government in rebuilding the market of public goods and services during the Covid-19 pandemic.

Keywords: Local government, public administration, transaction costs, Covid-19, public services.

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1. Introduction

In this paper the transaction cost theory of Olivier Williamson, is presented which could be implemented to choose the right form of performing public tasks. Two research questions were posed: how can transaction cost theory be applied to analyse the organisational forms in which public services are provided at local government level? How should the institutional order in the market of public goods and services look like during the Covid-19 pandemic from the perspective of transaction cost theory?

The analysis will be limited to the local governments in the pandemic Covid-19. We assume that the right choice of form will lead to lower transaction costs of providing public services, which in the long run will improve the activities of local government units not only during the Covid-19 pandemic, but also after its cessation. This approach is complied with forms of application of the Oliver Williamson's theory for the analysis of empirical data and various ideas such as work, public finances, elements of the economic system, development and reforms as well as public policies (Williamson, 2017). As the proposed approach is used to analyse new economic operations (Peng, 2021), we consider new circumstances, such as the Covid-19 crisis to be an important variable worth considering.

2. Literature Review

According to transaction cost theory, institutions can be distinguished according to three criteria, the degree to which they are embedded in social consciousness, their susceptibility to change and the extent of their impact on economic processes. These institutions include, informal institutions, formal institutions, transaction rules and economic decision-making rules. Informal institutions embrace, norms of behaviour, conventions, beliefs and voluntarily accepted methods of behaviour. Formal institutions refer to legal acts from which the rules governing socio-economic reality are derived. Transaction rules allow the assessment of costs before and after the conclusion of a contract. The rules for economic decision-making are a combination of formal institutions, informal institutions and transaction rules (Williamson, 1996).

Private and public forms of performing public tasks can be treated as separate institutions in the sense of transaction cost theory, which are then distinguished by the three criteria mentioned above, the degree to which they are embedded in social consciousness, their susceptibility to change and the extent to which they influence processes. Their impact on the quality of public goods and services should therefore be based on the analysis of informal institutions, formal institutions, economic decision-making rules and transaction rules.

Informal institutions of public and private forms of performing public tasks can be analysed from the perspective of the first criterion (social embeddedness), i.e., the extent to which there is a social conviction that specific public goods and services

(e.g., maintenance and operation of public and administrative facilities, waterworks, water supply (Berardo, Lubell, Mewhirter, and Scholz, 2017), sewage disposal, maintenance of cleanliness and order, and supply of electricity, heat and gas) should be provided by the local government unit in whole, in part or transferred to the private sector. Social beliefs result from the values, attitudes, opinions, behaviours and experiences adopted in a given local community as a result of its culture, customs, religion and traditions (Bryer, 2011). They are characterised by a high level of inertia. Consequently, changes in social awareness are slow because they are deeply embedded in the community due to their symbolic value, functionality and links to other formal and informal institutions. It follows that the above tasks of local government units should be entirely provided by public forms of performing public tasks because of the risk of non-performance by private actors during the Covid-19 pandemic.

Formal institutions include, at the level of local government units, local law, local public policies, bureaucracy and property rights (i.e., items of municipal property). Thanks to the institutions of local law and property rights, members of local communities have structured rules of the game in economic, social and political life. Formal institutions define the legal ways of performing public tasks and their implementation by organisational forms. They impose restrictions on members of local communities in the scope of deciding how their needs are to be met by the public goods and services on offer.

The analysis of public and private forms of performing public tasks from the perspective of formal institutions should include the consequences of their choice for the citizen. Transaction costs are then defined as the costs of transferring property rights from the public sector to the recipients of public services. Property rights include rights related to the use and enjoyment of public and administrative facilities and rights to demand appropriate behaviour from citizens by local authorities or on their behalf by public organisational forms of performing public tasks. The main function of property rights in the distribution of public goods and services is the reduction of conflicts that may arise in the situation of limited economic resources of local community members and limited public resources on the part of local government units. From the above analysis it can be concluded that public forms of performing public tasks (local government budgetary establishments, budgetary units) can provide community members with more security during the Covid-19 pandemic.

The ownership function (property rights) will be properly fulfilled if titles to public goods and services are fully defined and attributed to specific entities providing them, freely transferred and also well protected and enforced and not weakened by the Covid-19 pandemic (Furuboth and Richter, 2000). A key element in analysing how to rebuild the quality of public services during a Covid-19 pandemic will be to determine who has property rights. Leaving property rights to local government

authorities, i.e., public forms of performing public tasks, will reduce the risk of uncertainty during an emergency situation caused by the SARS-COV-2 virus.

Transaction rules are the third institution in transaction cost theory. The main direction of actions taken is the introduction by informal and formal institutions of such transaction rules that will reduce transaction costs. Transaction rules should be applied to the management of the process of distributing public goods and services, in particular to contracts between a local authority and a public form (budgetary establishment, budgetary unit) or a private form (commercial company) of performing public tasks. Costs associated with contracts are transferred to members of the local community during the Covid-19 pandemic (Douglas and Roudla, 2020). These costs are visible in local fees, local taxes, repair programmes of local government units caused by their high indebtedness, the amount of the civic budget, restrictions on investments of local government units or in forecasts included in multi-annual financial plans (Clinger, Feiock, McCabe, and Park, 2008).

Economic decision-making rules are the fourth institution. They should result from previous formal institutions, informal institutions and transaction rules. In them the knowledge of local government units about the consequences of the choice of the organisational form to perform public tasks should become visible. The institutions' knowledge should include the costs of providing public goods and services to members of local communities. During the Covid-19 pandemic, a wise authority should care about reducing the burden of citizens. In the face of an uncertain market situation, rising unemployment and difficulties in ensuring the proper functioning of the national economy, it is citizens who bear the greatest risk to survive in the labour market and to support their families. Providing by public forms of goods and services helps to guarantee the existential security of members of local communities.

3. Research Methodology

On this basis, the place and role of private forms of performing public tasks (commercial companies) and public forms of performing public tasks (budgetary establishments, budgetary units) were analysed. Thanks to the comparative method the differences between them were presented. In the article was formulated a research hypothesis, which is that in the light of transaction cost theory, public and private forms of performing public tasks can be evaluated by analysing them from the perspective of institutions: formal, informal, rules of concluding transactions and rules of making economic decisions during the Covid-19 pandemic.

4. Results

The conclusions of the analysis of public and private forms of performing public tasks from the perspective of the institutions indicated in the transaction cost theory are presented in Tables 1 and 2.

Table 1. *Strengths and weaknesses of the choice of public forms of performing public tasks at the local administration level during the Covid-19 pandemic from the perspective of transaction cost theory.*

Institutions in transaction cost theory	Strengths of the choice of public forms of performing public tasks during the Covid-19 pandemic	Weaknesses of the choice of public forms of performing public tasks during the Covid-19 pandemic
Informal institutions	Full responsibility of the local government unit for performing public tasks in full firmly embedded in the public consciousness: maintenance and operation of public utilities and administrative facilities, waterways, water supply, sewage disposal, maintenance of cleanliness and order and supply of electricity, heat and gas.	Difficulties in changing the organisational form that performs public tasks during a pandemic.
Formal institutions	Public tasks are performed on the basis and within the limits of the law.	Independent implementation of public tasks restricted to the limits of the law.
	Public tasks are performed on the basis of funds reserved in the budget of the local government unit.	Risk of loss of property of local government unit.
	Guarantee of protection of personal data of members of the governing community through the provision of public goods and services by a public organisational form.	Insufficient personal data protection measures
	The performance of public tasks is subject to the control and supervision of public administration bodies, which, in a pandemic situation, allows countermeasures to be taken earlier.	Excessive control during the Covid-19 pandemic makes it difficult to perform public tasks.
Economic decision-making rules	The purpose of the activity is to meet public needs on an ongoing, uninterrupted and continuous basis.	Lack of for-profit orientation results in limited resources for modernisation.
	Organisational structure has little flexibility, resulting in greater operational stability independent of changes made by central authorities during the Covid-19 pandemic.	Hierarchical organisational structure prolongs the decision-making process and reduces the ability to respond to changes caused by the Covid-19 pandemic.
	In the long term, it ensures that universal needs are met continuously and permanently.	Less effective activity in the short term due to a long decision-making process.
Transactional rules	Determining the way in which the local government unit influences the public task it performs.	Difficulties in negotiating the level of provision of public goods and services.

Source: *Own study.*

Table 2. *Strengths and weaknesses of the choice of private forms of performing public tasks (commercial companies) at the local government level during the Covid-19 pandemic from the perspective of transaction cost theory.*

Institutions in transaction cost theory	Strengths of the choice of private forms of performing public tasks (commercial companies) during the Covid-19 pandemic	Weaknesses of the choice of private forms of performing public tasks (commercial companies) during the Covid-19 pandemic

Informal institutions	Conviction in the local community that public tasks will be performed more efficiently by private entities.	Private entities are unable to foresee the effects of a pandemic on the provided public services.
Formal institutions	Independence in the way the public tasks are performed.	Greater vulnerability to market changes during a pandemic.
	The local authority is liable up to the amount of the contribution made to the company.	The basis for performing the tasks are the company's assets, the size of which depends on market management.
	No risk of loss of community property.	The risk of losing the company's own contribution, which in turn undermines the contractors' confidence in the company in business dealings.
Economic decision-making rules	The purpose of the business is profit.	Legal conditions of management, introduced during the pandemic, make it difficult for private entities to operate.
	The organisational structure has greater flexibility and impact on increasing the efficiency of the performed tasks.	During a pandemic, the costs of adapting the organisational structure are limited by the funds for increasing task efficiency.
	Greater efficiency in the short term as there is no long and time-consuming decision-making process.	The high cost of adjusting the conditions for providing public goods and services during the Covid-19 pandemic.
Transactional rules	Transaction is a result of negotiations with recipients of public goods and services.	During lockdown, private entities are dependent on public assistance.

Source: Own study.

5. Discussion

In the original transaction cost theory, Williamson stated that *“in a narrow sense, institutional order cannot be equated only with a system of legal norms, because forcing citizens to obey them will guarantee large transaction costs. In a broader sense, institutional order consists of hierarchically ordered elements: legal norms, human actions and behaviour. Its stability will depend on the extent to which legal norms are internalized by institutions”* (Williamson, 1996).

Constructing an institutional order during the Covid-19 pandemic involves adopting a new institutionalism perspective. Within its framework, it is important to point out the interdependence between institutional structure and institutional arrangements (Coase, 1980; Williamson, 2000). An institutional arrangement is defined as a set of behavioural rules governing a particular pattern of actions and relationships. Analogous to the levels of institutions proposed by O. Williamson, the arrangement can be formal or informal. In contrast, structure is a broader concept than arrangement and may consist of both formal and informal institutional arrangements (Montias, 1976).

The organisational form of the performance of public tasks can exist either as an institutional arrangement or an institutional structure. An institutional arrangement is

when it has administrative authority, i.e., it can enforce certain rights and obligations on members of local communities in the provision of public goods and services. On the other hand, it is an institutional structure when it influences the external environment and is an entity creating the way of satisfying citizens' needs.

During the Covid-19 pandemic, local authorities should set themselves the goal of creating an appropriate institutional structure to perform public tasks. The institutional structure should include institutional arrangements that will build the local system of distribution of public goods and services through different types of links between local authorities, organisational and legal forms and private stakeholders (entrepreneurs and other organisations representing the interests of different social groups). The institutional framework for such links can be provided by the development of soft network infrastructure.

Soft network infrastructure is crucial in how to lower the transaction costs of performing public tasks. Firstly, the lower the transaction costs, the less uncertainty in access to public goods and services by citizens and the more certainty there is in guaranteeing their safety by local authorities during the Covid-19 pandemic. Hence, there is an opportunity to reduce transaction costs already at the contract preparation stage (Petersen, Baekkeskov, Potoski, and Brown, 2019). At the ex ante stage, the choice of public forms (budgetary establishments, budgetary units) guarantees the performance of tasks on the basis and within the limits of legal regulations. This influences the reduction of transaction costs in the ex post phase. In the ex post phase, there is then no need for additional contract security for its execution. Certainty of contract execution is guaranteed by the selection of the public organisation (Clark, 2020).

Secondly, soft network infrastructure increases the material effectiveness of the transaction, which will lead to an increase in the security of citizens and the quality of performed public tasks by applying the rotational principle, i.e. when a public organisational form is unable to perform a public task, its performance is ensured by a private organisational form (commercial company). When it is not able to provide public goods and services, the task is transferred to the private market. Thirdly, soft network infrastructure will become an indicator of the efficiency of local authorities, which are able to use both public and private resources during the Covid-19 pandemic.

Soft network infrastructure can also be analysed in three types of transactions within the scope of providing goods and services to citizens: transactions by public forms of performing public tasks (budgetary establishments, budgetary units), transactions by private forms of performing public tasks (commercial companies) and transactions performed by private stakeholders instead of local authorities.

Due to the uncertainty of private stakeholders' actions, during the Covid-19 pandemic, the choice of public organisational-legal forms becomes safer, as they

have adequate property rights ensuring security of supply of public goods and services without the risk of market fluctuations to which private entities are exposed. Moreover, it should be noted that the quality of the public tasks performed by the organisational forms depends *sensu largo* on the relationship with the local government authorities; while *sensu stricto* on the relationship with other public and private organisational forms. *Sensu largo*, the choice during the Covid-19 pandemic of the organisational form for the implementation of public tasks determines the quality of the performed public tasks; while indirectly, its effectiveness depends on the law, customs, habits, experiences, which generate transaction costs resulting from low flexibility and susceptibility to change. In turn, *sensu stricto*, the quality of public goods and services depends on the relationship between private and public forms of performing public tasks. This is related to transaction costs resulting from their creation, organisation, maintenance and implementation of rules of their functioning.

The efficiency of public and private organisational forms depends on the level of development and openness to technological changes. They are implemented faster by private forms of performing public tasks. Public forms of performing public tasks (budgetary establishments and budgetary units) are less flexible, as they are entirely dependent on local authorities, in terms of personnel and finance. During the Covid-19 pandemic, technological improvements consist in digitising public tasks in order to make them more accessible to local communities whose mobility has been restricted by law.

The impact of technological change on public and private forms of performing public tasks can be analysed in two areas: production costs and the profitability of transactions of the provided public goods and services. In the first area, production costs are higher the lower the capacity of organisational forms to use external factors or to modify the distribution of existing resources among the owners of production factors. In the second area, the profitability of transactions is measured by the costs of technological change. The profitability of transactions in the field of public goods and services will force technological changes, because under the conditions of the slowdown of the national and world economy due to the Covid-19 pandemic, the organisational forms of performing public tasks should strive to increase the efficiency and returns on invested capital.

The choice of public or private organisational form of performing public tasks and the technologies they use determine the transaction costs that increase the costs of producing public goods and providing public services (Coase, 1960). Accordingly, the following relationships can be identified during the Covid-19 pandemic. First, the higher the transaction costs, the higher the production costs (Williamson, 1999). Second, the higher the transaction costs, the lower the efficiency of market mechanisms. By analogy, zero transaction costs guarantee the neoclassical efficiency of markets. Third, the absence of transaction costs maximises the availability of public goods and services during the pandemic to members of local communities.

When analysing the relationship between transaction costs and the choice of public or private organisational forms of performing public tasks, the following effects on local government administration can be pointed out. Firstly, these effects relate to the relationship of the local government unit with the form of performing public tasks. These relations consist in building a network of interrelated rules. The basis of these rules are the norms governing social relations, creating formal and informal constraints on their cooperation (Bogason, Musso, 2006; Ostrom, 2009). A private form of performing tasks, such as a company, has less formal and informal constraints compared to the public form (budgetary establishment, budgetary unit).

As a result, it has lower transaction costs in non-pandemic conditions. During an emergency situation such as a pandemic, this logic changes. Public organisational forms then have lower transaction costs because they are less vulnerable to pandemic-induced changes. The second effect can be considered in direct and indirect dimensions. In the direct dimension, public forms of performing tasks lead to a reduction in uncertainty in interpersonal relations in terms of the needs met during the Covid-19 pandemic. The basis for certainty and predictability of the taken actions is the use of institutions from transaction cost theory to assess them. In turn, in the indirect dimension, the decisions made by public organisational forms of performing public tasks are influenced by the attitude of local authorities, which is more predictable due to their acting on the basis of legal regulations in accordance with the norms and values present in the consciousness of members of the local community.

6. Conclusions

The aim of this article was to present how transaction cost theory can be used to improve delivery of public services by choosing public or private organisational forms during the pandemic caused by the SARS-COV-2 virus.

The data presented in Table 1 and Table 2 enabled positive verification of the main hypothesis, which assumed that institutions from transaction cost theory (formal institutions, informal institutions, transaction rules and decision-making rules) can be used to evaluate public and private forms of performing public tasks. The data show that during a pandemic, it is public forms such as budgetary establishments and budgetary units that will enable the quality of public services to be rebuilt. Thanks to their personal and financial association with local government units, they are able to provide public goods and services on a continuous and uninterrupted basis.

In microeconomic terms, the amount of transaction costs is influenced by the determination of the level of public goods and services in pandemic times and the ways of imposing and enforcing contracts with citizens, which involves the possibility of controlling their conclusion. Only public forms of performing public tasks, during the Covid-19 pandemic, can become the main tool for rebuilding the

quality of public services, as they are guided by the principle of intentional rationality, i.e., striving to minimise transaction costs.

The more public services during a pandemic are provided by public organisational forms, the lower the transaction costs and the higher the profitability of transactions. Before the pandemic, the main basis for transactional profitability was organisational innovation. During the pandemic, profitability depends on the stability of the form that is chosen by local authorities to perform tasks. It should be added that the rebuilding of the quality of public services should be started by public forms (budgetary establishments, budgetary units).

Answering the second research question, the institutional order in the sense of transaction cost theory should be based on public forms of performing public tasks, as they form the incentive structure for the reconstruction of the socio-economic order in society during and after the Covid-19 pandemic. In the face of an uncertain market situation, only public-legal forms of performing public tasks are able to provide public goods and services to members of local communities. The mechanisms of market self-regulation limit the number of private entities, since they are unable to meet the demands of the market. In the space created, the obligation to perform a coordinating function to counteract speculation, price collusion or monopolistic tendencies in the market for public goods and services, lies with the local government. During the pandemic, the local authorities are responsible to create a soft network infrastructure based on public-legal organisational forms aimed at rebuilding institutional order. After the pandemic, they should be replaced by mixed or private forms.

The choice of form for performing public tasks reflects the changes that have taken place in social consciousness under the impact of the pandemic. Citizens turning to local government units for help is a natural process of seeking support from public authorities in a situation that by its scope and scale exceeds the capacity of individuals to take care of their lives.

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