Local Government Restructuring: Privatization and Its Alternatives

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Abstract

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 that 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 here. 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 are associated with 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. © 2001 by the Association for Public Policy Analysis and Management.

INTRODUCTION

Government restructuring of service delivery remains a central focus of research on the role of the public sector in modern society. Observing that public provision is still the dominant form of public goods service delivery in the United States and believing that private provision is more cost efficient, researchers have tried to explain why more services have not been privatized (Lopez-de-Silanes, Shleifer, and Vishny, 1997; Miranda, 1994). Privatization proponents argue that local governments surrender to union and political pressure and ignore the savings from privatization (McGuire, Ohsfeldt, and Van Cott, 1987; Savas, 2000). Other researchers stress the importance of efficiency, quality, and transaction costs (monitoring, information) in local government decision-making (Bartle, Korosec, and LaCourse, 1996; Boyne, 1998;

Pouder, 1996). This paper provides an empirical test of the importance of these efficiency, institutional (political and union), information, and monitoring factors in a unique data set of local government restructuring in New York State.

Researchers who have empirically examined contracting choices by local government have focused primarily on privatization because they have specified the restructuring decision as a dichotomy between keeping services public or shifting them to the private sector. This paper suggests that the decision by local government to change the form of service delivery is more complex, and develops the proposition that local governments manage a complex restructuring process which balances efficiency goals with public values and attends to the competitiveness of both public and private markets for government services.

Rather than merely react to fiscal and political pressures, local governments play an active role in creating competition and economies of scale by structuring markets through their management of public and private alternatives. These include: inter-municipal cooperation, privatization; reverse privatization (contracting back in); governmental entrepreneurship behavior; and cessation of services. Thus, one answer to the question of why more services are not privatized is that privatization often is not the best solution to the restructuring needs of local governments.

This study makes two important contributions to existing restructuring studies. It explores a wider range of restructuring alternatives, and it analyzes the factors that affect the restructuring behavior of local elected officials. A broader look at the full complexity of restructuring alternatives casts a different light on the role of these factors in the choice of restructuring options. A major finding is that local governments are more concerned with practical issues of service quality, and less with ideology, politics, and unionization. Pragmatism wins out over politics as local governments give a keen eye to market structure, service quality, and efficiency concerns.

UNDERSTANDING THE FULL COMPLEXITY OF THE RESTRUCTURING PROCESS

At the core of the notion of restructuring is the concept that provision (decisions about what services to provide) can be separated from production (the details of how those services are produced) (Oakerson, 1987). Concerns with non-market failure in government—bureaucratic unresponsiveness to citizen needs; sluggish, high-priced government monopoly production; and principal agent problems—lead public choice advocates to argue that providing services through a quasi-market is a solution (Savas, 2000). By separating provision from production, quasi-markets (or service provision based on contracts) offer the benefits of both public sector engagement and market discipline. This paper contributes to our understanding of quasi-markets by expanding the focus on the types of contract options (beyond the public–private dichotomy) and clarifying the key market-structuring role local government plays.

PRIVATIZATION AND INTER-MUNICIPAL COOPERATION—COMPETITIVE ALTERNATIVES

The focus of much current research on privatization as the primary alternative to providing the public with services (Boyne, 1998; Ferris, 1986; Greene, 1996; Hirsch, 1995a; Miranda, 1994; Stein, 1990) reflects the privatization movement's call for increased dependence on the market for provision of public goods. According to privatization advocates, providing governmental services through the market encourages competition, economies of scale, and greater consumer voice (Savas, 2000).

Advocates of inter-municipal cooperation argue that it achieves similar results by creating a market for service provision extending beyond a single jurisdiction and

expanding economies of scale. At the same time, local governments retain public control over both the provision decision (what services will be provided) and actual service delivery, since contracts are given to another government or governmental authority (Oakerson, 1987). Such cooperation provides a politically attractive alternative to political consolidation and is relatively easy to arrange (Morgan and Hirlinger, 1991).

Privatization and inter-municipal cooperation both represent quasi-market forms of service delivery. While the level of private market engagement under cooperation is less, how governments choose to allocate restructuring activity between these two alternatives plays a critical role in structuring markets (both public and private) for service delivery in their locales. Both approaches have limitations reflected in the notion of quasi-market failure. Lowery (1998, 1999), while arguing that an adequate theory is still lacking, outlines three sources of quasi-market failure. These are: failure of a market to form, failure by preference error, and failure by preference substitution.

The problem of market formation is extremely important. The supply of alternative service providers at the local level is often insufficient (Hirsch, 1995b). Thus, Kodrzycki (1994) found that while smaller governments were more likely to contract out, a lack of competitive markets resulted in the benefits being short lived. Stein (1990) found no efficiency gains from privatization and attributes this in part to contestable markets among public bureaucracies. This is one reason why local governments use cooperation instead of privatization.

Preference error often results from insufficient information or high transaction costs. Difficulties in specifying contracts, especially for complex services, is a common problem with privatization. Significant technical and auditing costs associated with monitoring contracts are seldom taken into account in the restructuring literature (Prager, 1994). Pack (1989) finds, for example, that monitoring costs may be as much as 20 percent of the total costs of contracting out. Preference error is also reflected in externalities that are not calculated directly in the contracting decision. Suburban governments can use both privatization and cooperation to avoid addressing the full social costs of metropolitan service provision, effectively allowing higher income groups to avoid sharing the full cost of public goods (Frug, 1998). Because public services are labor intensive, many of the savings from privatization are due to reductions in wages and benefits to labor, often resulting in the loss of primary sector job ladders for women and minorities (Hebdon, 1995). Local employment effects are important externalities of community concern, and union opposition to contracting is a frequent result (Chandler and Feuille, 1991; Ferris, 1986).

The problem of preference substitution is unique to quasi-markets because of the separation of the provision consumer (government) and the production consumer (citizen). Social values are implicit in the provision of some public goods and services that extend beyond the service itself (Marmolo, 1998; Sullivan, 1987). Thus, public transit systems that mix residents of different neighborhoods may provide community-building value in addition to the transportation value to the individual transit user (Frug, 1998). These benefits may be lost if the service is provided through contracts.

Each of these quasi-market failures is less a problem for inter-municipal cooperation than privatization because government remains engaged in the production process. Privatization will be more effective for services that are easy to specify and monitor and for which many alternative providers exist (Starr, 1987). Cooperation is best for services that are indirect or for which regional economies of scale are essential to ensure efficient delivery (Parks and Oakerson, 1993). Given the emphasis on the relative efficiency of public or private provision, the failure of past studies to distinguish

inter-municipal cooperation from private sector contracting (Kodrzycki 1994, 1998; Lopez-de-Silanes, Shleifer, and Vishny, 1997) is a serious flaw.

STRUCTURING THE MARKET—REVERSE PRIVATIZATION AND GOVERNMENTAL ENTREPRENEURSHIP

The notion that governments should become more flexible in their approach to service delivery, using policy levers to "steer" service delivery rather than engage in the actual production of services is now widely accepted (Osborne and Gaebler, 1992). That governments should use this entrepreneurial posture to engage directly in markets as a player is a logical extension. We analyze two restructuring forms in addition to privatization and inter-municipal cooperation that governments use to engage the market: reverse privatization and governmental entrepreneurship.

Reverse privatization, or contracting back in previously contracted services, is a logical consequence of privatization. Contracted work can be brought back from for-profit providers, non-profit providers, or other governments. The category can also include decisions to explore areas of service previously always done via contract, as when local governments decided to self-insure when health insurance rates rose steeply in the 1980s (Warner, 2000).

Competitive contracting is a form of reverse privatization that is quite common in the United Kingdom, New Zealand, and Australia and is used to ensure "contestability" in quasi-market provision (Boyne, 1998; DFA, 1999; Martin, 1999; Osborne and Plastrick, 1997; Young, 1992). Many privatization advocates in the United States argue that competitive bidding between public and private providers can ensure competitive pricing (Reason Foundation, 1997). Its spread has been reflected in the national public sector union's development of clear guidelines (AFSCME, 1997). While competitive bidding has become standard in some cities—such as Phoenix, Indianapolis, and Charlotte—by giving employees more freedom to redesign work processes, labor management cooperation often results in internal efficiencies greater than those achieved through privatization (Applebaum and Batt, 1994; Ballard and Warner, 2000; Martin, 1999).

Closely related to competitive bidding is the notion of "benchmarking" or mixed public/private provision (Miranda and Lerner, 1995). Many governments choose to retain some capacity for service delivery while experimenting with private delivery. Such redundancy in service provision creates competition and increases the likelihood of cost savings.

Governmental entrepreneurship takes market structuring in a more radical direction by bringing governmental units into active competition for private sector business. Building on experience marketing their services to other governments through inter-municipal cooperation, governments compete directly with private sector providers. Welch and Bretschneider (1999) looked at this process of entrepreneurship in a survey of data processing contracts by local governments. As governments seek to raise revenue outside the tax system, municipal ownership of profit-making enterprises and joint ventures with private entities create new opportunities for government involvement in markets (Osborne and Gaebler, 1992; Warner, 2000).

DATA AND RESEARCH DESIGN

Limitations of Available Data Sources on Governmental Restructuring

Published data sources do not permit analysis of the full range of restructuring options. The key data sources on restructuring, the International City County Management

Association (ICMA) surveys and the U.S. Census of Governments' Organization File, ask only about contracting out—not contracting back in. Census of Governments data on contracting out do not differentiate inter-municipal cooperation from privatization. The ICMA surveys measure inter-municipal cooperation but not governmental entrepreneurship or reverse privatization. Those few studies that acknowledge the reverse privatization phenomenon have not included it in their analysis (Chandler and Feuille, 1991; Kodrzycki, 1998). An exception is the paper by Lopez-de-Silanes, Shleifer, and Vishny (1997) that identifies a process of "switching" services back and forth between public and private sector providers by county. None of these papers measures reverse privatization directly. Rather, they compare U.S. Census of Governments survey responses between 1988 and 1992 to determine whether a government's answer to items on contracting out had changed.

This study addresses the weaknesses cited above by using survey data that directly measure the full range of restructuring options as well as the factors local officials consider in the restructuring decision. These unique data sources allow us to address the full complexity of the local government restructuring decision—not possible in any previous quantitative study.

PRIVATIZATION IN NEW YORK

New York is an interesting study area because of its high rate of unionization and relatively high level of restructuring activity. According to ICMA's national survey of alternative service delivery (1992),[1] New York ranked eighth among all states in level of service delivery restructuring, but only 25th in the level of privatization. In inter-municipal cooperation by contrast, New York ranked 10th.

Preference for inter-municipal cooperation over privatization in New York State may be explained by strong state-level encouragement for cooperation and the heavily unionized environment in local government. Inter-municipal cooperation for service delivery is both widely encouraged and relatively easy. Regulatory support for cooperation was widened in 1987 with the revision of Article 5-G to General Municipal Law to allow any city, town, village, county, or special purpose district (school, fire, water, etc.) to enter into a cooperative or contractual agreement to provide a service (Office of the State Comptroller, 1994a).

New York State ranks second among all states in unionization (as measured by union density) in both public and private sectors (BLS, 1998). New York's public sector union density is over 70 percent, while the average in the United States is 37.5 percent (BLS, 1998). Union density combined with New York's Taylor Law, which requires negotiation over some aspects of contracting out, make it reasonable to expect a lower incidence of privatization (Donovan, 1990). A special report on the potential for privatization in the state developed by the state legislature in 1992 (Lauder, 1992), was followed by the election of a governor with an aggressive privatization agenda in 1994. Given that some 70 percent of the local politicians surveyed in this study were Republican, one might expect them to respond positively to the governor's privatization plans.

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[1] The International City/County Management Association conducts a survey of Alternative Service Delivery every five years. This survey does not test for the full complexity of restructuring choices included in our survey, but it does test for privatization and cooperation—the two most important alternatives. While the national sample included 1440 responding municipalities, only 34 New York municipalities responded to the survey in 1992 [(ICMA, 1992)]. U.S. Census of Government results for New York (which include all local governments but do not differentiate cooperation from privatization) show on average about a quarter of measured services are provided via contracting and New York ranks 16th in contracting among all states [(U.S. Bureau of the Census, 1992)].

RESEARCH DESIGN

Data for this study were gathered from two sources: a survey designed by the authors and administered to the chief elected and appointed official in each township and county (outside New York City); and the New York State Comptroller's Municipal Finance files for the period from 1985 to 1990. This research was conducted in collaboration with the County Legislators and Supervisors Association (CLAS) of New York State.[2] A preliminary survey of 552 chief elected township and county officials was conducted in April 1996 to determine if privatization was on the rise. Results showed that little new privatization[3] was occurring at the local level. Of the 133 respondents, only 17 had privatized and 5 were considering privatization in the future. Many respondents indicated that their governments had pursued other strategies (new forms of public sector management, inter-municipal cooperation) to achieve similar goals. Based on these preliminary results, the research question was expanded beyond privatization to include other forms of restructuring.

Key informant interviews and focus groups were held in conjunction with CLAS's statewide conference of local government officials in June 1996. Respondents—experienced local government officials, representatives from the New York State Department of State, the Civil Service Employees Association (the major public sector union in New York State and a local of AFSCME), and CLAS—identified 5 types of restructuring and 14 major factors they believed influenced government decisions to restructure. In addition to privatization and inter-municipal cooperation, the focus groups stressed the importance of reverse privatization and governmental entrepreneurship. They recommended the survey test for five broad types of service delivery restructuring:

- inter-municipal cooperation (mutual aid, joint production, creation of a special district, or contracting with another governmental unit);
- privatization (contracting out, transfer of assets or program to the private for-profit or non-profit sectors or to a public benefit corporation);
- reverse privatization (contracting back in from the for-profit or non-profit sectors or from another government);
- governmental entrepreneurship (government contracting its services to private or non-profit sector clients); and
- cessation of services.

Focus group participants argued that using these restructuring alternatives in combination allows governments to structure the market for service delivery. These local governments were creating competition and economies of scale, not merely responding to market conditions. For example, Putnam County used inter-municipal cooperation to gain scale in its data processing (joining with other towns and villages in the county) and was then able to secure a lower priced contract with a private sector database management company. Chautauqua County took advantage of competition in the regional waste removal market to secure competitive bids. In prenatal care,

[2] County Legislators and Supervisors Association (CLAS) of New York State was an organization of village, township, and county elected governmental officials in New York State. It's 552 members included all 57 upstate counties (excluding New York City), 430 of 932 townships, and 65 villages.
[3] Privatization was defined as "any transfer of public services to private or non-profit provision including cessation of services, sale of assets, subcontracting and public-private partnerships." The survey included open open-ended responses on experience with privatization, services affected, factors influencing privatization decisions, and future restructuring plans. Note that the low level of privatization found in the preliminary survey may have been due to the lack of scope for it in the townships that responded.

where local physicians did not offer competitive prices, the county established its own maternity care center. Not only did this service expansion save money and reduce low weight births, it stimulated local doctors to reduce their fees. After several years the county dismantled the public clinic and secured similar results using private doctors. In each case the goal was efficiency, but a clear recognition of how to gain scale and play in the market underlay the choice of the restructuring option. Some counties directly engaged in entrepreneurship to earn income. Oswego County's garbage-burning plant sold its excess steam to a local manufacturing plant and Chautauqua County allowed its print shop to market services to local businesses, non-profits, and other municipalities to increase the scale of operations (Warner, 2000).

The revised survey was administered to the chief elected official in all township (932) and upstate county (57) governments in New York State from November 1996 to March 1997. A total of 26 counties and 196 towns responded for an overall response rate of 45 percent for counties and 21 percent for townships. The survey was divided into four parts. The first section defined the categories of restructuring and asked if the municipality had restructured since 1990. The survey then requested such political information as years in office, Republican or Democratic party affiliation, and majority power on the council. Next, survey respondents indicated incidence of recent restructuring (since 1990) by form and service category.[4] The third section assessed the importance of 14 factors in the restructuring decision.[5] The last section requested brief summaries of each case of restructuring.

Representativeness of the New York Sample

Using data from the New York State Comptroller's Office, representativeness of the sample was checked against the total population of all townships and counties. The sample distribution reflected the population on all relevant factors (population, per capita income, total government expenditure, debt limit) (Tables 5 and 6). Chi-square tests show no significant difference between the sample and full population distributions. At 222 responses, the margin of error for percentage of restructuring is ±6.5 percent. Of the 222 responses, 21 governments did not rank any of the factors. These survey responses were dropped from the subsequent regression analysis, leaving a final sample of 201.[6]

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[4] Services were divided into eight broad categories: public works (solid waste, recycling, road and bridge maintenance, snow plowing, paving), transportation (Medicaid transit, handicapped children transit, public transit), public utilities (water, sewer, electricity), public safety (police, fire, emergency services, jails), health and human services (welfare, health, elderly, youth), parks and recreation (parks, cemeteries, auditoriums, youth services), support functions (payroll, maintenance, clerical, tax collection, data processing), and other (libraries, economic development).

[5] The factors assessed were: information, legal concerns, community values, monitoring, service quality, leadership, experience with restructuring, local employment impact, economic efficiency, budgetary impact, management, labor (cost, flexibility), unionization, and political concerns. Respondents were asked to rank the factors on a four-point Likert scale: not important, slightly important, important, very important.

[6] All respondents, even those which that had not restructured any services since 1990, were asked to rank the factors. Responses to some of the 14 factors were missing. A plausible interpretation of missing values was that they were unimportant factors and could therefore be lumped in with the category identified as unimportant. However, this interpretation did not hold up, because these missing responses were often not correlated with the unimportant ones. To preserve cases in subsequent regression analysis, the mean value for each factor was substituted for the missing value. Since the number of missing cases overall was relatively small, it is unlikely that the results are affected by this procedure.

SURVEY RESULTS: GOVERNMENTS USE A WIDE ARRAY OF RESTRUCTURING ALTERNATIVES

We expected local governments in New York State to use a mix of restructuring strategies. Given the history of mutual aid agreements among local governments (especially highway departments) and the favorable regulatory environment in New York State, we expected inter-municipal cooperation to be a common form of restructuring. Privatization was also expected to be common given the political changes in New York State and the opportunities for expansion. Reverse privatization and governmental entrepreneurship were expected to appear less often, perhaps only among more sophisticated governments.

Almost half (47 percent) of the responding governments had not restructured any services since 1990. Of those that had, 80 percent listed more than one case of restructuring. More than 80 percent of responding counties had restructured, while only half of responding townships had, and counties that restructured did so in more service areas than did townships, reflecting the greater complexity and sophistication of county government. Counties provide more services and thus have more scope for restructuring. In addition, the direct, personal political risks of restructuring decrease at higher levels of government where larger, professional administrative structures offer a bureaucratic buffer (Crews, 1996). Counties may also engage in more restructuring than townships for structural reasons: they are more able to provide the institutional framework for delivery of state services and coordination of local services (Parks and Oakerson, 1993).

Inter-municipal cooperation was the most common form of restructuring (55 percent of all reported restructuring cases since 1990) (see Table 1). Privatization was next most common at 28 percent, followed by reverse privatization at 7 percent and governmental entrepreneurship at 6 percent. Cessation of service (4 percent) was the least common restructuring alternative. The incidence of these forms of restructuring supports our hypothesis that governments use a mix of restructuring forms, and that surveys focusing primarily on privatization fail to capture the importance of other restructuring alternatives.

The most commonly restructured services were public works, public safety, and administrative support (Table 1). Some components of these services are relatively easily measured (paving quality, response time), which allows more effective monitoring; and the indirect nature of many of them (dispatching, payroll) makes it less likely that the public will notice a shift in actual provider (Parks and Oakerson, 1993). Inter-municipal cooperation was the most common form of restructuring in all service areas except health and human services, where privatization (to non-profits) was most common. Privatization ranked next in overall importance. Reverse privatization was most common in service areas where privatization was high (public works, transportation, health and human services, and parks and recreation). Reverse privatization reflects the difficulties in monitoring quality of services that are hard to specify, and the need to structure competition between public and private suppliers to ensure efficiency.

Inter-municipal cooperation allows governments to achieve economies of scale while keeping services in the public sector. Mutual aid agreements represent the simplest form of cooperation and the most common. Joint production of a service was the next most common, followed by contracting with another government. Formation of special districts was rare.

We differentiated between privatization that maintains control in the public sector (contracting out to private or non-profit providers), and privatization that transfers programs or assets to private sector control. Township and county governments in

Table 1. Restructuring by form and service area. NYS towns and counties, N=201, 1997 survey

Form of Restructuring	Service Area *								
	PW	TR	PU	PS	HH	PR	SF	OT	All
Cessation of Service (municipality ceases service without transfer or contract to another sector)	9	1	2	2	5	2	1	1	23
Privatization									
contracting out to private for-profit sector	29	13	4	4	7	3	16	6	82
contracting out to non-profit sector	2	3	1	3	11	6	5	4	35
transfer of program (cease contractual responsibility)	1	2	0	2	4	0	1	2	12
transfer of assets to for-profit or non-profit sector	2	0	1	1	1	1	0	2	8
transfer function to public benefit corporation	0	0	2	0	0	1	1	0	4
other	3	1	1	0	1	3	1	3	13
Privatization Total:	37	19	9	10	24	14	24	17	154
Inter-Municipal Cooperation									
mutual aid agreement	33	5	4	19	2	4	5	3	75
joint service production (pooled resources & labor)	28	2	4	6	4	8	9	5	66
creation of a joint special district or authority	5	1	11	3	0	2	2	3	27
contracting out to another government	14	6	6	12	5	5	4	1	53
contracting in from another government	14	3	2	9	0	2	7	2	39
cooperative investment of funds	3	2	2	4	2	2	3	6	24
other	3	2	3	0	1	3	4	6	22
Inter-Municipal Cooperation Total:	100	21	32	53	14	26	34	26	306
Reverse Privatization – Contracting in									
taken back from the private for-profit sector	3	2	2	1	2	2	3	1	16
taken back from the private non-profit sector	1	1	0	2	3	1	0	1	9
taken back from a public authority	1	0	0	0	0	0	0	1	2
cease contracting out to another government	1	0	0	0	1	0	2	1	5
transfer asset from the non-profit sector	0	1	1	0	0	1	0	2	5
other	0	1	0	0	0	1	0	1	3
Reverse Privatization – Contracting in Total:	6	5	3	3	6	5	5	7	40
Government Entrepreneurship									
contracting service to private for-profit client	6	1	2	0	2	2	5	0	18
contracting service to private non-profit client	0	0	0	2	4	1	2	1	10
other	2	0	0	1	1	0	0	0	4
Government Entrepreneurship Total:	8	1	2	3	7	3	7	1	32
Total restructuring:	160	47	48	71	56	50	71	52	555

Number of reported cases of restructuring by each type. *PW - Public Works, TR - Transportation, PU - Public Utilities, PS - Public Safety, HH - Health & Human, PR - Parks & Recreation, SF - Support Functions, OT - Other.

New York State prefer contracting out because it preserves some authority over service provision. Contracting to the private sector was most common in public works, transportation, and administrative support. Contracting out to the non-profit sector was most common in health and human services, and parks and recreation.

MODELING THE RESTRUCTURING DECISION

Modeling Issues

In a review of the literature on contracting out, Boyne (1998) raised several concerns about the utility of restructuring models. Few analysts, for example, have taken time into account by modeling the decision to restructure and its relation to changes in the level of fiscal stress. When explanatory variables are taken from the same period as the contracting out, it is impossible to examine the causal linkages between the decision to contract out and these variables. Also, dependent variables often have been poorly specified in that not enough attention is paid to the scope and complexity of restructuring. Historical patterns of service delivery are confused with new privatization and the full range of restructuring options is not assessed. In addition, the decision to contract out depends on socioeconomic and political factors often ignored in restructuring models. Models of privatization often include cost of service provision, local economic conditions, complexity and size of government, and unionization (Ferris, 1986; Kodrzycki, 1994, 1998; Lopez-de-Silanes, Shleifer, and Vishny, 1995; Stein, 1990).

Our analysis addresses these concerns by measuring the full complexity of the restructuring decision, looking at recent restructuring (not traditional patterns of service delivery), and including direct questions on officials' attitudes about the social, political, and economic factors affecting restructuring. By obtaining previous local government financial data (1985-1990), our study provides a stronger causal link between the decision to restructure and the fiscal conditions that may have induced the changes.

Independent Variables

Lopez-de-Silanes, Shleifer, and Vishny (1997) emphasize the importance of non-economic factors as local officials balance the political costs and benefits of privatization. Their primary measure of these non-economic factors were state rules regarding the right to strike, competitive contracting, and merit hiring systems. Our study offers an advantage in that the factors analyzed allow for local level variability. Because some of the factors measured similar concepts (e.g., budgetary impact and economic efficiency, or information and monitoring), principal components analysis was used to reduce the 14 factors to 3 distinct determinants of restructuring (Table 2). The most heavily weighted elements of the first determinant—information and service quality—are information, legal concerns, monitoring, community values, service quality, and past experience. The second determinant—efficiency—is heavily weighted on economic efficiency, budgetary impact, and management factors. Lastly, union is most heavily weighted on unionization and political factors.

Independent variables are grouped into the following categories: political and union considerations, efficiency, information and service quality, and control variables, fiscal stress, wealth, and sophistication.

Table 2. Principal components analysis results, factor loadings. NYS towns and counties, N=201, 1997 survey.

	Information & Service Quality	Efficiency	Union
Information (1)	0.792	0.17	0.038
Legal	0.643	−0.048	0.407
Community Values (2)	0.614	0.2	0.27
Monitoring (3)	0.613	0.189	0.301
Service Quality (4)	0.604	0.481	−0.003
Leadership	0.563	0.434	−0.009
Experience	0.529	0.125	0.132
Local Employment Impact	0.476	0.196	0.452
Economic Efficiency	0.147	0.832	0.092
Budgetary Impact	0.07	0.793	0.339
Management	0.321	0.693	0.122
Labor	0.457	0.471	0.419
Union	0.076	0.075	0.799
Political (5)	0.216	0.243	0.575

Survey Definitions: (1) Budget comparison, experience of other municipalities; (2) Community tradition and identity about service delivery; (3) Responsiveness, detailed cost accounting, performance based contracts; (4) Impact on quality, responsiveness and citizen access; (5) Size and role of government, public opinion, turf, procedural issues.

Political and Union Considerations. Unlike prior research, our study affords the opportunity to address political issues directly at the local level. In addition to opinion data from our survey we collected data on Republican or Democratic party membership and majority in all responding governments. Thus a set of political affiliation variables was created: whether the respondent was Republican or Democrat, whether the municipality had a Republican or Democratic majority, and the "union" determinant produced by principal components analysis.

Despite increased ideological support for privatization at the state level (Lauder, 1992), it is difficult to predict how this support will manifest itself at the local level of government where pragmatism is a guiding principle and decisions are likely to be based on cost and service quality concerns. Given strong union opposition to privatization (Chandler and Feuille, 1991; CSEA, 1995; Ferris, 1986), the union variable is expected to have a negative effect on decisions to privatize but not necessarily on other restructuring alternatives that have no negative effect on public employment.

Information and Service Quality. The most heavily weighted elements of the first determinant, information and service quality, are information, legal concerns, monitoring, community values, service quality factors, and past experience. It is hypothesized that local governments that have concerns about information, monitoring, and service quality will be less likely to restructure service delivery.

Efficiency. The efficiency determinant produced by principal components analysis has a heavy weighting on economic efficiency, budgetary impact, and management factors identified by elected officials in the survey. Efficiency is expected to be positively linked to restructuring.

Fiscal Stress. Budget data were obtained from the New York State Office of the Comptroller for the period 1985 to 1990. Budgetary stress was measured by percentage of real growth in total expenditures from 1985 to 1990, debt margin (percentage of debt limit remaining in 1990), and nominal tax rate (property tax revenue/total assessed value in 1990).[7] Real percentage growth in public expenditure over the 5 years (1985-1990) before the survey period is expected to have a positive effect on restructuring. Especially for governments nearing their debt limit, restructuring provides an opportunity to shift debt to another party. Debt margin measures the percentage of debt limit exhausted. It is hypothesized that governments facing greater budgetary stress will be more likely to consider restructuring.

Control Variables: Wealth and Sophistication. Population and per capita income data were drawn from the Census of Population and Housing for 1990. Per capita income, our indicator of local economic conditions, is expected to have a positive effect on restructuring because more affluent communities would be more likely to risk innovations. Sophistication and size of government are measured by municipal type (township = 1, county = 0) and population. Another measure of sophistication is the years of experience in office of the elected official responding to the survey. We hypothesize that wealth and sophistication will be positively related to decisions to restructure because local leadership must have the knowledge, skills, and ability to take risks in order to engage in higher level or more complex restructuring.

Despite evidence to the contrary (Kodrzycki, 1994), we hypothesize that smaller governments will be less likely to attempt restructuring. Once the risks of innovation are factored in, more complex governments (counties) and richer communities should be more likely to experiment with restructuring (this is consistent with Kodrzycki's 1998 findings).

THE MODEL

A model of the restructuring decision is defined as:

Restructuring = POLITICAL AND UNION CONSIDERATIONS (party affiliation of respondent, majority party in local government, union determinant), EFFICIENCY (efficiency determinant), INFORMATION AND SERVICE QUALITY (information and service quality determinant), FISCAL STRESS (nominal tax growth, expenditure growth, debt margin), and CONTROL VARIABLES: Wealth and Sophistication (municipal type—township or county, per capita income, years of experience).

Many restructuring studies use a dichotomous dependent variable (Kodrzycki, 1998; Lopez-de-Silanes, Shleifer, and Vishny, 1997; Stein, 1990). Greene (1992) and Kodrzycki (1994) stand out as exceptions for their use of indexes reflecting the level of restructuring. In our study the decision to restructure was modeled in three ways: the decision to restructure or not; the level of restructuring; and the combination of restructuring forms used (complexity). In the first model the decision to restructure was modeled as a dichotomous dependent variable where the dependent variable took a value of one if the municipality restructured and a value of zero if it did not. Here logistic regression was employed (see Maddala, 1983). In the second model, where the level of restructuring was summed for each case, the non-restructuring municipalities still had zero values but the level of restructuring among the other

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[7] Kodrzycki's 1998 study incorporated Bradbury's (1982) notions of short- and long long-term budgetary distress but found only short-term budget pressure to be significant. We used both short-term budgetary stress and debt margin since capital constraints often drive exploration of private alternatives. With respect to taxes, we used the nominal rate because this is the one that matters politically. However, nominal and real tax rate were highly correlated.

municipalities ranged from 1 to 18 services. In this second model we compare ordinary least squares (OLS) regression with Tobit regression procedures.[8] In the third model we examine complexity by grouping cases into those that involve one restructuring form (simple), two forms (moderate), or three or more forms (complex). Logistic regression was employed to compare simple and none, moderate with simple and none, and complex with all others (Figure 1).

REGRESSION RESULTS

Restructuring Incidence and Level

When restructuring was modeled as a dichotomous decision (Model 1), only population was significantly related to restructuring (Table 3). Larger townships and counties were more likely to restructure. When the dependent variable was the sum of all restructuring cases for each township and county (model 2—OLS and Tobit versions), the results confirm the hypothesis that local governments are guided by such pragmatic concerns as information, service quality, and community values and not by political considerations. The information determinant (which includes monitoring and service quality), increased in importance as level of restructuring rose. Political concerns and fiscal stress measures were insignificant in all three regressions. Although the majority of upstate local government politicians are Republican, as is the current governor who promotes a privatization agenda, none of the political party variables were significant in any of the regressions.[9] Likewise, unionization was not significant despite the heavy emphasis privatization proponents gave union opposition (Lauder, 1992; Savas, 2000).

If unionization is not blocking restructuring and if political variables are not encouraging it, then what explains differences in restructuring levels? Leadership capacity appears to be the answer. The wealth and sophistication measures, other than population, were all statistically significant in model 2 (both the OLS and Tobit versions). As expected, counties had higher restructuring levels than townships. Also, local politicians with more years of experience and places with higher per capita incomes had significantly higher restructuring levels. The information determinant also reflects the monitoring capacity of local governments. Thus, the level of restructuring rests heavily on the experience and capacity of local governments.

By examining the standardized coefficients in the OLS regression (not shown in Table 3), the magnitudes of the variables on the level of restructuring can be compared. In order of decreasing magnitude, the top four independent variables were: municipal type, per capita income, information and service quality, and respondent's years of experience in office.

Distinguishing the decision to restructure from the level of restructuring permits identifying factors uniquely important in affecting the level of restructuring. The importance of wealth as measured by per capita income, experience of the local politician, information and service quality, and complexity of government lend support

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[8] Tobit regression recognizes that the zero values actually reflect an unobserved range of restructuring decisions. For example, the non-restructuring places include places that haven't even thought about restructuring, those that have thought about it but haven't done it, those that have thought about it and are about to do it. The Tobit procedure recognizes that the data are censored at zero but there is actually an unobserved range (from negative to zero) in the zero values.

[9] Interactions, for example, between Republican legislators and Republican majorities were also not statistically significant.
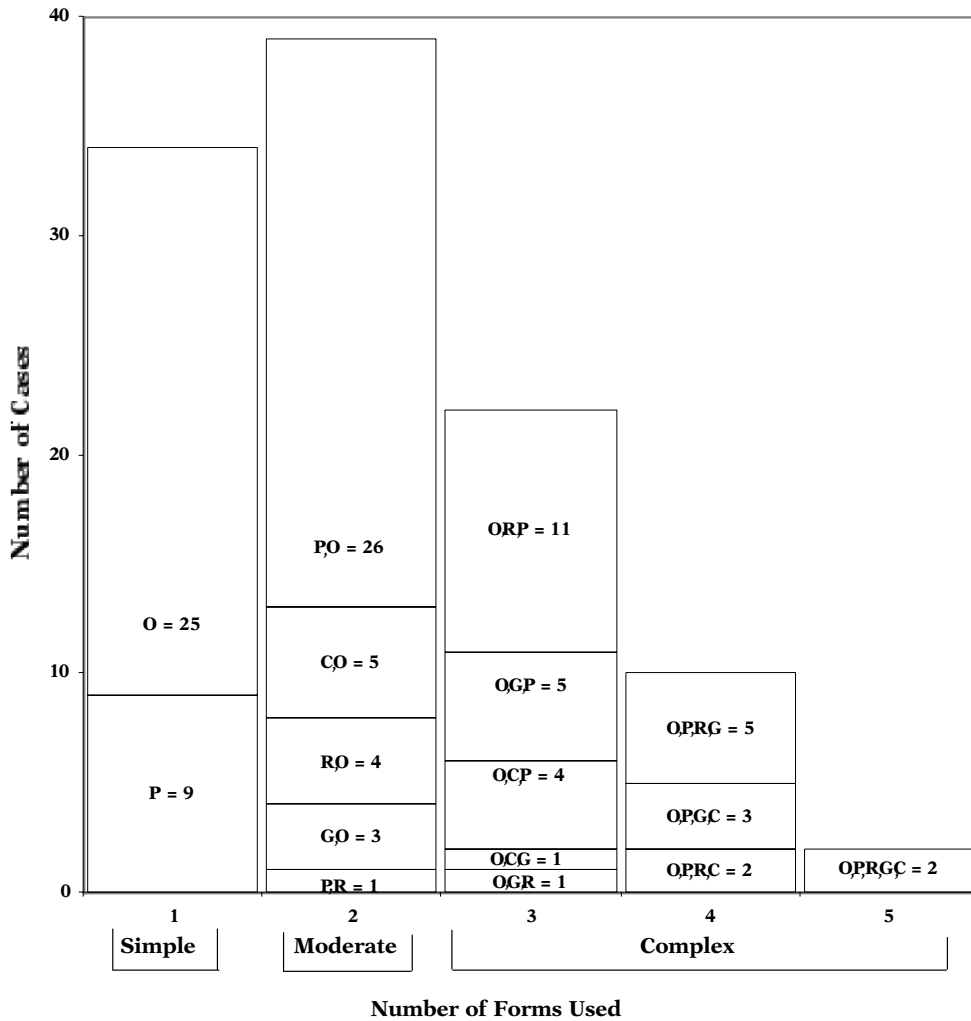
NYS Townships and Counties, N=107, 1997 Survey Restructuring Form
Key: C = Cessation, G = Government Entrepreneurship, P = Privatization, R = Reverse
Privatization, O = Cooperation

* Combination of restructuring forms used by restructuring townships and counties.
Number of municipalities using each combination of restructuring forms is listed for each
array.

Source: Warner and Hebdon Survey, 1997.

Figure 1. Restructuring arrays*; simple, moderate, complex.

Table 3. Restructuring incidence and level: regression results. NYS towns and counties, 1997 survey.

Dependent Variable → Independent Variables ↓	MODEL 1 Restructure Yes/No LOGIT		MODEL 2 Restructuring Level OLS		MODEL 2 Restructuring Level TOBIT	
	Coefficient	"t" value	coefficient	"t" value	coefficient	"t" value
Political & Union						
Union Determinant	−0.1960	−1.17	0.3739	1.43	0.2710	0.62
Democrat	−0.3150	−0.41	−0.3567	−0.31	−0.1820	−0.10
Republican	−0.7470	−1.14	−0.4368	−0.45	−0.9460	−0.59
Democratic Majority	1.1910	1.45	1.4231	1.19	2.2270	1.16
Republican Majority	0.7790	1.27	0.7834	0.91	1.3660	0.97
Efficiency						
Efficiency Determinant	0.0270	0.17	0.0617	0.24	0.2270	0.50
Information & Service Quality						
Information / Service Quality Determinant	0.1490	0.91	0.6898**	2.65	1.0100**	2.28
Fiscal Stress						
Debt	−0.0230	−0.72	−0.0313	−0.72	−0.0790	−1.15
Nominal Tax Rate	−3.1010	−0.95	−5.3628	−1.08	−10.2370	−1.22
Expenditure Growth	0.0080	1.64	−0.0025	−0.33	0.0033	0.28
Control Variables						
Municipal Type	1.6220	1.26	−3.9858**	−3.34	−5.1200**	−2.68
Per Capita Income	0.0001	1.06	0.0003**	3.72	0.0005**	3.72
Respondent's Experience	0.0220	0.86	0.0768*	1.88	0.1290*	1.91
Population	0.0001**	2.34	0.0000	1.02	0.0000	0.54
Constant	−0.8850	−0.27	4.9123	1.18	5.5370	0.85
N	201.0		201.0		201.0	
Mean	0.53		2.75		2.75	
	log likelihood −113.47		adj. R² 0.29		log likelihood −389.86	

Noe: * P < .10 (critical t = 1.645- two-tailed test), ** P < .05 (critical t = 1.960 - two-tailed test).

to the notion that greater entrepreneurial leadership and sophistication are required for higher levels of restructuring. However, we are interested not only in the level of restructuring, but also the complexity of the restructuring process as reflected in the mix of alternative forms used. We hypothesized that governments were not simply responding to market conditions but were actively structuring the market by combining privatization with inter-municipal cooperation, reverse privatization, and governmental entrepreneurship.

Restructuring Complexity

The 107 places that restructured were reclassified by number of different restructuring forms used. Among governments that used only one form of restructuring, privatization (P) and inter-municipal cooperation (O) were the only forms used and inter-municipal cooperation was the more popular by almost three to one (see Figure 1). When two forms of restructuring were used, inter-municipal cooperation was most commonly combined with privatization (PO). When three forms of restructuring were used, cooperation, privatization, and reverse privatization (ORP) was the most common combination. Cessation of service, reverse privatization, and governmental entrepreneurship were always used in combination with inter-municipal cooperation and privatization, and never alone. What we see emerges is a continuum of restructuring forms from the simpler and more common (privatization and inter-municipal cooperation), to the more unconventional (cessation, reverse privatization, and governmental entrepreneurship). As the level of restructuring increases, so does the complexity of forms used. As governments engage in restructuring they begin to structure the market, creating competition where none existed, achieving economies of scale—not merely responding to market conditions.

To test whether governments engaging in more complex arrays of restructuring respond to different factors than governments using simple restructuring or none at all, the regression models were run again with the data categorized into three groups based on the complexity of the mix of restructuring forms used (Table 4). Given the dichotomous nature of the dependent variable and the higher probability of the occurrence of reverse privatization and governmental entrepreneurship in the more complex cases, the appropriate procedure was maximum likelihood estimation using logistic regression.[10]

Weak support for union opposition to restructuring was found when privatization played a primary role in the mix (simple vs. none), the net effect of which would have been a reduced size of government. Not surprisingly, unionization ceased to be significant when local governments employed a more complex mix of alternatives, which might expand public services through reverse privatization or government entrepreneurship. Consistent with the previous discussion, no political variable had a significant effect on local government restructuring.

Defining complexity in terms of the number of different forms of restructuring permits a more precise analysis of restructuring factors. For example, townships were significantly more likely to use moderate levels of restructuring complexity than counties. This effect disappeared in the most complex cases (three or more forms) where townships were just as likely as counties to employ complex restructuring. Thus, experienced elected officials, whether at the township or county level, were equally likely to engage in complex restructuring.

[10]Because the probability of a township or county selecting a given form of restructuring varied with the level of complexity, the dependent variables were not distributed in a multinomial manner. Despite its inappropriateness, the results using a multinomial logit estimation procedure were substantially the same as those shown in table Table 4.

Table 4. Restructuring complexity—Model 3. NYS towns and counties, 1997 survey.

Dependent Variable →	Simple[1] vs. None LOGIT		Moderate vs. Simple & None[2] LOGIT		Complex vs. All Other[3] LOGIT	
Independent Variables ↓	Coefficient	"t" value	coefficient	"t" value	coefficient	"t" value
Political & Union						
Union Determinant	-0.4700*	-1.88	0.3170	1.42	0.0130	0.06
Democrat	-0.0480	-0.04	0.4090	0.41	-1.1460	-1.17
Republican	-0.4780	-0.41	-0.5000	-0.55	-0.6770	-0.87
Democratic Majority	1.1150	0.82	-0.1980	-0.18	0.5880	0.61
Republican Majority	1.0340	0.94	-0.1380	-0.16	0.5190	0.76
Efficiency						
Efficiency Determinant	-0.0780	-0.38	0.6860**	2.15	-0.2470	-1.10
Information & Service Quality						
Information / Service Quality Determinant	0.1010	0.47	0.0620	0.26	0.4480**	1.83
Fiscal Stress						
Debt	0.0580	0.70	0.0220	0.37	-0.0840**	-2.47
Nominal Tax Rate	1.2120	0.30	-6.5790	-1.15	-2.8320	-0.52
Expenditure Growth	0.0120*	1.86	0.0035	0.63	-0.0030	-0.42
Control Variables						
Municipal Type	0.4670	0.24	3.7850*	1.84	-1.1490	-1.26
Per Capita Income	0.0001	0.98	0.0000	0.00	0.0001**	2.31
Respondent's Experience	-0.0130	-0.36	-0.0160	-0.43	0.0680**	2.29
Population	0.0000	1.29	0.0001**	2.33	0.0000	-0.81
Constant	-9.1820	-1.12	-7.1620	-1.17	5.1780*	1.66
N	128.0		167.0		201.0	
Mean	0.266		0.234		0.169	
	log likelihood -64.42		log likelihood -72.08		log likelihood -72.32	

Note: * P < .10 (critical t = 1.645 - two-tailed test), ** P < .05 (critical t = 1.960 - two-tailed test); [1] Simple (1 form of restructuring) = 1, Non-Restructuring = 0; Moderate & complex cases are excluded. [2] Moderate (2 forms of restructuring) = 1, Simple (1 form of restructuring) & Non-Restructuring = 0; Complex cases excluded. [3] Complex (3, 4, or 5 forms of restructuring) = 1, Simple, Moderate, and Non-Restructuring = 0; Full sample.

Similarly, the efficiency determinant was a motivator for the cases of moderate complexity but had no significant effect on complex restructuring. Recall that the efficiency determinant includes effect on government budget but more complex arrays of restructuring include forms that increase government budgets.

Leadership capacity was required for more complex restructuring. Per capita income and information and service quality were significant factors only in the most complex restructuring cases. The information determinant (which includes monitoring and service quality) became increasingly important as the complexity of restructuring increased. Also the experience of the local politician in office increased the probability of restructuring, but only for the most complex cases.

While not statistically significant as factors in the incidence and level regressions, two of the fiscal stress variables were important in the complexity analysis. Positive expenditure growth over the period 1985-1990 increased the probability of simple restructuring. However, expenditure growth was not significant in complex restructuring because that involves forms that actually increase public sector budgets. The probability of complex restructuring was lower in places with larger debt margins, because they have less need to transfer debt to private actors or authorities exempt from local government debt limits.

Grouping the data by complexity of restructuring forms used provides a richer understanding of the effects of factors. Simple restructurers are more typical of those identified in the literature where restructuring reduces the size of government and incurs union opposition. Complex restructurers tell a different story. They actively seek to structure the market, expanding government if needed to create competition or achieve economies of scale and limiting debt by transferring capital-intensive functions to the private sector. In these complex cases, governments see unionization as a neutral force.

CONCLUSION

Local government restructuring cannot be understood merely as a dichotomy between private or public sector provision. Governments do not simply choose between keeping services public or privatizing them. Our research suggests that local governments actively structure both private and public markets by using an array of restructuring alternatives. This helps account for why the public provision of services persists as the most popular form of service delivery in the United States. While private markets can be useful for gaining efficiency and scale, public sector markets can achieve similar goals. That governments most often choose to use both public and private sector mechanisms in combination suggests that each may be best suited to different services or different contexts. More research attention should be focused on understanding when private markets best meet efficiency goals and when public provision is better.

Both privatization advocates and the public choice school more generally argue that government provision is subject to non-market failure caused by bureaucratic insulation from citizen preference (Savas, 2000). However, quasi-markets achieved through inter-municipal cooperation, or private contracts, while addressing some of the limitations of non-markets and private markets, also suffer failures of their own. Problems with market failure cause governments to be cautious in their privatization efforts. Hence governments hedge their bets by using a mix of strategies and by being ready to bring previously contracted work back in house. While Lowery (1999) has provided a theoretical argument for investigating quasi-market failure, this research provides empirical support for his notions. Local governments address problems with thin markets by using a mix of restructuring options. Preference error is seen in the higher importance placed on information and monitoring by those governments that restructure more. Preference substitution is seen in the identification of community values as an important factor

(part of the information determinant in our analysis)—beyond mere efficiency concerns.

Unionization has been cited as the primary reason for lower rates of privatization in New York (Lauder, 1992; Savas, 2000). While unionization is perceived as a barrier to simple restructuring (privatization or government cooperation), it does not appear to be an impediment to more complex restructuring that includes reverse privatization or governmental entrepreneurship. Regression results show that when restructuring alternatives that maintain or increase public sector employment are included in the mix, union opposition is not a significant factor. If unionization is not a factor in New York where local government unionization is among the highest in the country, unions are unlikely to account for governments' caution about privatization.

Leadership is another factor often cited to explain why governments are slow to restructure. Our results show this to be very important. Our leadership measures differentiate managerial capacity from political factors and show that local government officials are more pragmatic than ideological. Political factors played no significant role in restructuring no matter how restructuring was defined. While efficiency concerns were significant among governments using moderate arrays of restructuring, information and service quality were important determinants among governments that used more complex arrays of restructuring alternatives. Innovation requires knowledge, resources and willingness to take risks. Local government officials are aware of the dangers in markets, non-markets, and quasi-markets, and they respond by using a wide array of restructuring alternatives.

Researchers must be aware of the full range of alternatives in local government service restructuring. It is no longer acceptable to focus simply on the decision to contract out. Theory must address both contracting out and contracting back in-house as well as the continued prevalence of in-house provision. A key part of that theory should include recognition that government itself is a significant market player. Tiebout (1956) was the first to point out how governments create public markets for their services. This research extends that analysis to show how local governments are key players in structuring private markets for public goods, as well. In many local and regional contexts, government may be the only player. Markets are not given; they are created. Especially in public services, markets must be created with care and attention to equity, service quality, and competitive prices. That government continues to actively play this role confirms the need for a continuing strong public sector presence. Future studies of restructuring must give more attention to the role of local government as service provider, regulator, and market player.

Table 5. Representativeness of sample versus New York State.

Source:	NYS[1]		Sample[2]	
Variable	Mean	Std. Dev.	Mean	Std. Dev.
Nominal Tax[3]	0.04	0.06	0.04	0.05
Debt Margin[3]	95.85	7.74	95.72	6.73
Population[4]	19,161.0	86,600.0	34,768.0	153,011.0
% Expenditure Change 1985-1990[3]	21.51	37.06	21.10	35.35
89 Per Capita Income[4]	13,025.0	4,531.0	13,151.0	4,462.0
N	989		222	

[1] All upstate counties (57, excluding New York City) and all towns (932) in New York State. [2] Responding Counties and Towns in Warner and Hebdon, 1997 Survey. [3] NYS Comptroller, Municipal Finance Data 1985-1990. [4] U.S. Bureau of the Census (1990), Population and Housing.

Table 6. Regression variables—descriptive statistics NYS towns and counties, N=201, 1997 søurvey.

Variable Name	Description	Mean	St. Dev.
Republican[1]	Republican party member	.58	.49
Democrat[1]	Democratic party member	.17	.38
Democrat Majority[1]	Democratic majority	.11	.31
Republican Majority[1]	Republican majority	.67	.47
Respondent's Experience (Years)[1]	Years in office	6.56	6.26
Economic Efficiency[1]	Economic efficiency	3.35	.85
Budget Impact[1]	Impact on local government budget	3.53	.72
Management[1]	Management	3.03	.87
Labor[1]	Impact on labor	2.99	.88
Union[1]	Unionization	2.02	1.11
Local Employment[1]	Impact on local employment	2.50	1.08
Service Quality[1]	Service quality	3.29	.83
Community Values[1]	Community values	2.97	.84
Political Concerns[1]	Political concern	2.55	1.04
Monitoring[1]	Monitor and response	2.82	.94
Legal concerns[1]	Legal concern	3.11	.92
Information[1]	Availability of information	2.80	.90
Experience with Restructuring[1]	Past experience	2.48	1.12
Leadership[1]	Other e.g. leadership	3.01	1.03
Expenditure Growth[2]	Change in Total Govt. Exp. 1985-90 (dfl 85=100)	21.10	35.26
Nominal Tax Rate[2]	Nominal tax rate (property taxes/assessed value),1990	.04	.05
Debt Margin[2]	Debt Margin (% of debt limit remaining), 1990	95.64	6.83
Per Capita Income[3]	Income per capita, 1989	12,923.00	3,654
Municipal Type[2,1]	Municipality type, town=1, county=0	.88	.33
Population[3]	Population, 1990	36,455.00	159,376.00

[1] Warner and Hebdon, NYS Towns and Counties, n=201, 1997 Survey. Missing values treated as missing. [2] NYS Comptroller, Municipal Finance Data 1985-1990. [3] U.S. Census of Population and Housing 1990.

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