

## Recent Articles on Privatization and Decentralization

by  
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Pdfs for most of these can be found on my website <http://government.cce.cornell.edu>

### Special Edited Volumes

Bel, Germà and M. E. Warner 2008. "Challenging Issues in Local Privatization," *Environment and Planning C: Government and Policy*, 26(1): 104-109, editorial overview to special issue.

Local government privatization has not delivered as expected on cost savings. Using empirical studies from North America and Europe, we show that local governments are pragmatic managers who must manage costs, markets and political interests simultaneously. Using a theoretical framework of actors, interests and incentives, we explain the lack of cost savings and demonstrate the importance of alternative management approaches. We argue analyses of local government contracting must address the dynamics of market management and do so in a comprehensive framework that includes both public and private actors and interests.

Bel, Germà, Robert Hebdon, and M. E. Warner, 2007. "Local Government Reform: Privatization and Its Alternatives," *Local Government Studies*, 33(4): 507-515, editorial overview to special issue.

Privatization is only one of several alternatives for local government reform. Problems with lack of cost savings and the challenges of contract management have led local government reformers to explore other alternatives including municipal corporations, relational contracting and dynamic market management. Empirical analysis shows concerns with fiscal stress, efficiency, and managing political and citizen interests drive the reform process more than ideology. We argue a more comprehensive framework is needed that gives attention to a wider array of alternatives for institutional reform.

### Articles

Warner, Mildred E. 2008, "Reversing Privatization, Rebalancing Government Reform: Markets, Deliberation and Planning," in *Reasserting the Public in Public Services* Ed. By M. Ramesh, National University of Singapore.

The last decades of the 20<sup>th</sup> century witnessed a profound experiment to increase the role of markets in local government service delivery. However, that experiment has failed to deliver adequately on efficiency, equity or voice criteria. This has led to reversals. But this reverse privatization process is not a return to the direct public monopoly delivery model of old. Instead it heralds the emergence of a new balanced position which combines use of markets, deliberation and planning to reach decisions which may be both efficient and more socially optimal.

Warner, Mildred E. and Germa Bel 2008. "Competition or Monopoly? Comparing US and Spanish Privatization," forthcoming, *Public Administration: An International Quarterly*, 86(3)(forthcoming).

Differences in national traditions of public intervention, institutional arrangements, and public service markets make local public services an area of great diversity. Our objective in this paper is to undertake a comparative study of how local governments arrange for delivery of water and waste services in the U.S. and Spain. We find that levels of privatization are higher in Spain than in the U.S. We review organizational reform in the two contexts and compare service delivery data using national surveys from each country. We conclude that lower and less stable privatization in the U.S. stems in part from adherence to public choice emphasis on the benefits of market competition over public monopoly. By contrast, the Spanish municipalities reflect more of an industrial organization approach, and create hybrid public/private firms which benefit from both market engagement and economies of scale available under monopoly production.

Hipp, Magdalena and Mildred Warner 2008. "Market Forces for the Unemployed? Training Vouchers in Germany and the U.S." *Social Policy and Administration*, 42 (1): 77-101.

Vouchers are meant to increase competition and consumer choice in public service markets. Using the example of training vouchers for the unemployed in the U.S. and Germany, we show, however, that deficits, both on the demand and the supply side of the market, create problems with preference alignment and market formation. Information asymmetries undermine choice by the unemployed and reduce government control over the training system. Ironically, restrictions meant to compensate for these information deficits further inhibit competitive market formation. Evaluation data on training vouchers from both countries show that voucher systems do not increase choice, but weaken the partnerships public employment agencies previously had with training providers, and may lead to a shortage of high quality and specialized training as well as creaming in the selection of training participants. Theoretical justification for vouchers is based on the notion of choice and consumer sovereignty. Using this framework to analyze the changed relationship between government, private training providers, and jobseekers we challenge the efficacy of vouchers as a delivery mechanism in complex public service markets such as job training.

Warner, Mildred E. and Amir Hefetz 2008. "Managing Markets for Public Service: The Role of Mixed Public/Private Delivery of City Services," *Public Administration Review*, 68(1):150-161.

The privatization experience of U.S. municipalities shows declining use of complete contracts and a dramatic rise in mixed public/private delivery (joint contracting) of city services. Our analysis shows city managers have recognized the need to move beyond a simple dichotomy between market delivery and public planning to an approach that balances concerns with efficiency, market management and citizen satisfaction. New public management stresses the importance of competition and efficiency, transaction costs economics emphasizes the challenges of contract management, and new public service gives

primary concern to citizen engagement; but city managers see the need to balance all three. We use probit and generalized estimation models to analyze International City County Management Association (ICMA) data for 1992, 1997 and 2002, and show the evolution of a middle position where city managers integrate markets with public delivery and give greater attention to citizen satisfaction in the service delivery process.

Gerbas, Jennifer and M.E. Warner 2007. "Privatization, Public Goods and the Ironic Challenge of Free Trade Agreements," *Administration and Society*, 39(2):127-149.

Use of quasi-markets for provision of public goods requires clear property rights, a predictable adjudication process and low transaction costs. These may be undermined by new restrictions on government action found in the new generation of free trade agreements. These trade agreements privilege foreign over domestic investors, replace public courts with private arbitration, supplant traditional standards for legislation by requirements to be "least trade restrictive," and forward a new definition of "takings" that requires governmental compensation for lost potential profits from regulatory action. These features undermine the governance structure necessary to reduce transaction costs of delivering complex public services.

Bel, Germà, Xavier Fageda and Mildred Warner. 2007. "Privatization of solid waste and water services: What happened to costs savings?" under review.

Cost reduction was the key benefit claimed by privatization. We conduct a meta analysis of all published econometric studies of water and waste production since 1965. Little support is found for a link between privatization and cost savings. Cost savings are not found in water delivery and are not systematic in waste. Theoretical expectations for cost savings arise from the benefits of competition and the incentives of private ownership. However, empirical results show the importance of market structure, industrial organization of the service sector and government management, oversight and regulation. There is no systematic optimal choice between public and private production, therefore managers should approach the issue in a pragmatic way.

Hefetz, Amir and Mildred E. Warner. 2007. "Beyond the Market vs. Planning Dichotomy: Understanding Privatisation and its Reverse in US Cities," *Local Government Studies*, 33(4): 555-572.

City service delivery requires planners and city managers to move beyond the public-private dichotomy and explore the benefits of interaction between markets and planning. Using International City County Management survey data on U.S. local governments from 1992, 1997 and 2002, we find a shift where reverse contracting (reinternalisation) now exceeds the level of new contracting out (privatisation). We model how a theoretical shift from New Public Management to New Public Service in public administration mirrors a behavioral shift among city managers. Results confirm the need to balance economic concerns with political engagement of citizens and lend empirical support to a theory of Social Choice that links Communicative Planning with market management.

Warner, Mildred E. 2006. "Inter-municipal Cooperation in the U.S.: A Regional Governance Solution?" *Urban Public Economics Review/Revista de Economía Pública Urbana*, 7: 132-151.

U.S. local governments are characterized by political fragmentation. This creates problems of coordination and efficiency at both the metropolitan and rural scales. While political consolidation is rare, voluntary cooperation between municipalities is quite common. This paper explores whether a system of voluntary cooperation can achieve efficiency and equity objectives without losing local voice and identity. Using data from the International City/County Management Association survey of more than 1200 municipalities over the 1992-2002 decade, probit models of inter-governmental contracting are constructed. Findings show the efficiency benefits of cooperation have eroded over time due in part to the lack of adequate public monitoring. Results on equity are indeterminate. While citizen voice was in support of cooperation at the beginning of the decade, this is no longer true at the end of the decade. Results suggest the need for a more democratic form of inter-municipal cooperation to ensure accountability, responsiveness and efficiency.

Warner, Mildred E. 2006. "Market-Based Governance and the Challenge for Rural Governments: U.S. Trends" *Social Policy and Administration: An International Journal of Policy and Research* 40(6):612-631.

Privatization and decentralization represent market-based approaches to government. Designed to increase efficiency and responsiveness of government, these approaches also limit the potential for redistribution. A key question is how will rural governments compete in such a market based system? Will they be favored, as their reliance on market provision for public goods is higher due to the smaller number of services provided by government? Or will they be less able to compete due to the costs of sparsity which may make them less attractive to market suppliers? Data from the United States covering the period 1992-2002, show that rural areas are not favored by either of these trends – privatization or decentralization. Managerial weakness does not explain the shortfall. Rural areas are not as attractive to market suppliers and thus are disadvantaged under market based service delivery approaches. Although national policy continues to advance a privatization agenda, policymakers should be concerned about the uneven impacts of such market based approaches.

Warner, M.E. and James E. Pratt, 2005. "Spatial Diversity in Local Government Revenue Effort Under Decentralization: A Neural Network Approach," *Environment and Planning C: Government and Policy*, 23(5):657-677.

Decentralization reflects a global trend to increase the responsiveness of state and local governments to economic forces, but it raises the challenge of how to secure redistributive goals. Theoretically, as the equalizing impact of federal aid declines under devolution, we expect sub-national state level government policy to become more important and geographic diversity in local governments' efforts to raise revenue to increase. This paper explores the impact of state fiscal centralization and inter-governmental aid on local revenue effort using Census of Governments

data for county areas from 1987 for the Mid-Atlantic and East North Central region of the United States with particular attention to rural counties. The 1987 period is chosen because it is the first year that state policy trends diverge from federal decentralization trends and both state aid and state centralization *increased* while federal aid to localities continued to decline. Using a neural network approach, we explore the spatially differentiated impact of state policy and find complementary responses in effort among some localities and substitution responses among others. Classification tree analysis of this diversity shows that decentralization and the competitive government it promotes are likely to exacerbate inequality among local governments under decentralization.

Warner, M.E. and Jennifer Gerbasi. 2004. "Rescaling and Reforming the State under NAFTA: Implications for Subnational Authority," *International Journal of Urban and Regional Research*. 28(4):853-73.

The new free trade agreements are rescaling governance in ways that have critical implications for subnational governments. The nation state is not simply being hollowed out, rather a new governance nexus is forming – of nation states, multinational corporations and international agreements - which explicitly excludes subnational and local government voice. This paper describes the new governance features of the North American Free Trade Agreement (NAFTA) and illustrates how they work out at the national, subnational and local scales using cases from the United States and Mexico. NAFTA provides the template for other free trade agreements including the Free Trade Area of the Americas (FTAA) and a growing number of bilateral agreements. We show how NAFTA's governance structure is undermining subnational and local government authority in legislative and judicial arenas. Designed to advance privatization of public services, these agreements undermine the very ability of local governments to use markets for public goods by defining traditional state and local governance mechanisms as 'non-tariff barriers to trade.' Contradictions between private profit and public interest appear at the subnational level but their resolution is engaged at the global level between private investors and the nation state. Recognition of this rescaling requires attention to the reforming state and its implications for subnational authority and democratic representation and voice.

Hefetz, Amir and M. Warner, 2004. "Privatization and Its Reverse: Explaining the Dynamics of the Government Contracting Process" *Journal of Public Administration, Research and Theory*, 14(2):171-190.

Empirical evidence shows local government contracting is a dynamic process that includes movements from public delivery to markets, and from market contracts back to in-house delivery. This "reverse contracting" reflects the complexity of public service provision in a world where market alternatives are used along with public delivery. We develop a methodology to link responses to national surveys and create a longitudinal data set that captures the dynamics of the contracting process. We present a framework that incorporates principal agent problems, government management, monitoring and citizen concerns, and market structure. Our statistical analysis finds government management, monitoring and principal

agent problems to be most important in explaining both new contracting out and contracting back-in. Professional managers recognize the importance of monitoring and the need for public engagement in the service delivery process. The results support the new public service that argues public managers do more than steer a market process, they balance technical and political concerns to secure public value.

Warner, M.E. and Amir Hefetz 2004. "Pragmatism over Politics: Alternative Service Delivery in Local Government, 1992-2002," chapter in *The Municipal Year Book 2004*. Washington, DC: International City County Management Association.

In response to increased interest in privatization, ICMA has been tracking local governments' use of alternative service delivery approaches since 1982. What is interesting about the trends is how little they have changed over these years. Almost all governments responding to the ICMA surveys use at least one form of alternative service delivery. However, despite strong political support for privatization and a reduction in opposition, direct public delivery is still the most common form of service delivery. For profit privatization and inter-governmental contracting are the most common alternatives and their usage has ranged from 15-20 percent of services over the period with a slight drop from 1997 to 2002. Use of non-profit contracting has been stable at less than half the rate of for profit privatization. What has risen most dramatically over the 1992-2002 time period is the use of mixed public/private provision. These data suggest local governments are mature and experienced in their use of alternative service delivery. The 2002 survey results show lack of competitive markets and problems with contractor performance as explanations for the relative flatness of the trends.

Jennifer Gerbasi, and Mildred Warner. 2004, "Is There a Democratic Deficit in the Free Trade Agreements? What Local Governments Should Know," *Public Management* 86:2 (16-21). Available at <http://government.cce.cornell.edu/doc/pdf/PublicManagement.pdf>

In the past, trade treaties have focused on customs regulations and tariffs that are in the purview of the federal government. The new trade agreements, however, reach into nearly every aspect of government. Free trade goals focus on removing perceived barriers to the flow of money, services, and goods. Specifically, the new generation of free trade agreements presents these challenges to state and local governmental authority: 1) Superior rights are granted to foreign investors, 2) Private international tribunals replace public courts, 3) Many public services may be subject to free trade provisions, 4) Free trade goals conflict with government charters, 5) Free trade agreements cause a democratic deficit.

Warner, M.E., 2003. "Competition, Cooperation and Local Governance," chapter 19 pp 252-262 in *Challenges for Rural America in the Twenty First Century*, edited by David Brown and Louis Swanson, University Park, PA: Penn State University Press.

Privatization, decentralization and civic participation are common themes characterizing the changing structure and organization of local governments. Privatization and decentralization are based on the positive power of competition to ensure governmental efficiency and responsiveness to citizen voice. These trends

represent important innovations but they also bring new challenges. Successful decentralization requires administrative and financial capacity and effective citizen participation, but many rural governments lack an adequate revenue base or sufficient professional management capacity. Rural residents have relied more on private markets than government for many services; however, rural areas have also suffered from under development due in part to uneven markets. As we move into the 21<sup>st</sup> century, government innovation based on competition may give way to innovations based on cooperation. Cooperation between levels of government and with private sector and civil society actors may offer greater potential for efficiency and equity than competitive markets. However, cooperation will also bring challenges. The governance of cooperative networks will require new mechanisms for accountability and voice. Ensuring equity and participation in these new governance structures will be especially important for rural communities.

Warner, M.E. and A. Hefetz. 2003. "Rural-Urban Differences in Privatization: Limits to the Competitive State," *Environment and Planning C: Government and Policy* 21(5): 703-718.

Despite two decades of experience with privatization, U.S. local government use of contracting in public service delivery remains relatively flat. Market approaches to public goods provision emphasize the competitive state, and attribute limited privatization to bureaucratic resistance. Rural development theory emphasizes the uneven impact of market solutions in rural communities. Using national data on U.S. local government service delivery from 1992 and 1997, we analyze differences in local government service delivery patterns by metropolitan status. Discriminant analysis shows that structural features of markets are more important than managerial capacity of government leaders in explaining lower rates of privatization among rural governments. These structural constraints limit the applicability of competitive approaches to local government service delivery. Our results suggest cooperation, as an alternative to privatization at the local level and as a source of redistributive aid at the state level, may provide a more equitable alternative for disadvantaged rural communities.

Warner, M.E. with Mike Ballard and Amir Hefetz 2003. "Contracting Back In – When Privatization Fails," chapter 4 pp 30-36 in *The Municipal Year Book 2003*. Washington, DC: International City County Management Association.

Between 1992 and 1997, the most common forms of alternative service delivery (privatization to for profits and non profits and inter-municipal cooperation) increased only slightly. Service delivery by public employees remained dominant. The stability in these trends belies a more dynamic process of contracting out and back in which reflects the key market structuring role played by local governments. During this period, 96% of responding governments newly contracted out at least one service and 88% brought at least one contracted-out service back in house. The reasons for contracting back in include lack of a competitive market of alternative suppliers, difficulties with contract specification, and the high costs of monitoring.

Warner, M.E. and A. Hefetz. 2002. "The Uneven Distribution of Market Solutions for Public Goods," *Journal of Urban Affairs*, 24(4): 445-459.

Using national data on local government service delivery from 1992 and 1997, this article assesses the distribution of privatization and inter-municipal cooperation across localities in the metropolitan region and finds them most common among suburbs. Coasian economics argues market solutions may offer an alternative to regional government in the fragmented metropolitan area. However, our discriminant analysis shows the use of market solutions is highest in suburban communities that also exhibit high income and low poverty. Thus, market solutions appear to reflect the inequality among municipalities in the metropolitan region. Some system of regional market governance is still needed to internalize the costs arising from regional inequality in public service delivery.

Warner, M.E. and A. Hefetz. 2002 "Applying Market Solutions to Public Services: An Assessment of Efficiency, Equity and Voice," *Urban Affairs Review*, 38(1):70-89.

Political fragmentation in metropolitan regions makes equitable and efficient delivery of public services difficult. Regionalism, although promoted as more equitable and rational, has found limited political support. Public choice theory argues, against regionalism, that political fragmentation can promote competition and efficiency by creating markets for public services. We assess the efficacy of market solutions for metropolitan public service provision by comparing privatization with inter-municipal cooperation and evaluating each on efficiency, equity and democracy grounds. Using probit regression analysis of a national survey of local government service delivery from 1992 and 1997, we find both alternatives promote efficiency, but equity and voice are more associated with inter-municipal cooperation than privatization.

Ballard, Michael J. and M.E. Warner 2000. "Taking the High Road: Local Government Restructuring and the Quest for Quality." Pp 6/1 - 6/53 in *Power Tools for Fighting Privatization*, American Federation of State, County and Municipal Employees: Washington DC. Available at <http://www.cce.cornell.edu/restructuring/>

All local governments face challenges to improve service delivery. This report outlines two alternative strategies—the "high road" which uses new management innovations to increase internal productivity, and the "low road" which focuses on downsizing and contracting out. While other studies have focused on contracting out, this study provides a longitudinal look at contracting and presents detailed case studies of municipalities, which have brought back in house previously privatized services. These case studies provide empirical evidence on the problems associated with contracting and the potential for internal restructuring as an alternative.

Warner, M.E. 2001. "State Policy Under Devolution: Redistribution and Centralization," *National Tax Journal* Vol LIV(3):541-556.

Political theory argues redistributive spending is best made at higher levels of government, but under devolution, state policy becomes the most significant arena for redistributive activity. Using Census of Government data for 1992, this paper compares Federal and State aid to county areas and considers the role of state



centralization of fiscal responsibility on local revenue raising efforts. Both the magnitude and redistributive nature of state aid are greater than federal aid. However, because state centralization has a large impact on reducing local fiscal stress, differences in state policy choices create a very uneven landscape of local tax effort.

Warner, M.E. and Robert Hebdon. 2001 “Local Government Restructuring: Privatization and Its Alternatives,” *Journal of Policy Analysis and Management* 20(2):315-336

Local government restructuring should no longer be viewed as a simple dichotomy between private and public provision. A 1997 survey of chief elected township and county officials in New York shows local governments use both private and public sector mechanisms to structure the market, create competition and attain economies of scale. In addition to privatization and inter-municipal cooperation, two alternative forms of service delivery not previously researched, reverse privatization and governmental entrepreneurship, are analyzed. Logistic regression on the 201 responding governments differentiates the decision to restructure from the level and complexity of restructuring. Results confirm that local governments are guided primarily by pragmatic concerns with information, monitoring and service quality. Political factors are not significant in the restructuring process and unionization is only significant in cases of simple restructuring (privatization or cooperation used alone). Fiscal stress is not a primary motivator, but debt limits do encourage more complex forms of restructuring. Restructuring service delivery requires capacity to take risks and is more common among experienced local officials in larger, higher income communities. Restructuring should be viewed as a complex, pragmatic process where governments combine public and private provision with an active role as service provider and market player.

Warner, M.E. and Amir Hefetz, 2001. “Privatization and the Market Role of Government,” Briefing Paper, Economic Policy Institute, Washington, DC. Available at [epinet.org](http://epinet.org).

Using longitudinal data from 1982 to 1997, we show that the local decision to provide public services is complex and dynamic. Local governments use a range of service restructuring alternatives including privatization, mixed public/private provision and cooperation between governments. Service delivery is a dynamic process reflecting changing citizen demand for services and new privatization. The data also show significant instability in contracts, including contracting in - the reverting back to public provision of previously privatized services. This “reverse privatization” may reflect problems with the contracting process itself, limited efficiency gains, erosion in service quality or concern over the loss of broader community values associated with public service delivery. Privatization does not imply a retreat of government but rather a more active engagement with the market. Whether as regulator, contractor or direct service provider, local governments manage markets to create competition and ensure service quality and stability. This pragmatic market structuring role is critical to ensure that both efficiency and the broader public benefits of service delivery are achieved.

Warner, M.E. 2000. "Structuring the Market for Service Delivery: A New Role for Local Government." pp 85-104 in *Local Government Innovation: Issues and Trends in Privatization and Managed Competition*, Robin Johnson and Norman Walzer eds. Westport, CT: Quorum Books.

Case study analysis of reverse privatization among New York State towns and counties shows how governments engage the market to ensure competition, control and attention to community values. The nature and relative importance of three alternatives to privatization – inter-municipal cooperation, reverse privatization and governmental entrepreneurship are described.

Funding support provided by the US Dept of Agriculture National Research Initiative, Affinito Stewart Grants Program, Cornell University; the US Dept of Agriculture Hatch Program and the Economic Policy Institute. Amir Hefetz was a research specialist at Cornell University and is now an adjunct lecturer at Technion in Israel. He was supported as a Privatization Fellow by EPI for one year at Cornell. Jennifer Gerbasi was a Fellow at Georgetown Law School in Washington, DC. Robert Hebdon is an Associate Professor at McGill University in Montreal, Canada. Germà Bel is a Professor at the University of Barcelona, Spain. James Pratt is a Senior Research Associate at Cornell University

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