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

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Abstract

Many empirical works have been devoted to analysing the factors explaining local privatisation. Overall, most of the empirical analyses have low explanatory power due to the methodological difficulties in capturing the dynamic nature of the privatisation decision. The variables most often considered are those related to fiscal stress and cost reduction and political processes and ideological attitudes. Our review indicates that

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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 raise additional revenues. At the same time, control over the allocation of property tax revenues was transferred to the state. The combination of these provisions centralised authority over the property tax in state government, and undermined the role of property taxes as a tool of local government revenue generation. Hoxby ([2004](#))

contains a detailed discussion of the impact of Proposition 13 on cities in California.

4 Political science literature on the effects of local government revenue generation on the previous section has found mixed results. For example, Hoxby ([2004](#)) finds that Proposition 13 reduced the growth of local government revenue, but that these effects were not uniform across all cities. On the other hand, Hoxby and Scharf ([2000](#)) find that Proposition 13 had a significant negative impact on the growth of local government revenue in California.

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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 ([1994](#)) for sanitation services and Miralles ([2006](#)) for water services. The latter service could be influenced more by density rather than by scale economies, while the amount of fixed costs in the sanitation services is low.

10 Interest in privatisation has been growing in many countries. This is why there is less privatisation in some countries than in others. Hence, the suggestion of privatisation is not a choice for all countries. The choice of privatisation is not a choice for all countries. The choice of privatisation is not a choice for all countries.

11 A small number of countries have privatised outside the OECD area. This is why there is less privatisation in some countries than in others. Hence, the suggestion of privatisation is not a choice for all countries. The choice of privatisation is not a choice for all countries. The choice of privatisation is not a choice for all countries.

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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 & Feuille, 1994) or water (Miralles, 2006) also find a significant influence of group interests. The high economic relevance of all these services could explain this result.

18 Recent studies show that reverse privatisation may be an emerging issue in countries like the United Kingdom (Hirsch, 2000; Walls et al., 2005; Jalette, 2007). A similar trend is also observed in the United States (Hirsch, 2000; Anand & Joshi, 2000; Anand & Joshi, 2000).

19 Additionally, the results of the studies that focus on just one service may be different in each country.

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