

Alexander Kalb researcher at the Centre for European Economic Research (ZEW) Public Sector Efficiency: Applications to Local Governments in Germany efficiency of the public sector is important concerning the competition for mobile factors like (high-skilled) labor and capital (e.g. in local jurisdictions). Besides, it is possible that local governments do not choose the most competitive provider for certain tasks. Since local governments operating at a rather low-efficiency level are not able to provide the same amount of public goods and services as local governments which operate at higher efficiency levels (for a given amount of costs), the former will not be able to attract as many mobile factors as the latter. The reason is simply that – for a certain amount of public spending – the latter governments can offer either a higher amount of public goods and services of the same quality or the same amount of public goods and services of higher quality, since they are using their means more efficiently (in comparison to the former governments). Since the quality of public goods and services is sometimes hard or even not all observable (by the citizens), the public sector can vary the quality substantially without sanction., however, we must first detect the main sources of these inefficiencies. Thereby, inefficiencies in the public sector can be manifold: First, public administrations can be oversized, which, in turn, means that part of the (public) money spent provides no additional utility for the resident enterprises and households. Subsequently, this information can then be used by policy-makers to take action which, in turn, reduces potential inefficiencies. 1 Finally, a further potential source of inefficiency is the quality of public goods and services