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Why do local governments privatise public services? A survey of empirical studies

Germà Bel  & Xavier Fageda

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Abstract

Many empirical works have been devoted to analysing the factors explaining local privatisation. This article examines the role of local government power due to the market, the degree of local government involvement in privatisation, the impact of local government on the cost of privatisation, and the impact of local government on the range of services provided. The article also examines the impact of local government on the range of services provided. The article also examines the impact of local government on the range of services provided.

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Notes

1 Indeed, empirical literature on privatisation and costs provide very interesting insights, and it has been reviewed elsewhere (Bel & Warner, [2006](#)).

2 The seminal work by Vickers and Yarrow ([1988](#)) provided a comprehensive approach to studying privatisation. Megginson and Netters' ([2002](#)) survey published in Journal of Economic Literature offers extensive information on this literature.

3 Proposition 13 in California in 1978 is a good example of this. Proposition 13 introduced important provisions that changed the structure of the California local tax system. The property tax rate was limited to 1 per cent of assessed value, and those values were rolled back to 1975. The growth in assessed value was limited. Thus, local governments were restricted in raising local property tax rates or assessed property values to the previous year's level. The introduction of these provisions centralised the role of the state in determining the local tax rate (Bel & Warner, [2004](#)). Proposition 13 has been replicated in many cities in California and other states in the US.

4 Political ideology has been shown to be an important determinant of the previous section. The results suggest that the more conservative the ideology, the more likely these cities are to have a higher property tax rate. This is consistent with the hypothesis that more conservative cities are more likely to have a higher property tax rate on the grounds that they are more likely to have a higher property tax rate.

5 We are aware that some other works, such as extensive case studies or studies based on statistical correlations between two variables, can offer interesting insights. This is the case for example of the works of Christoffersen and Paldam ([2003](#)) or Young ([2005](#)). However, results from studies using econometric multivariate methods are more suitable to generalisation to other contexts.

6 It must be said that the study by Hebdon and Jalette ([2007](#)) includes observations for Canada.

7 However, some studies that analyse just one service also find a significant relationship between fiscal stress and privatisation. This is the case in the study of Feldman ([1986](#)) for urban buses and the study of Hirsch ([1995](#)) for solid waste collection.

8 Some studies of US cases analyse the alternative hypothesis; large cities will privatise more often since they can take advantage of competition from a larger number of service providers. In order to test this hypothesis, these studies use variables for core metropolitan areas, suburbs and rural areas. Interestingly, results from the works of Warner and Hefetz ([2002](#)) and Hebdon and Jalette ([2007](#)) imply that suburbs of metropolitan areas privatise more often than core metropolitan cities or rural areas. Levin and Tadelis ([2005](#)) conclude that large and urban areas tend to externalise production to private firms more often, while smaller towns tend to externalise to public agencies.

9 Evidence on the scale economies hypothesis is not clear in the works of Chandler and Feuille ([1995](#)). The latter find that the cost of providing a service decreases with the amount of service provided. The latter find that the cost of providing a service decreases with the amount of service provided.

10 Interestingly, the literature also suggests that there is a relationship between why there is less privatisation in some countries and the size of the local government. Hence, the suggestion is that the choice of privatisation is a function of the size of the local government. Hence, the suggestion is that the choice of privatisation is a function of the size of the local government.

11 A small number of studies have also found that the choice of privatisation is a function of the size of the local government. Hence, the suggestion is that the choice of privatisation is a function of the size of the local government.



12 Regarding the influence of income per capita on service delivery choices, Boyne ([1998b](#)) distinguishes between an economic and political interpretation of the effects related to this variable. Indeed, high-income households may prefer privatisation, but at the same time more easily afford additional expenditures associated with the externalisation of local services production. In any case, the political interpretation seems to predominate in the empirical literature on local privatisation.

13 In fact, among the studies that consider a broad range of services, only Benton and Menzel ([1992](#)) and Hebdon and Jalette ([2007](#)) do not find a significant influence on service delivery choices from low-income households and unions, respectively.

14 Among those studies that test such hypotheses and include small towns in their samples, only Walls et al. ([2005](#)) do not find the expected relationship significant.

15 Martínez Rodríguez ([2004](#)) and Miralles ([2006](#)) obtain mixed results.

16 Many of the studies that consider just one service focus attention on solid waste collection. Several studies show the relevance of scale economies for this sector (Stevens, [1978](#); Callan & Thomas, [2001](#); Bel & Costas [2006](#)).

17 In fact, among the studies that consider a broad range of services, only Benton and Menzel ([1992](#)) and Hebdon and Jalette ([2007](#)) do not find a significant influence on service delivery choices from low-income households and unions, respectively. In addition, some studies that focus on just one service, such as school buses (McGuire et al., [1987](#)), solid waste collection (Dubin & Navarro, [1988](#); Hirsch, [1995](#)), sanitation (Chandler & Foville, [1994](#)) or water (Miralles, [2006](#)) also find a significant influence of group income on service delivery choices. To explain this result.

18 Recent studies in the United States and Europe have found that the influence of income in countries like the United States and Europe is different from that found in the United Kingdom (Jalette, [2007](#)) and the European Union.

19 Additionally, the influence of income on service delivery choices may be different in each country.



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