

Evidence on the political principal-agent problem from voting on public finance for concert halls

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Abstract Principal-agent problems can arise when preferences of voters are not aligned with preferences of political representatives. Often the consequence of the political principal-agent problem is political catering to special interests. In this paper I provide examples of principal-agent problems regarding public spending. The examples concern construction or extension of concert halls in two German cities. Resistance to public funding for the concert halls was particularly strong in electoral districts with large constituencies on the left. The evidence indicates that political representatives were more bourgeois than their constituencies. In the cases studied asymmetric information did not prevail and voters were able to discipline their representatives through referenda that countered the results of voting by political representatives.

Keywords Principal-agent problem · Referendum · Direct democracy · Political representation · Political ideology · Cultural policy

JEL Classification D72 · D78 · H72 · Z10

1 Introduction

The principal-agent problem can arise when voters and their elected representatives have different objectives or preferences. The problem is often stated with reference to politicians catering to special interests (see Barro 1973 and for an overview of the literature Hillman 2009, chapter 2). Evidence on the principal-agent problem includes regulation, protectionist policies and staff growth in international organizations

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