

## Chapter 7

# Commercialization of Local Public Services

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### ABSTRACT

*The most important reason to decentralise the public services delivery is to make the citizens' needs better known by the local governments, so it follows to act more efficiently to their satisfaction. Nonetheless it has been found an opportunistic use of these agencies to avoid legal limits on indebtedness imposed on sub-national administrations, generating fiscal illusion. Accordingly, the aim of this study is to analyse the effect of the functional decentralisation processes on public revenues and financing. The results show that the use of decentralisation process, especially companies are created by left-wing political parties in order to raise more income from commercialization of public services. It was also found that these practices are strongly linked to the municipality's fiscal pressure.*

### INTRODUCTION

Processes of functional decentralization have acquired special relevance in recent decades (Cuadrado, 2008; Molinari & Tyer, 2003; Utrilla, 2007) for various reasons. The rationales usually invoked include improving efficiency in attaining objectives (Boyne, 1996), improving coordination and control (Tullock, 1965), reducing bureaucratic processes (Niskanen, 1971) and providing services more quickly (Downs, 1967), on the premise that decentralized units are closer to citizens and are therefore more aware of their preferences (Hayek, 1945). These arguments frame functional decentralization as an adequate alternative way to deliver the services demanded by citizens in the difficult economic situations that public administrations frequently face (Domínguez, 1997; García, 2000).

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However, there are studies that also show how these processes could be carried out as a means of masking individual objectives; for example, politicians might use decentralization for their own benefits. In relation to this, Bennett and Dilorenzo (1982), Bunch (1991), Escudero and Prior (2002), Prado-Lorenzo, Martín-Jiménez, and García-Sánchez (2009), and Cuadrado-Ballesteros, García-Sánchez, and Prado-Lorenzo (2013a) have shown that governments may decentralize to avoid budgetary restraints by transferring part of their debt to newly created entities. More concretely, these functional decentralization practices may be aimed at increasing current public revenue without modifying the theoretical tax burden on citizens.

Several authors, such as Rubin (1988), Molinari and Tyer (2003), Bozec and Breton (2003), Josserand, Teo, and Clegg (2006) and Grossi and Reichard (2008), have observed that the presence of corporations in the public sphere is strongly related to public service provision for citizens in exchange for a price equivalent to their real cost. As these costs are not directly collected as taxes by the administration, such practices give rise to a kind of myopia in citizens that hinders them from associating the amount paid for these services with greater fiscal pressure.

Thus, expanding on the proposal made by Marlow and Joulfaian (1989) with regard to the concept of “relative costs”, it can be argued that governments use relatively less expensive sources to finance a specific level of public activity (i.e. taxes and direct debt linked to the public budget) and the rates, fees and indirect debt typical of decentralized companies.

In line with the above, the main aim of this study is to observe the effect of the decentralization process on public revenues and financing in consecutive years. Therefore, the authors extend previous empirical evidence, based on the data employed. To do so, we: (i) specify the effect of functional decentralization processes; (ii) undertake a complete analysis of this process – the creation of public companies (corporatization) and foundations – as opposed to considering only corporatization; (iii) enter simultaneously variables representing overall budgetary management (indebtedness and fiscal pressure); (iv) consider a time period that will permit the use of panel data methods, which provide more robust results than cross-sectional studies by controlling for unobservable heterogeneity. This method also allows the control of endogeneity problems between dependent and independent variables.

With these goals in mind, the authors selected a sample of 153 Spanish local governments with populations over 50,000 and provincial capitals, for the period 1999–2007. This specific time period was selected because of the growing importance of decentralization processes during these years, which provoked the decision by the General Comptroller of the State Administration (IGAE) to perform an annual inspection of local governments.

Our results show that local decentralization processes are strongly orientated to increasing public revenue associated with the real cost of service provision. This means that decentralized local governments tend to increase public rates and prices, so they are focused on the commercialization of public services, especially through the creation of public companies in the case that the local government has a left-wing ideology and through the creation of public foundations if it has a right-wing ideology.

## **FUNCTIONAL DECENTRALIZATION AND COMMERCIALIZATION OF PUBLIC SERVICES**

The traditional model of public management has become obsolete and in its place, the well-known New Public Management (NPM) movement can be considered the first attempt to modernize public administrations. This international movement began to develop in the 1980s in the UK, New Zealand

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