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Original Articles

Reforming the local public sector: economics and politics in privatization of water and solid waste

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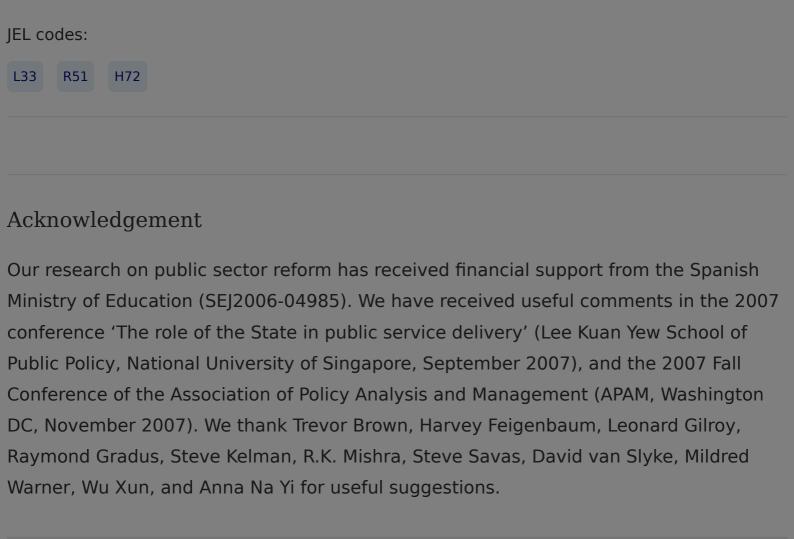
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Notes



- 4. This double dimension of the politician has been named the citizen-candidate approach. Osborne and Slivinski (1996) and Besley and Coate (1997) offer theoretical insights; Levitt (1996) and Lee et al. (2004) offer empirical support.
- 5. Another variable used in several studies is the percentage of public employees over population. On this we must recall that the determination of service delivery choices and the percentage of public employees is done simultaneously. Hence, the variable for the weight of public employees is statistically biased. Indeed, a more intense use of external suppliers implies per se a reduction in the number of public employees. Because of this, we do not consider here results obtained from using the variable percentage of public employees. A complete discussion of this methodological issue can be found in Bel and Fageda (2007).
- 6. Still for the US, following the proposition that politicians obtain the support of public employees under public production, Lopez-de-Silanes et al. (1997) test the hypothesis that political patronage affects service delivery choices. They find that state laws imposing accountability requirements in contracting for personnel encourage privatization. However, later studies by Kodryzcki (1998) and Walls et al. (2005) do not confirm these results.



11. In this way, Brown and Potoski (2005) measure asset specificity and ease of measurement for 64 local services in the US. They build indicators ranging from 1 (low specificity, or easy measurement) and 5 (high specificity, and difficult measurement). They find asset specificity of 3.94 and ease of measurement 2.44 for water distribution; assets specificity is 3.00 and ease of measurement 2.06 for residential solid waste. For commercial waste, ratings are 3.06 and 1.97. Levin and Tadelis (2007) build indicators on contract difficulty, as perceived by city managers, and find that contract difficulty is over the average for water services, whereas for all services related to waste, contract difficulty is below the average. Bel (2006) provides evidence that contract terms are longer in water than in solid waste, thus reflecting higher relevance of sunk costs in water.

12. Local elections in Spain are based on party lists. In this way, independent parties are those parties that are strictly local. The members of the city council are elected on a proportional basis (corrected with the d'Hondt system). The election of the mayor is not direct: after being elected, the city council members elect the mayor in the first meeting of the council. An absolute majority (50% + 1) of votes from the city council members is required to be elected as mayor in the first round. If no candidate obtains such a majority, then the top member of the list that obtained the largest fraction of votes in the election is automatically elected as mayor.

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- 15. After pooling the data for our two local services, the number of observations excluded in the estimations with the variable 'mayor' has been 95. We had initially 111 observations for cities with 'independent mayor'. However, 16 of them had already been excluded because of mixed firms or unavailability of fiscal data.
- 16. One could argue that the variable for intermunicipal cooperation implies an endogeneity bias as the decision to cooperate could be made simultaneously with the decision of contracting out. However, as we mention above, intermunicipal cooperation as it is understood in Europe is a decision that can be undertaken under any production form setting. Thus, the possible endogeneity bias is not an issue in our context.
- 17. In the empirical analysis, we exclude observations in municipalities that first externalized the delivery of the local services considered before local democracy was restored in Spain in 1979. Observations excluded are 78, which represents 7.2% of the sample. Inclusion of service delivery choices made in the authoritarian political context of Franco's dictatorship might distort the analysis of explanatory factors, particularly concerning the political factors, since these decisions were not taken within a democratic decision context. Many of these concessions, particularly on water, were still in place in the early 2000s. Considering in the estimation cities that first externalized the service before democracy was restored yields similar results to those obtained in our analysis. Political variables show less reduct results, over if they keep significa

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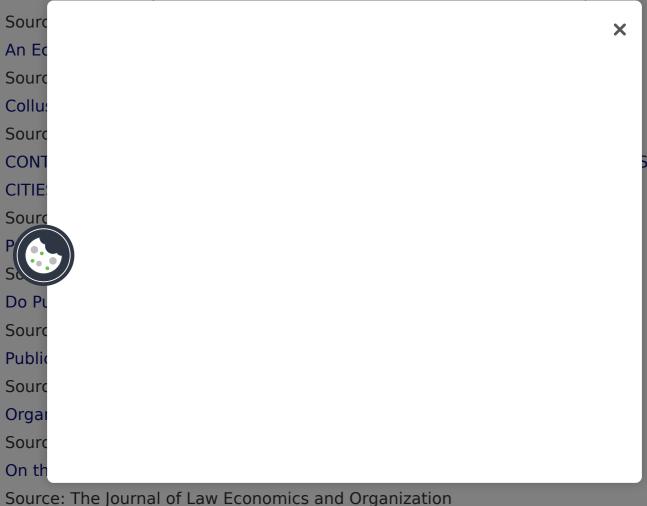
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