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TESIS DOCTORAL

**“DETERMINANT FACTORS OF FUNCTIONAL
DECENTRALISATION AND EXTERNALISATION
OF LOCAL PUBLIC SERVICES”**

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El Dr. D. José Manuel Prado Lorenzo y la Dra. D^a. Isabel María García Sánchez, como Directores de la Tesis Doctoral “Determinant factors of functional decentralisation and externalisation of local public services”, realizada por D^a. Beatriz Cuadrado Ballesteros en el Departamento de Administración y Economía de la Empresa de la Universidad de Salamanca, autorizan su presentación a trámite, dado que reúne las condiciones necesarias para su defensa.

Y para que así conste, a los efectos oportunos, se firma la presente en

Salamanca a 15 de Mayo del 2012.

Fdo.: José Manuel Prado Lorenzo

Fdo.: Isabel María García Sánchez

*A mis padres, hermano y José,
por su cariño y apoyo
incondicional*

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INTRODUCTION

INTRODUCTION

Throughout history, governments have had to tackle the problem of how to provide reasonable public services to all citizens regardless of their financial means, and at an affordable cost. The public sector came into being as a mechanism to combat the lack of interest of private enterprise in setting up businesses to provide universal services at affordable prices. However, excessive socialisation highlights the problems suffered by large bureaucracies, in terms of reduced efficiency and effectiveness.

The theory of New Public Management was proposed as an attempt to avoid these problems, through the modernisation of the public sector, by introducing elements from the private sector (Haynes, 2003)¹ that would enable services to be provided more effectively and efficiently. The thinking underlying this combination of elements from both the public and the private sectors is based on the idea that Aristotle summed up as “virtue is the midpoint between two opposing vices”. That is precisely the position of New Public Management: to take the positive elements of each area in order to achieve a more efficient management of public resources.

Among the major reforms undertaken according to the tenets of New Public Management are those of functional decentralisation and outsourcing in the provision of public services. The first of these brings government closer to citizens and enables it to better understand their needs and preferences (Hayek, 1945)². Thus, overly bureaucratized areas are slimmed down and replaced by more flexible entities (Aberbach and Rockman, 1999)³ that provide improved coordination and control of activities (Tullock, 1965)⁴. Outsourcing, on the other hand, represents a radical integration of the private sector into public activity, placing responsibility for certain public services in specialised, non-public, hands (Cannadi and Dollery, 2005)⁵. This process raises efficiency while allowing the public sector to focus primarily on its strategic activities

¹ Haynes, P., 2003, *Managing complexity in the public services*, London: Open University Press.

² Hayek, F.A., 1945, “The Use of Knowledge in Society”, *American Economic Review*, 35: 519-530.

³ Aberbach, J. and Rockman, B., 1999, “Reinventar el gobierno: problemas y perspectivas”, *Gestión y Política Pública*, 15: 3-18

⁴ Tullock, G., 1965, *The politics of Bureaucracy*, Washington DC: Public Affairs Press.

⁵ Cannadi, J. and Dollery, B., 2005, “An Evaluation of Private Sector Provision of Public Infrastructure in Australian Local Government”, *Australian Journal of Public Administration*, 64 (3): 112-118.

(Brown and Potoski, 2003)⁶.

Since the late 1990s, there has been a spectacular increase in the number of entities providing public services in Spain, whether as decentralised organisations or through outsourcing. These entities made it possible to modernise the Spanish public sector, which had become obsolete and out of touch with new ideas in Europe. Many organisations were created in the context of an important cultural, sporting or social event, or to promote industry, tourism or trade. Some of these bodies failed to meet their goals, while others, although they were successful, outlived by several years the event for which they had been founded. And yet many continued to exist. This extended survival raised well-founded doubts as to their true use and purpose.

Long running and widely shared suspicions seemed to be confirmed when the incoming government, in its campaign to reduce the public-sector deficit, put the spotlight on the “oversized” sector of public companies and foundations in Spain. As a result, the second phase of government cutbacks has been primarily aimed at simplifying this branch of the public sector. Apart from their inefficiencies, the main problem with these entities is their huge accumulation of debt.

Public companies, foundations, consortia and other not-for-profit institutions dependent on the government, whether national, regional or local, have built up a debt that represents 6% of GDP in the Spanish economy, and which has increased by almost 45% in the last 4 years, just as the international financial crisis has become most intense. The effect of this debt is that many small businesses are being financially strangled; they have to endure significant delays in receiving payment, which forces them to delay their own payments, thus generating a chain of defaults that causes severe problems to both national and international authorities.

Accordingly, certain questions come to mind. Why have functional decentralisation and outsourcing evolved in the way they have? What are the real reasons behind the creation of these entities? How has this affected the citizens of the municipalities involved? Answers to these and related issues could provide a reasonable explanation of the process and, to some extent, a solution to some of the difficult

⁶ Brown, T.L. and Potoski, M., 2003, “Contract-Management Capacity in Municipal and County Governments”, *Public Administration Review*, 63 (2): 153-164.

situations currently facing the country.

Thus, the aim of the present study is to determine the real reasons behind the great proliferation of decentralised and outsourced organisations created to provide public services, and to identify the impact they have had on local citizens and on the administration of local governments.

Of the three main areas of government (local, regional and national), this study focuses on the local ambit, for several reasons: (i) most of the services subject to processes of decentralisation or outsourcing are provided by local authorities (directly or indirectly); (ii) most of the bodies created operate locally, as described below; (iii) municipalities are the most remote from institutional controls; (iv) the data available are more homogeneous than in inter-country comparisons (García-Sánchez et al., 2011 and 2012)⁷.

The structure in Spain, in 2011, of the mass of public companies, foundations, autonomous bodies, public corporations, outsourced companies and mixed (private-public sector) companies, underlines the appropriateness of this choice. There were over 5000 organisations dependent on local governments, while the regions accounted for almost 2000, and the national government, just 500. Thus, it is the municipalities that tend to make most use of this type of organisation for delivering services to their citizens.

Although one might imagine that functional decentralisation and outsourcing are implemented in order to provide a better service to the local population, let us not forget that some of the entities thus created are much more resistant to supervision and control by public audit bodies. This facilitates the creation of “made to measure” job offers and the generation of resources through borrowing for purposes other than the more efficient provision of services. Let us also recall that citizens are at the same time voters and taxpayers, and so the resources generated by newly-created organisations can be used as a

⁷ García-Sánchez, I.M., Prado-Lorenzo, J.M. and Cuadrado-Ballesteros, B., 2011, “Do progressive governments undertake different debt burdens? Partisan vs. electoral cycles”, *Revista de Contabilidad-Spanish Accounting Review*, 14(1): 29-57.

García-Sánchez, I.M., Prado-Lorenzo, J.M. and Mordan, N., 2012, “Effect of the Political System on Local Financial Condition: Empirical Evidence for Spain’s Largest Municipalities”, *Public Budgeting and Finance*, Summer: 40-68.

powerful weapon in election campaigning.

This study consists of five chapters and it is divided into two parts. In the first, we examine the functional decentralisation and outsourcing practiced by Spanish local governments, and seek to establish the main determinant factors of these processes. In the second, we consider the effects of functional decentralisation and outsourcing on the quality of life of the local population, as well as on the efficiency and transparency of the local governments that have carried out these policies.

Thus, Chapters 1 and 2 provide an analysis of the main elements involved in functional decentralisation and outsourcing. First, we conceptualise these processes in Spain and perform a descriptive analysis, based on a review of the literature on the theory underpinning the creation of such entities, i.e., New Public Management, and take a broad overview of the historical evolution of these processes. In addition, we describe the different ways in which public services may be delivered by local governments, according to Spanish legislation, and finally provide a descriptive analysis of the evolution of decentralised and outsourced entities in Spain during the period under study (1999-2010).

The second chapter analyses the determinants of functional decentralisation and outsourcing. To do so, we first jointly consider the characteristics of the budgetary and political factors for each municipality that are of potential influence. Specifically, we examine the impact of factors such as municipal debt, political ideology, political stability and competition and the phase of the electoral cycle. The aim of this is to go beyond existing empirical evidence, which suggests that local governments resort to decentralisation in order to circumvent borrowing restrictions and to transfer part of their debt to these newly-formed entities (Bennett and DiLorenzo, 1982 and 1984; Bunch, 1991; Escudero and Prior, 2002; Prado-Lorenzo et al., 2009)⁸ and to overcome the

⁸ Bennett, J.T. and DiLorenzo, 1984, "Off-budget activities of local government: Reply", *Public Choice*, 42(2): 213-215.

Bennett, J.T. and DiLorenzo, T.J., 1982, "Off-budget activities of local government: The bane of the Tax Revolt", *Public Choice*, 39(3): 333-342.

Bunch, B.S., 1991, "The effect of constitutional debt limits on state governments use of public authorities", *Public Choice*, 68(1-3): 57-69.

Escudero, P. and Prior, D., 2002, "Endeudamiento y ciclos políticos presupuestarios: el caso de los ayuntamientos catalanes", Working Paper 2002/10, Department of Business Economics, Universitat Autònoma de Barcelona.

limitations of these studies, most of which focused on a single municipal service and/or a single delivery form, primarily corporatisation, for a given year.

The three final chapters are dedicated to examining the effects of functional decentralisation and outsourcing. Chapter 3 analyses the effects of these processes on citizens' quality of life, while Chapters 4 and 5 are devoted to studying the effects produced on the administration of local government, in terms of efficiency and transparency, respectively. Knowing which type of entity has the most positive effect on quality of life and on municipal efficiency and transparency will make it much easier to decide whether or not to create such an organisation, or to eliminate an existing one.

Concern for citizens' quality of life should be the force propelling all governments' actions, including decisions on whether to create decentralised agencies or to outsource operations. Nevertheless, very little prior evidence in this respect has been presented. Some studies have related the forms of public services delivery with regional disparities (West and Wong, 1995; Ezcurra and Pascual, 2008; Lessmann, 2009)⁹ or with the sustainability of cities (Wu and Wang, 2007; Karger and Hennings, 2009)¹⁰, but not directly with citizens' quality of life.

Furthermore, the concepts of efficiency and transparency (the latter, as an antonym of corruption) are essential in the management of public resources, according to New Public Management theory. As efficiency is one of the reasons for involving the private sector in public services delivery, it seems appropriate to assess the extent to which efficiency is improved with the creation of these entities, this being an issue which

Prado-Lorenzo, J.M., Martín-Jiménez, D. and García-Sánchez, I.M., 2009, "Endeudamiento e ideología política como factores determinantes de la creación de empresas públicas autonómicas", *Análisis Local*, 83: 27-36.

⁹ West, L.A. and Wong, Ch.P.W, 1995, "Fiscal Decentralization and Growing Regional Disparities in Rural China: Some Evidence in the Provision of Social Services", *Oxford Review of Economic Policy*, 11(4): 70-84.

Ezcurra R. and Pascual P, 2008, "Fiscal decentralization and regional disparities: evidence from several European Union countries", *Environment and Planning A*, 40(5): 1185 – 1201.

Lessmann, C., 2009, "Fiscal Decentralization and Regional Disparity: Evidence from Cross-Section and Panel Data", *Environment and Planning A*, 41(10): 2455 – 2473.

¹⁰ Wu, Ch. And Wang, H., 2007, "China: Seeking meaningful decentralization to achieve sustainability", BRETON, A., BROSIO, G., DALMAZZONE, S. and GARRONE, G. (eds.), in *Governance and Decentralisation*, Massachusetts: Edward Elgar Publishing, Inc.

Karger, C.R. and Hennings, W., 2009, "Sustainability evaluation of decentralized electricity generation", *Renewable and Sustainable Energy Reviews*, 13(3): 583-593.

has not been analysed previously.

Finally, transparency is the element on which citizens' trust in their government is fundamentally based. A few studies have advocated decentralisation as a means of increasing transparency in government (Fisman and Gatti, 2002)¹¹, in preference to outsourcing, which could give rise to fraud and corruption (Kettl, 1993; Jolley, 2008; González et al., 2011)¹². However, as yet little empirical evidence has been obtained. These considerations, together with recent scandals involving some Spanish local governments, drawing attention to cases of corruption and favouritism among politicians, make it necessary, in our view, to evaluate the effects of decentralisation and outsourcing on transparency in Spanish local administrations.

With these goals in mind, we selected a sample of 153 Spanish municipalities, which included all municipalities of over 50,000 inhabitants, and all the provincial capitals, whatever their population. The decision was made to study the larger municipalities because they are legally obliged to provide all the services detailed in the Local Finance Act, and thus the maximum consistency of results is ensured. Furthermore, reforms based on New Public Management ideas are better suited to large cities, as in small towns, management procedures are more informal and responsibilities fall almost exclusively on a single individual, the mayor.

The time period considered is the twelve years from 1999 to 2010. This period was chosen because it includes the years of greatest proliferation of public bodies together with the appearance of serious economic difficulties that highlighted the distortions produced by the system. However, due to difficulty in obtaining all the information required to construct the study variables used, in some aspects it was necessary to reduce this sample, with respect to individual municipalities and/or the time period, in accordance with the information available.

¹¹ Fisman, R. and Gatti, R., 2002, "Decentralization and corruption: evidence across Countries", *Journal of Public Economics*, 83: 325–345.

¹² González, M.R., Gascó, J.L., and Llopis, J., 2011, "Relaciones entre outsourcing y estrategia de los ayuntamientos españoles", *Auditoría y gestión de los fondos públicos*, *Auditoría Pública*, 53: 33 – 46.

Jolley, G.J., 2008, "Contracting Regimes and Third-Party Governance: A Theoretical Construct for Exploring the Importance of Public Service Motivation of Private Sector Contractors", *International Public Management Review*, 9(2): 1-14

Kettl, D.F., 1993, *Sharing Power: Public Governance and Private Markets*, Washington, D.C.: The Brookings Institution.

In this study, various statistical and econometric techniques are applied. The descriptive analysis in Chapter 1 was carried out using SPSS software and biplot technology. In the remaining chapters, Stata software was used to obtain linear dependence models for testing the hypotheses proposed. The estimators used match the characteristics of the variables used for each model and are suitable for the application of the panel data technique, which is considered the most reasonable way in view of the type of sample employed.

The empirical results obtained in the first part of the study show that, paradoxically, it is right-wing governments that implement the highest degree of functional decentralisation, especially in situations of little political competition and when they enjoy a large majority. However, it is left-wing parties that most often resort to creating decentralised entities, especially foundations, in order to generate resources by increasing public debt and circumventing legal restrictions on local borrowing.

However, outsourcing processes do not seem to be explicable by any of the political and budgetary factors considered. Therefore, further study is needed to examine the possibility that other factors may influence any decision taken to introduce the private sector into public services delivery.

The results set out in the chapters in the second part of this study reflect the positive impact of functional decentralisation on local inhabitants' quality of life, and show that this effect is not achieved from outsourcing or the creation of mixed private-public companies. With respect to efficiency, the incorporation of the private sector into the provision of public services does not appear to improve the management efficiency of local governments, although the mixed companies created by right-wing parties might enhance the inter-annual variation in efficiency.

Finally, our empirical results show that the most transparent municipalities are those which are functionally decentralised. However, we were unable to obtain sufficient empirical evidence to support the hypothesis that the use of the private sector for the provision of public services leads to higher levels of corruption.

CHAPTER 1

Modes of Public Services Delivery in Spain

1. THE NEW PUBLIC MANAGEMENT AS A DRIVER

The traditional model of public management has gradually become obsolete as economies have evolved, in both political and in social-administrative terms. New Public Management (NPM) theory might be considered an attempt to modernise public administrations with the purpose of improving operations (Pollitt and Bouckaert, 2000) or of constructing a more effective and efficient management system, which would be attained by covering citizens' needs at minimal cost and with maximum quality, through competition mechanisms (García-Sánchez, 2007). This is an international-level movement that began to develop in the 1980s in countries such as the UK, New Zealand and Australia¹ and that later extended to the USA, Canada, Holland and Sweden.

NPM² involves the introduction of organisational and management structures derived from the private sector, together with efficiency models (Haynes, 2003). In particular, it involves downsizing, reducing public expenditure, introducing criteria of economy, efficiency, efficacy and excellence in governmental behaviour and in the implementation of public policies (Ferlie et al., 1996; Osborne and Gaebler, 1993; Pollitt and Bouckaert, 2000), marketisation, privatisation, decentralisation, externalisation and the use of control mechanisms to improve accountability (Kettl, 2000), while reinforcing the delegation of responsibilities³ in order to free public officials from political and bureaucratic constraints which might inhibit their ability to manage and enhance a government's accountability to the law and to citizens regarding its policies and programmes (Pollit and Bouckaert, 2000).

¹These three countries, pioneers in NPM techniques, are jointly known as the "Whitehall Model".

²Although the precise nature of NPM has been extensively discussed (Dunleavy and Hood, 1994), Hood (1991) aggregates its practices into seven doctrines that summarise the guiding principles of NPM: "Hands-on and entrepreneurial management"; "Explicit standards and measures of performance"; "Output controls"; "Desegregation and decentralisation"; "Competition in the provision of public services"; "Stress on private sector styles of management"; and "Discipline and parsimony in resource allocation"

³Metcalf and Richards (1989) point out that this new model places more emphasis on responsibility than on control. To do so they distinguish between internal and external responsibility. Control mechanisms are related to responsibility from an external point of view, ensuring the legitimacy of public authorities, whereas responsibility viewed from an internal perspective refers to authority over the use of resources and getting results. Previously, responsibility used to be related to governments, but NPM extends this concept to other areas: responsibility in the utilisation and management of resources and in the obtaining of results by all the components of the Public Sector once it has been disaggregated based on the ideas presented by NPM.

Even if the goals pursued by the different reforms supported by NPM might seem adequate from a theoretical point of view, Grant (1994) highlighted a possible clash between them, namely the rendering of more economical, but at the same time higher standard services; lean but reliable organizations; flexibility and predictability at the same time; or low salaries but well-motivated staff. In addition, these reforms might involve undesirable effects, such as fragmentation in the public sector, a trend towards short-term focus, or an increase in public expenditure and a decrease in public cohesion (Meyer-Sahling, 2009; Andrews and Boyne, 2009), not to mention considerable scepticism regarding the “responsiveness” and “enthusiasm” which civil servants might expect (Du Gay, 2008), as well as new corruption-related problems that might arise (Grant, 1994).

Over time, the initial concept of NPM has evolved, incorporating the conflicting effects presented above, and resulting in three generations of reforms (Halligan, 2007): the first embodies the original NPM ideas; the second focuses on the strengthening of strategic management, on achieving sustainable reforms and on correcting major dysfunctions; the third generation of reforms was implemented to achieve a reunification of the public sector (Osborne, 2009) by introducing new government coordination methods aimed at enabling central government to regain its prime role (Talbot and Jonson, 2007) and by reducing the numbers of goals set (James, 2004). Some authors have even claimed that NPM has now disappeared (Dunleavy et al., 2006).

Nevertheless, public administrations around the world have privatised formerly nationalised industries (gas, electricity, etc.), and have also carried out important processes to externalise and decentralise public services delivery in order to improve efficiency and citizens’ satisfaction and well-being.

2. FROM PRIVATISATION TO EXTERNALISATION AND FUNCTIONAL DECENTRALISATION

One of the basic tenets of NPM is its critical view towards the bureaucracy and organisational system of public management (Dunleavy, 1991), which is characterised by inefficiency and severe hierarchical inflexibility (Pierre and Guy, 2000). Whereas well-known management techniques to overcome such weaknesses are available to the private sector, the reforms carried out in the public sector have focused mainly on

following entrepreneurial “best practices” (Yamamoto, 2003); thus, an integration of the two models might prove positive for public administrations and, therefore, for citizens at large (Gunn, 1987).

Following this ideal, the United Kingdom was the first country to begin reforms aimed at NPM (Hood, 1994 and 1995), starting with the privatisation of many public services by Margaret Thatcher’s Conservative government. The privatization reforms were not included by the Thatcher's party in its electoral program in 1979, but they used these reforms when the party realised of the unexpected success of their application in the Housing Council through the sale of municipal houses (Parker, 1998; Clifton et al., 2006). From then, the privatization politics of the Thatcher’s conservative government meant a reject of the concept of public property and they had ideological connotations (Yergin and Stanislaw, 1998; Millward, 2000; Parker 2003; Clifton et al. 2006). In addition, these actions represented a break with the traditional inter-party consensus that had previously characterized British governments (Heald, 1989; Hulsink, 1999; Clifton et al. 2006).

According to Parker and Saal (2003), the main reason why Conservative governments from 1979 to 1997 championed and applied wide-ranging privatisation in the UK was their belief in the greater efficiency of the private sector and in the positive effect of the industrial restructuring process. Indeed, these policies did make a positive impact on public finances, in the form of additional revenue obtained from the sale of public companies; thus, the public deficit was reduced, as were the corresponding interest charges. Moreover, the expenses of loss-making companies were eliminated and tax incomes rose as these activities became profitable in succeeding years.

Apart from the U.K., several other European countries applied privatisation programmes in the 1980s, but without achieving very noteworthy results. Such cases included France (1986-1988), Italy with the sale of the IRI and the ENI, and Spain with the sale of industrial enterprises that had belonged to the INI. However, it was not until 1993 that the majority of EU countries embarked upon ambitious privatisation programmes, coinciding with the consolidation of the single market and the Maastricht Treaty, which called for greater trade liberalisation (Clifton et al., 2006).

According to the latter authors, privatisation processes in Europe were a consequence (albeit unintentional) of the evolution of the EU and not a deliberate attempt to imitate U.K. policies. These processes could be viewed as a preparatory mechanism for integration within the single market, and so there was a generalised trend in this direction, spurred by E.U. directives on liberalisation (for example, in telecommunications, transport and the electrical sector). Accordingly, privatisation depended on various factors, including the dimensions of the economy and sector in question, the role of public companies in the history of the country, its political system and institutional models and the level of development of its capital market. Therefore, privatisation programmes differed from one country to another. Some, in fact, were introduced opportunistically with the sole aim of achieving additional financial resources through the sales of public companies.

Clifton et al. (2006) grouped the characteristics of the types of privatisation implemented by different countries in accordance with their similarity. Thus, Italy, France, Portugal and Austria engaged in important and continuous privatisation programmes from 1993. Finland, Greece and Ireland made considerable efforts to privatise, but the process was neither long-term nor far-reaching. In Belgium, the Netherlands and Spain, privatisation took place relatively early and was relatively concentrated. In Germany and Sweden, countries with a very significant public sector, benefits were sporadically and irregularly generated through “tactical” or “opportunistic” strategies.

Focusing on Spain in particular, the privatisation process took place later than in other countries due to political issues. The first democratic elections after forty years of dictatorship took place in 1977 and 1979, and brought to power the newly-formed Union of the Democratic Centre (UCD), which viewed public enterprise as a way of wresting power from private capitalist groups related to the Franco dictatorship (Gamir, 2005).

Following the 1982 elections, the Spanish Socialists (PSOE) came to power, and addressed two major problems: (i) the development of the welfare state, in order to provide basic public services, which led to rapid growth of the public sector; and (ii) the reform of public management structure, inherited from the pre-democratic period, through the introduction of several NPM proposals, such as a change in the number and name of certain posts below that of minister, making a clear-cut distinction between

politicians and civil servants, implementing control systems in administration offices (Torres and Pina, 2004) and privatising certain public corporations⁴.

However, the main privatisation programme took place after 1996, promoted by the conservative People's Party (PP) government. Apart from being considered an appropriate means to improve efficiency and profitability, and to consolidate public finances (Cabeza and Gómez, 2003), privatisation was used to increase stock market capitalisation, to encourage investment and international activities by banks, and to attract small investors, who until then had tended to prefer fixed-interest securities (Parker and Saal, 2003).

Following the initial privatisations carried out, politicians in different countries resorted to intermediate formulas in order to continue improving the functioning of the Administration and to enhance public sector accounts. These formulas included the externalisation and/or decentralisation of public services.

2.1. Decentralisation

Decentralisation processes are among the most important reforms to have accompanied NPM. Functional decentralisation occurs when the public administration creates smaller, more flexible and user-oriented agencies in which a business culture predominates (Aberbach and Rockman, 1999), with the purpose of avoiding the usual rigidities of a system subject to common administrative law. Rationales such as improving efficiency in attaining objectives (Boyne, 1996), enhancing coordination and control (Tullock, 1965), streamlining bureaucratic processes (Niskanen, 1971) and recognising needs more easily are the justifications most commonly invoked for such processes. They are also held to produce faster service provision (Downs, 1967) due to the fact that decentralised units are closer to citizens and, therefore, more aware of their preferences⁵ (Hayek, 1945).

⁴Although this process was not as significant as the one that took place in the UK, it represents a great effort taking into account that it was carried out by a socialist party that ideologically defended public enterprise (Gamir, 2005). However, due to the negative financial situation of public agencies in certain sectors (the automotive industry, steel industry, shipbuilding industry, etc.), it was forced to address privatisation, although in political terms there was talk of “disinvestment” or “alienation”.

⁵These practices would benefit citizens' choice concerning the provision of public services, since they would be able to find the desirable combination between services and taxes (Tiebout, 1956).

Vengroff and Reveron (1997) provide empirical evidence of the relationship between decentralisation and efficiency, and claim that functional decentralisation could ameliorate public deficits. The fact that management units are smaller and more flexible as a result of less normative rigidity makes them more dynamic and leads users to express greater satisfaction. For example, some studies have reported positive effects of competition on consumer satisfaction with respect to prices in the telecommunications industry (Bacchiocchi et al., 2008) and in the electrical sector (Fiorio and Florio, 2008).

Nevertheless, it has also been noted that decentralisation of the public sector into autonomous institutions and units is not always feasible (Boyne, 1996; Meyer-Sahling, 2009), since it tends to involve focusing on short-term results as opposed to strategic public priorities (Schick, 1996), and may also produce poor coordination and overlapping functions and use of resources (Rhodes, 1994). Thus, according to recent research, large bureaucracies are cheaper as far as management is concerned (Andrews and Boyne, 2009), and this has encouraged regrouping processes, for example in the UK (Talbot and Johnson, 2007). According to research carried out by the OECD, it only took a few years for governments to realise that results were not as expected, since staff levels had increased in all task areas, especially in support services⁶, and there were many problems concerning output steering and control. This situation led to further change towards a more pragmatic approach involving re-concentration, *ad hoc* downsizing and the sharing of services (OECD 2010).

Anyway, processes of decentralisation, normally through the creation of corporations, have acquired special significance (Molinari and Tyer, 2003; Utrilla, 2007) in public administrations with difficult economic situations (Domínguez, 1997; García, 2000), as a means of delivering public services that satisfy citizens' needs, as well as, of masking less altruistic objectives, i.e. politicians and their parties might use decentralisation processes to their own benefit. Thus, Bennett and Dilorenzo (1982 and 1984), Blewett (1984), Marlow and Joulfaian (1989), Bunch (1991), Escudero and Prior (2002) and Prado-Lorenzo et al. (2009) have shown that governments may decentralise in order to avoid budgetary restraints, by transferring part of their debt to the newly-created entities.

⁶Support services include human resources, information resources, ICT, organisation, accommodation and facilities, communications procedures and finance and auditing procedures.

2.2. Externalisation or outsourcing

Another form of public services delivery is externalisation, through which the public administrations put services delivery out to contract in the private sector, which manages the services, although the public administrations maintain the decision and control capacity. This process is applied under the idea that it will improve service delivery for two main reasons: on the one hand, it is placed in the hands of specialist suppliers (Cannadi and Dollery, 2005; González et al, 2011), thereby improving its delivery; on the other hand, it involves a transfer of knowledge between the providers and the customers of the externalised services (Norton and Blanco, 2009). For these reasons, public organisations tend to promote these practices that are perceived by individuals as inefficient and overly bureaucratic.

However, outsourcing can also have negative effects, which can be highlighted as follows:

- Citizens may perceive private enterprise as an obstacle between them and the Government, increasing the distance between the two sides (Norton and Blanco, 2009; Gonzalez et al., 2011).
- There may be cases of corruption and favouritism when public contracts are awarded (Fernández, 2007; González et al., 2011) because politicians are often involved in contracting with private providers.
- The State could be emptied of content and its role would be limited to that of choosing providers that offer public services (Martin 2000; Norton and Blanco, 2009; González et al., 2011).
- The political cycle and the cycle for the benefits of outsourcing do not coincide, because often the latter are perceived in the medium term, when the shorter political cycle has led to a change in leadership (Gazzola and Pellicelli, 2009).
- The typical organisational logic in the public sector does not provide incentives for, nor reward, entrepreneurial behaviour by management or policy makers (Gazzola and Pellicelli, 2009).

- Both public and private sectors incur costs, as the market gives rise to transaction costs and costs from monitoring externalised activities (Boyne et al., 1999 and 2004) and hierarchies generate costs due to the chain of goal-displacing principal-agent links between the top and bottom of the hierarchy (Wolf, 1993; Savas, 2005).
- For some services there is no market, so that externalisation is the only option, which could hinder the provision of services to citizens because the mechanisms tend to fragment organisations (Martin 2000).

Privatisation, decentralisation and externalisation have been criticised for focusing on individual interests rather than on collective ones such as universality and fairness, as well as for their dependence on market mechanisms (Lane, 1997; Du Gay, 2000; Van de Walle and Hammerschmid, 2011⁷). Under these methods of service provision, citizens become clients and communities become mere groups of clients, so that those who are richer and better informed are rendered the highest quality services (Olsen, 1988). However, some authors have found no systematic association between consumer satisfaction and such policy changes, since the social, institutional and economic environment that affects citizens' attitudes is complex, as shown by Fiorio et al. (2007) regarding European consumers' satisfaction with accessibility, pricing and quality in electricity, gas, water and telephone services in the 15 EU Member States.

Empirical evidence shows that Spanish local administrations are resorting to private contracting (Pina and Torres, 1998; García, 1999) and administrative decentralisation (Prado-Lorenzo et al., 2009; Benito and Bastida, 2003a, 2003b, 2005, 2008; Montesinos et al., 2010) in order to supply the services demanded by users. Major steps have been taken in Spain towards functional decentralisation; thus, during the last decade, the number of corporations and entities owned by municipalities and regional governments has tripled (Cuadrado, 2008). Since previous studies have mainly dealt with the subject of contracting out, in this study we incorporate the question of decentralisation.

⁷ This is the first COCOPS Working Paper to present a state of the art of the literature assessing the impact of NPM reforms. Many of the ideas set out in sections 1 and 2 of this paper have been obtained from this first Working Paper. More information about COCOPS is available in its web: <http://www.cocops.eu/>

3. MODES OF PUBLIC SERVICES DELIVERY IN SPAIN

At the start of 2010, Spain had 8,114 municipalities, 60% of which had a population below 1,000, a figure that rose to 91% with respect to towns with a population below 10,000.

Article 11.1 of Act 7/1985 of April 2 Local Government Regulatory Law (LRBRL) states that a municipality is the basic local entity of the territorial organisation of the state, with legal personality and full capacity for fulfilling its purpose. Spanish municipalities implement a parallel management system, reflected in the existence of over 3,400 entities providing basic public services, in accordance with Article 26 of the Local Government Regulatory Law.

With regards to organisational structure, the municipal administration is composed of two types of bodies: the political body, formed by the mayor and the town councillors, with either decision-making functions or service provision management duties; and the executive body, comprised of the set of services and units that carry out the decisions taken by the former.

The responsibilities attributed to local government are set out in Chapter 25.2 of the LRBRL, and are strongly linked to the population of the municipality. This law sets out a series of minimum services to be provided by local authorities, including public lighting, refuse collection, street cleaning, water provision, sewerage, access to population centres, road maintenance, food and beverage control, and cemetery management. In addition, municipalities with more than 5,000 inhabitants must provide at least one public park, a library, a market and waste processing facilities; those with more than 20,000 inhabitants must provide civil protection services, social services, fire prevention and fire fighting services and sports facilities; finally, those with more than 50,000 inhabitants must provide, in addition, collective transport and environmental protection services.

Table 1 summarises this distribution. Article 28 of LRBRL allows the possibility that municipalities may offer complementary services related to aspects such as education, culture, promotion of women's rights, housing, health care and environmental protection.

Table 1. Local Services

ESSENTIAL SERVICES	COMPULSORY SERVICES ACCORDING TO POPULATION			
	In all towns	Towns with a population over 5,000	Towns with a population over 20,000	Towns with a population over 50,000
-Street lighting				
-Cemetery				
-Waste collection			-Civil defence	
-Street cleaning		-Public park	-Social services	
-Domestic supply of drinking water		-Public library	-Fire prevention and extinguishing	-Public transport
-Sewer system and drains		-Market	-Public sports facilities	-Environmental protection
-Road access		-Waste treatment	-Slaughterhouse	
-Paving of public roads				
-Food and drink control				

Source: The authors, based on the LRBRL.

The above Regulating Act allows municipal services to be provided through direct management, through autonomous local entities (decentralisation), or through private agents (outsourcing) and mixed companies, in the following sense:

- **Direct Management:** public services are administered, managed and controlled by the local authority itself.
- **Decentralised direct management:** public services are provided by newly-created entities, such as the following:
 - **Autonomous organisations:** public bodies with their own legal personality that have an autonomous management system, but which continue to form part of the General Administration. They are subject to Administrative Law and their regulations are governed by Act 6/1997 of 20 April 1997, on the Operation and Organization of the General State Administration. This type of structure is often used for tax collection purposes, in view of the budgetary control obtained and the fact that

procurement rules are flexible in this case. Autonomous organisations are used for administrative and commercial tasks.

- **Public Corporations:** entities with their own legal personality, distinct from that of their members, and which operate in accordance with Commercial Law, using their own capital. The provision of public services through these corporations is usually financed through public property taxes and prices charged to the users of the services (Rubin, 1988; Molinari and Tyer, 2003). Public companies are usually preferred for urban management, water supply and sanitation and urban waste management and more than 80% of these public companies have wholly public capital (Morán, 2009).
- **Public Foundations:** according to the Spanish Association of Foundations, these are non-profit organisations whose patrimony is perpetually devoted to the general interest, and whose beneficiaries are groups of people. Among their general interest goals are the defence of human rights (including assistance to victims of terrorism and other acts of violence), social care and social inclusion, educational, cultural and social issues, scientific, sports-related, health-related and work-related activities, environmental protection and technological development.
- **Public Business Entities:** these are public bodies that are engaged in providing services or goods with financial compensation and are subject to private law, except in relation to the exercise of public powers and certain aspects of performance, in this particular case public law is applied (Barrera, 2008). These entities are used for some cultural services and urban development and housing services, mainly in municipalities in Catalonia and the Basque Country.
- **Contracting out:** when public administrations enter into agreements with private-sector entities for the management and provision of municipal services. Nevertheless, the local administration continues to enjoy ownership and maintains decision and control capacity to a large degree. The main formulas for indirect management or externalisation are administrative concession, self-

interested management, agreement, leasing, corporations and cooperatives, and consortia (Pina and Torres, 1997). Spanish municipalities often externalise water supply and sanitation, the collection and treatment of urban waste and the provision of urban public transport. In general, for water services, local governments rely on the company Aqualia, which is part of the FCC Group; in the case of urban waste, FCC shares the provision of this service with the ACS Group, although in general, municipalities that use FCC for water services, use the same company for their urban waste disposal services; for urban public transport, local governments usually contract small local companies.

- **Mixed companies:** both public administration and private sector provide capital to create these companies, so these are neither entirely public-ownership nor private-ownership. The management of public services is shared by both sectors. In general, mixed companies are used for water services and some cultural and housing services. In the case of water services, the most important company is the Agbar Group. For cultural and housing services, local governments use specific companies, an option that is predominant in Catalonia and the Basque Country.

Due to the existence of different modes of public services delivery in Spain, it is important to consider all these modes at the same time, because otherwise, the analysis will be partial and the results could be biased.

Additionally, public services delivery can be performed by a body formed of several local governments. This kind of management is widely used by municipalities with small population and surface area, which need to group together through different mechanisms of municipal cooperation, such as associations combining several small towns, consortia, and so on (Font and Parrado, 2000). In general, the aim of these groupings is to garner the necessary resources for offering citizens the basic services that local governments are charged with providing, such as street cleaning, waste collection and treatment and water supply (Font and Parrado, 2000; Riera-Figueras et al., 2005). But, as the municipalities in all our analyses have large populations because of different reasons that we are indicating later, this option of providing public services is not included in the present study.

Some of these entities have a public legal form and others a private one, and so different legal regimens must be applied. Thus, the question arises: which entities should be governed by public accounting which by private? According to Article 121 of the General Budgetary Law 47/2003:

- Entities that belong to the **administrative public sector**, such as autonomous organisations, must apply the principles and rules of the General Public Accounting Plan and its regulations for development.
- Entities that belong to the **public enterprise sector**, such as public companies, public business entities and consortia, must use the principles and accounting rules of the Commercial Code and the General Private Accounting Plan, including their amendments and the legal provisions that develop them. Nevertheless, Article 200 of the Local Government Regulatory Law states that “commercial companies whose share capital is held wholly or mainly by local authorities are also subject to public accounting regulations, and also subject to the provisions of the Code of Commerce and other business law and the General Private Accounting Plan currently in force for Spanish companies”
- **Foundations** within the public sector must operate in accordance with the accounting principles and rules of the General Accounting Plan for non-profit organisations.

In general, public accounting principles are applied to non-profit entities that render free or semi-free public services and whose resources are derived from taxation. Private principles are applied to other entities that obtain a compensation for the production of goods or services (Morán, 2009), such as public companies, public business entities, foundations and consortia. However, according to Morán (2009), a problem arises from the existence of some public companies (regulated by private accounting principles) whose activity is on behalf of public administrations (regulated by public accounting principles). In such cases, the Accounting White Paper recommends applying the accounting plan that is better adapted to the activity in question, independently of the legal form.

4. ANALYSIS OF THE MODES OF PUBLIC SERVICES DELIVERY IN SPAIN

4.1. Population and sample

In Spain, which is well behind the leading countries in incorporating NPM reforms (Hood, 1996), there have nevertheless been important developments in the functional decentralisation⁸ (Cuadrado, 2008) and externalisation processes (Ramión-Matas and García-Codina, 2006), especially in local governments, administrations that have tended to use these processes, instead of direct management, for delivering public services to citizens with the aim of taking advantages of characteristics of the private sector.

The local sphere allows us to obtain a larger volume of data; moreover, these data are more homogeneous than comparisons between different countries (García-Sánchez et al., 2011). In addition, their proximity to citizens and their daily lives allows administrations to know better the needs of their citizens; but, at the same time, these administrations are severely limited in their capacity to satisfy the population's demands owing to their often delicate financial situation. Therefore, this level of public administration may resort to the decentralisation of municipal services as a means of obtaining a larger volume of public funds (Escudero, 2002). These factors make Spanish municipalities a suitable setting for analysis.

However, the high number of Spanish municipalities and the disparities among them require a criterion be applied to select a sample. The most adequate criterion is related to the size of the population (Benito et al., 2010; Navarro et al., 2010; Guillamón et al., 2011; Navarro-Galera and Rodríguez-Bolívar, 2011). We selected the largest municipalities because they are the only ones obliged by law to provide their citizens with all the services listed in the Local Government Regulatory Law, so the results take into account more services than those that would be considered in a sample using smaller municipalities. Furthermore, the reform processes postulated by the New Public Management (NPM) paradigm are much better adapted to large cities than to the smallest municipalities, where management is much more informal, and it is the responsibility of a single inhabitant, termed a "non-professional" mayor. These small

⁸ Cuadrado (2008) shows that the number of public enterprises and entities owned by municipalities and communities raised three-fold in the last decade.

villages may count on an administrative expert, available one day a week, to resolve specific problems. However, in larger municipalities, the electoral candidates are professional politicians who have a close relation with the national party administration and who are therefore aware of the potential repercussions of their actions at the local level on national elections (Carrillo, 2009). For these reasons, and in accordance with Prado-Lorenzo and García-Sánchez (2007), it is not necessary to include the smaller ones in this study.

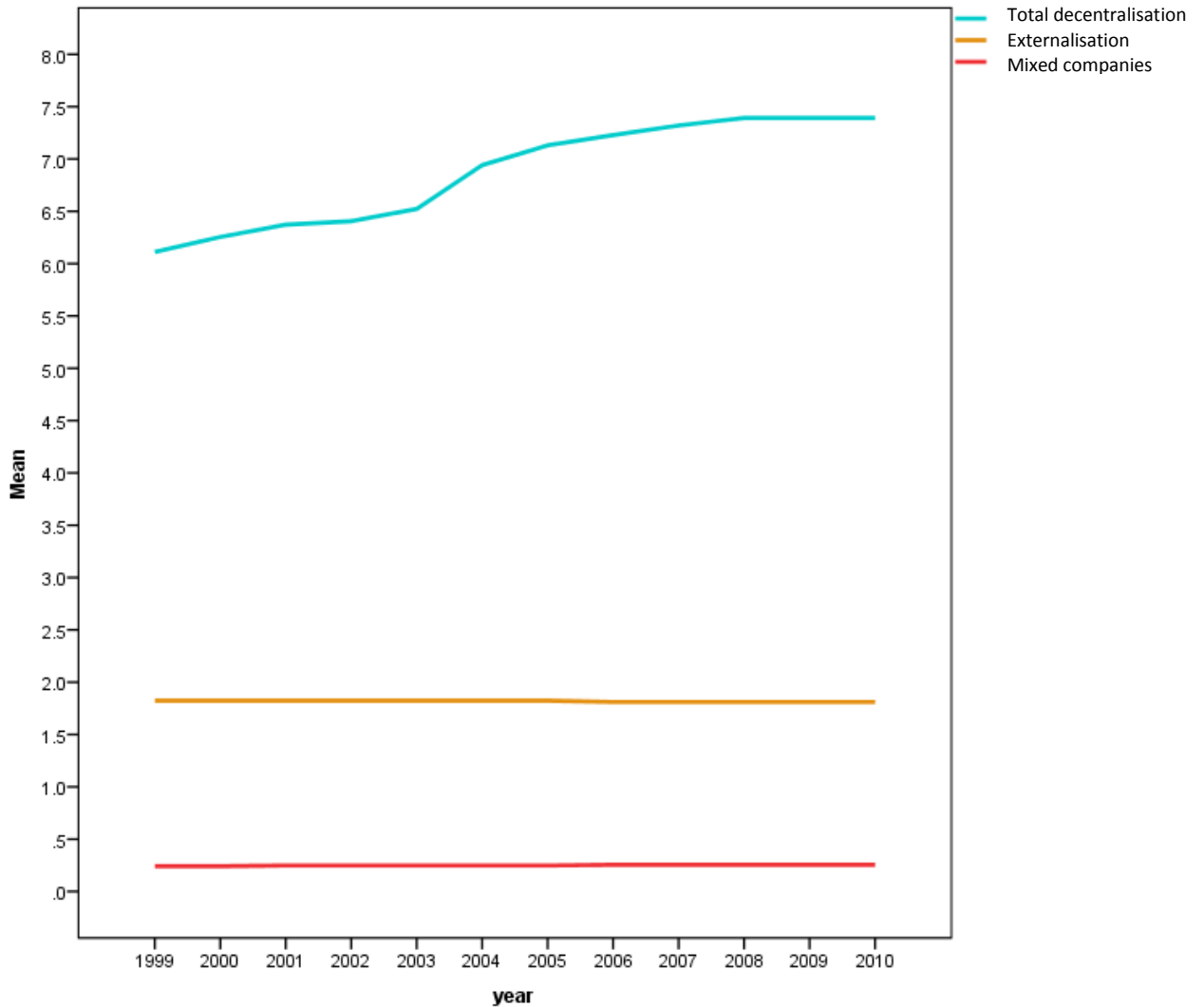
More concretely, the selected municipalities are the 153 major local governments, including all the provincial capitals in Spain and practically all municipalities with a population of over 50,000. The time period analysed is 1999-2010, inclusive. This specific time period was selected because of the growing importance of externalisation and decentralisation processes during these years, which provoked the decision by the General Comptroller of the State Administration (IGAE) to perform an annual inspection of these entities.

Nevertheless, the data used in the following chapters vary slightly in relation to the number of municipalities considered and the time period, due to the different availability of the rest of variables included in the analysis.

4.2. Global analysis

In this section, the global evolution of each mode of public services delivery in Spain, from 1999 to 2010, is analysed, and graphs and descriptive statistics are given. Firstly, Graph 1 shows the evolution of the use of the three modes of public services delivery from 1999 to 2010. Functional decentralisation is most commonly applied, followed by externalisation, and finally, mixed companies. Decentralised entities have been increasingly adopted, with a notable rise taking place between 2003 and 2004.

Table 2 shows that, in the time period considered, each Spanish local authority created on average 6-7 decentralised entities and entered into 1-2 contracts with the private sector for the delivery of specified public services. Nevertheless, the standard deviation values point to considerable differences among municipalities. Finally, the use of mixed companies, under which the delivery of public services is shared between the private and public sectors, is insignificant, with an average value for these entities close to zero.

Graph 1. Evolution of the modes of public services delivery 1999-2010**Table 2.** Descriptive Statistics. Modes of public services delivery

Period: 1999-2010			
	N	Mean	Standard Deviation
TOTAL DECENTRALISATION	1836	6.87	6.538
EXTERNALISATION	1836	1.82	.758
MIXED COMPANIES	1836	.25	.448

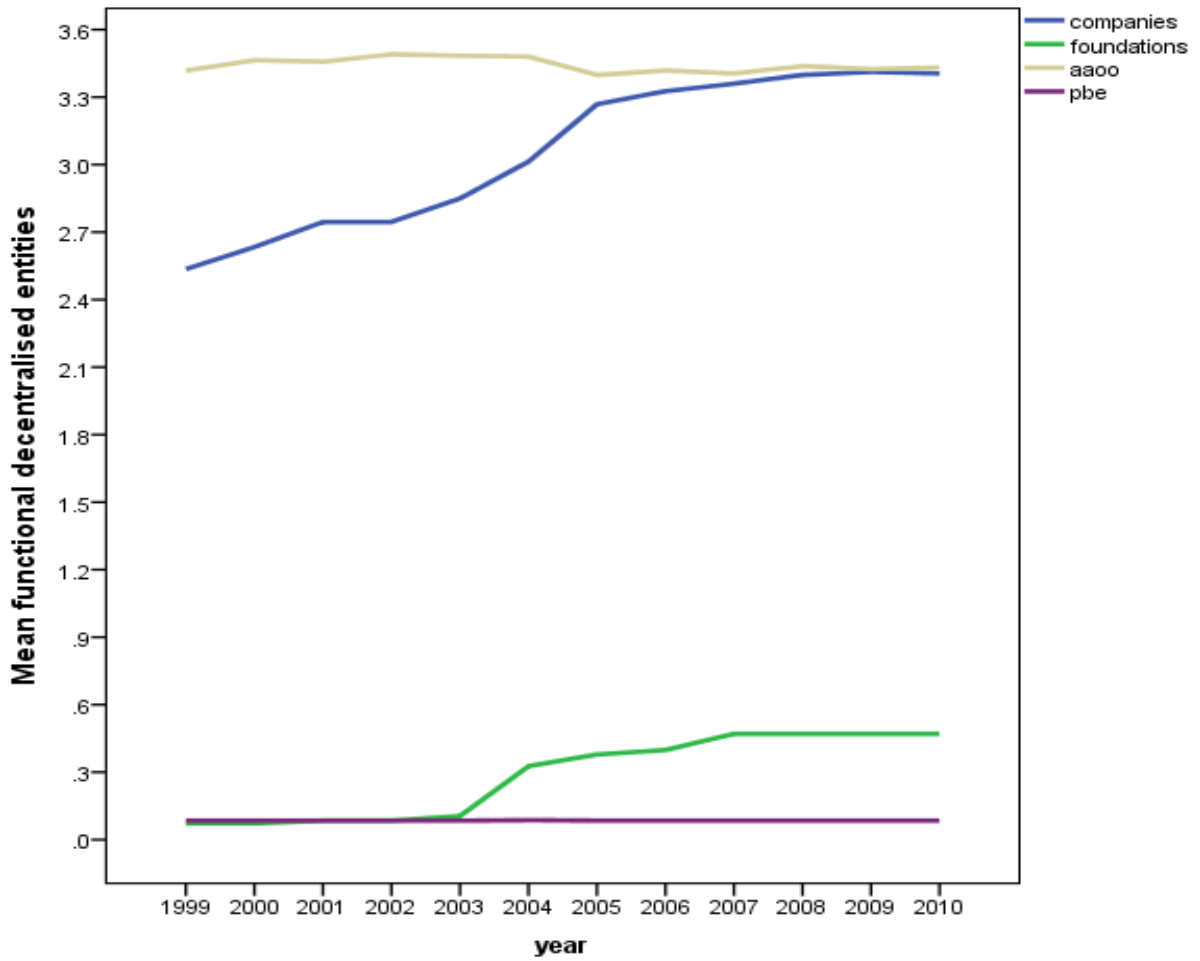
By examining the different forms of decentralised entities, such as public companies, foundations, autonomous organisations and public business entities, we can perform a complete analysis of functional decentralisation. This is one of the advantages of the present study, in contrast to others that have considered only one mode of public services delivery, either corporatisation (public companies) or outsourcing (externalisation). By incorporating all existing modes, the analysis is more realistic and the results more consistent.

As shown in Graph 1, the process most often adopted is that of decentralisation; but which types of decentralised entity are most common? The following figures and table show the evolution of the different forms of decentralised entity.

Table 3 and Graph 2 show that autonomous organisations are the forms most often resorted to, followed by companies; foundations and public business entities were created less frequently during this period. Nevertheless, the pattern of change reveals aspects of interest: we can see in the Graph 2 that the use of foundations began to increase between 2002 and 2003, just when significant limitations on local government indebtedness were imposed under the Budgetary Stability Act. The use of these agencies during the period when indebtedness was restricted is analysed in Chapter 2.

Another interesting feature shown in Graph 2 is the sharp increase in the number of public companies. Autonomous organisations were widely employed throughout the period in question, but the numbers of public companies increased spectacularly. The reasons for this change and its consequences are analysed in the following chapters.

Graph 2. Evolution of decentralised entities 1999-2010



Graph 3. Use of decentralised entities (1999-2010)

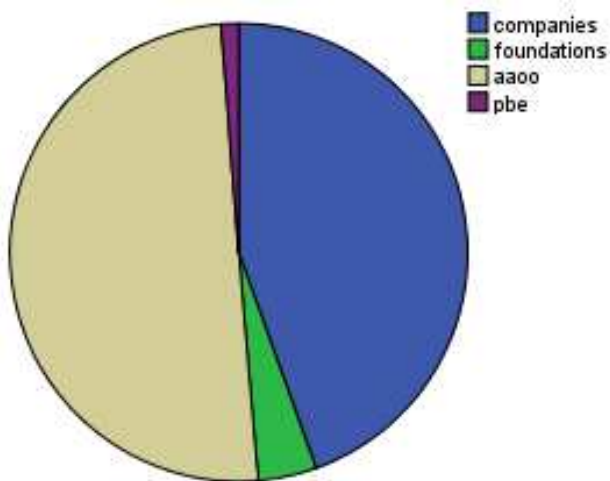


Table 3. Descriptive Statistics.
Modes of functional decentralisation

Period: 1999-2010			
	N	Mean	Standard Deviation
COMPANIES	1836	3.06	3.828
FOUNDATIONS	1836	.28	.896
AAOO	1836	3.45	3.270
PBE	1836	.08	.427

4.3. Analysis by municipalities

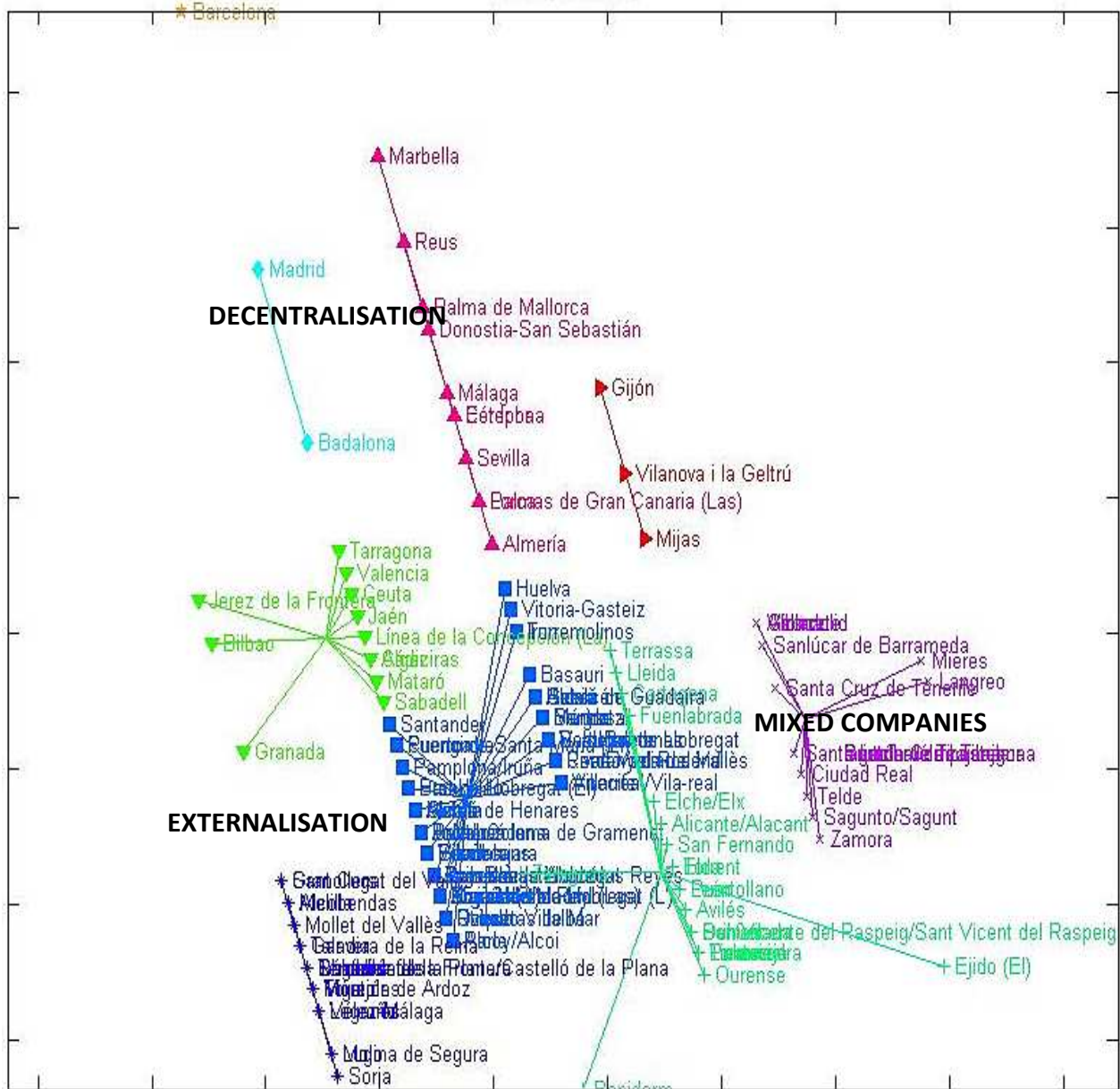
To analyse the evolution of the use of different modes of public services delivery, we use the biplot technique, which provides a graphic representation of multivariate data (Gabriel, 1971). While a scatter plot shows the distribution of two variables, a biplot represents three or more variables (Gabriel and Odoroff, 1990) on a space of two or three dimensions. Individuals (points on the plane) and variables (axis) are shown in the same representation.

The following figures show biplot representations of the use of different modes of public services delivery (functional decentralisation, externalisation and mixed companies) by local authorities in the initial and final years of the study (1999 and 2010).

The different clusters show the groups of municipalities that used similar modes of public services delivery in 1999. When these groups are distant from the centre of the plane, the use of some modes is more significant than others. For instance, in Figure 1, the largest cities (Madrid and Barcelona) and large towns such as Badalona, Tarragona, Reus and Marbella form a group that is characterised by the use of functional decentralisation for public services delivery. However, the group shown in purple, formed by Melilla, Granollers, Elche, Castellón, etc., make greater use of externalisation. On the other hand, the group shown in green, in the lower-right corner, formed by El Ejido, Benidorm, Valladolid, Zamora, and by island municipalities such as Telde, Santa Lucía de Tirajana, San Cristobal de la Laguna and Santa Cruz de Tenerife, among others, tend to use mixed companies, especially for water supply and sanitation.

Figure 2 shows the biplot results for 2010, which are interpreted in the same way as above, i.e. the clusters are formed of municipalities that used similar modes of public services delivery in 2010. The most interesting aspect of these two figures is that they illustrate the changes that took place in the form of public services delivery between 1999 and 2010.

Figure 2. Biplot 2010



Firstly, the largest cities continued to use mainly functional decentralisation, but there were some changes: Barcelona intensified the use of decentralisation and is now separated from its former group. Marbella and Reus have moved toward the group with Palma de Mallorca, Sevilla, Málaga and Estepona (among others), which use externalisation in addition to functional decentralisation, although to a lesser extent. Concretely, externalisation is used for water services, waste disposal services and public

transport. This combination of modes of services delivery was also used by Tarragona, Granada, Ceuta, Jaén, Mataró, Sabadell and Valencia in 2010. These municipalities have moved to the cluster that was initially formed by Bilbao and Jerez, with the difference that now externalisation and decentralisation are used to the same degree.

On the other side of Figure 2, the cluster that had been formed by the island municipalities and by others such as Valladolid, Zamora, Ciudad Real, Sagunto and Sanlúcar de Barrameda, whose main characteristic was the use of mixed companies for water services, has divided into two groups: on the one hand, the island municipalities, Ciudad Real, Sagunto and Zamora have combined the use of mixed companies with functional decentralisation; while on the other, the remaining municipalities have tended to prefer externalisation, especially for waste disposal services and public transport.

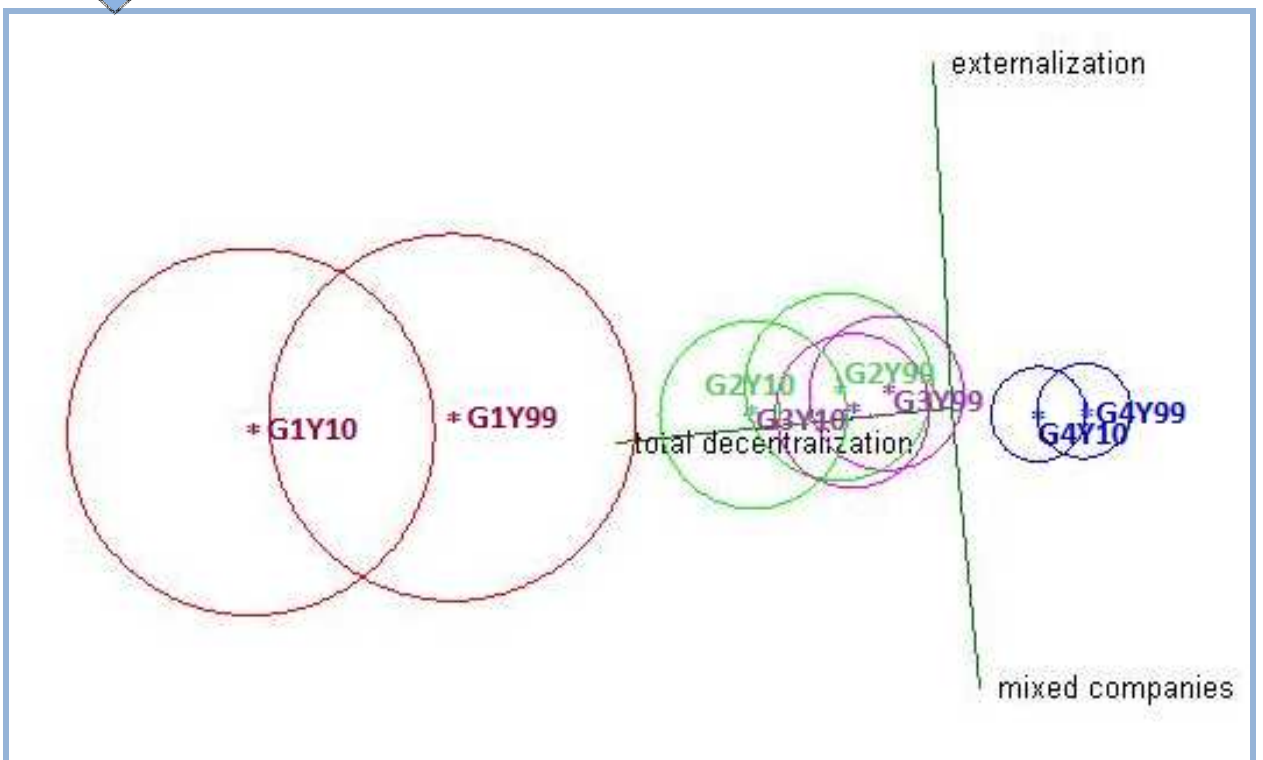
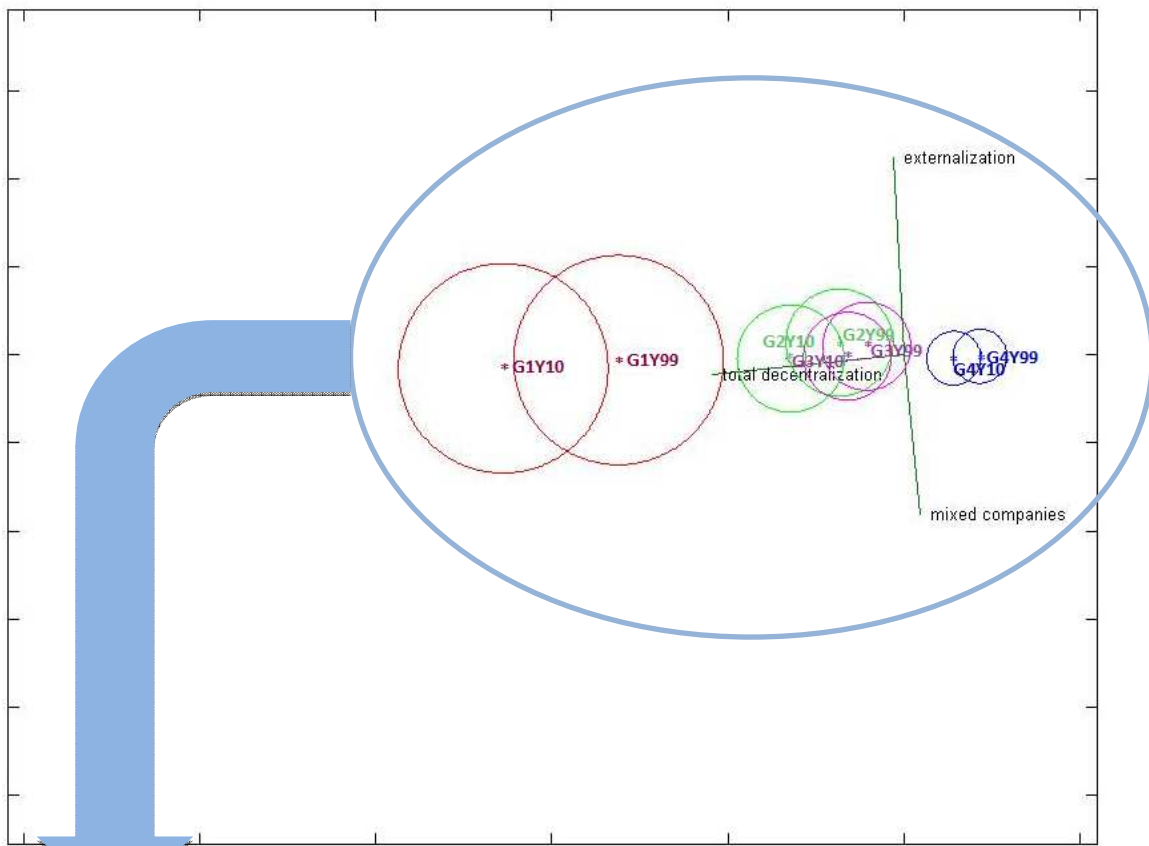
The other municipalities are located at the centre of the plane, where all modes of public services delivery are granted the same degree of importance.

Finally, Figure 3 represents the same evolution as in Graph 1, but grouping the municipalities by size. Thus, four groups were distinguished:

- **Group 1 (G1):** municipalities with over 500,000 inhabitants
- **Group 2 (G2):** municipalities with 200,000 - 500,000 inhabitants
- **Group 3 (G3):** municipalities with 100,000 - 200,000 inhabitants
- **Group 4 (G4):** municipalities with under 100,000 inhabitants

It is clear that, over time, all of these municipalities have tended to adopt functional decentralisation, although some more than others. In general, this tendency is more marked in large cities, which is in accordance with the biplot analyses. Groups 2 and 3 presented a slight trend toward externalisation, which is also in accordance with the above comments. The smallest municipalities, although they present the same tendency, continue to make less use of decentralisation.

Figure 3. Manova Biplot



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CHAPTER 2

Determinants of Functional Decentralisation and Externalisation: Political Factors and Public Debt

1. INTRODUCTION

As we showed in the previous chapter, processes of functional decentralisation have acquired special relevance in recent decades (Molinari and Tyer, 2003; Utrilla, 2007; Cuadrado, 2008) for various reasons.

On the one hand, public administrations are frequently confronted with difficult economic situations (Domínguez, 1997; García, 2000), so they are forced to seek alternative ways to deliver services that are demanded by citizens. One of these alternative ways is functional decentralisation, which is held to produce faster service provision (Downs, 1967) because decentralised units are closer to citizens and, therefore, more aware of their preferences (Hayek, 1945). On the other hand, these processes could be carried out as a mean of masking individual objectives, because politicians might use decentralisation to their own benefit. In this sense, Bennett and Dilorenzo (1982 and 1984), Blewett (1984), Marlow and Joulfaian (1989), Bunch (1991), Escudero and Prior (2002) and Prado-Lorenzo et al. (2009) have shown that governments may decentralise in order to avoid budgetary restraints, by transferring part of their debt to the newly-created entities.

Another mode of public services delivery is externalisation, also called “outsourcing” or “contracting out”, through which the public administration makes a contract with the private sector for providing public services. This is another important reform of the NPM theory. For the proponents of NPM, this process is a way to increase accountability by turning to individuals in the market, maximising economic efficiency, reducing government costs and increasing the quality of public services, by transferring some government functions to specialist suppliers (Cannadi and Dollery, 2005; González et al, 2011), so that public organisations can focus on more strategic operations and externalise those that are less important (Butler, 1985; Donahue, 1989; Brown and Potoski, 2003; Pessoa, 2009; González et al., 2011).

Furthermore, according to strategic management literature (Bovaird, 2004; Pessoa, 2009), externalisation produces competitive advantages through economies of scale, economies of scope and opportunities for mutual learning (private sector from the public sector and vice versa), because this process involves a transfer of knowledge between the providers and the customers of the externalised services (Norton and

Blanco, 2009).

However, the introduction of the private sector in public services provision is controversial. Some scholars argue that outsourcing has the potential to produce considerable fraud and corruption if managerial control by the public sector is weak (Kettl, 1993; Frederickson, 1999; Pessoa, 2009). Politicians have intervened all too often in the selection of providers, with cases occurring of corruption and favouritism in the awarding of contracts (Fernández, 2007; González et al., 2011).

Accordingly, this chapter examines the determinants of functional decentralisation and externalisation processes in local administrations. In particular, we contribute additional empirical evidence by: (i) specifying the causes of these processes; (ii) making a complete analysis of these processes, considering different decentralised entities – public companies, foundations, autonomous organisations and public business entities, as opposed to considering only public companies – the corporatisation process; (iii) incorporating variables representing overall budgetary management – indebtedness and fiscal pressure – and political factors that represent electoral and partisan decisions; and (iv) considering a time period enabling the use of panel data methods, which provide more robust results than cross-sectional studies by controlling for unobservable heterogeneity. This method also allows us to correct endogeneity problems between dependent and independent variables.

With these goals in mind, we examined a sample of 153 Spanish local governments with populations of over 50,000 and the provincial capitals, for the period of time 1999-2007.

The Spanish context is interesting because of the characteristics of its legal environment, especially as regards accounting law, which requires that a local government's consolidated report incorporate the financial and budgetary statements of the public corporations in which a majority share of the capital is held (Benito and Bastida, 2007). This legal obligation could have a strong influence on the use of these agencies as an escape valve for the limitations on municipal debt. According to authors such as Grossi and Mussari (2008), Grossi and Newberry (2009), Grossi and Pepe (2009), the consolidation of these entities is a big piece in the jigsaw puzzle of the search for a true and fair picture of the public sector.

The results obtained show that right-wing local governments tend to use functional decentralisation to a greater extent than do other ideologies, particularly if they enjoy an absolute majority and the political environment is characterised by a low degree of competition. At the outset, they often create foundations, and as their position becomes consolidated following re-election, they create other entities, such as public companies and autonomous organisations, which are subjected to greater control. In addition, we have found empirical evidence of the use of decentralised entities created with the aim of increasing public debt. The legal limitations on indebtedness imposed in 2001 were effective, but local governments were able to circumvent them through the creation of foundations, which are not obliged to consolidate their accounts. This practice is more often adopted by left-wing parties, due to the effect of the partisan budget cycle.

2. POLITICAL CHARACTERISTICS AS EXPLANATORY FACTORS: Research Hypotheses

Ferris (1986) pioneered the study of factors affecting decisions regarding the externalisation of public services, and analysed the reasons underlying contracting out by local administrations in the United States.

Subsequent studies have focused on examining economic and financial variables that might influence external contracting, and have considered political factors to be of only slight significance, and thus ignored them to a certain extent. Ideology and political motivation are the only political variables usually included in these types of studies, although Bel and Fageda (2007 and 2009) concluded that the choice of municipal services management is motivated by different aspect as economic efficiency, financial problems and political and ideological considerations.

The impact of political factors on territorial decentralisation processes has been noted by many authors, especially the impact of the aim to achieve favourable results in forthcoming elections (O'Neill, 2003). According to Mardones (2007), ideology is one of the factors impacting on decentralisation in Chile, while Escobar-Lemmon (2003) highlighted as possible explanations of decentralisation in Colombia and Venezuela factors such as the expectation of electoral benefit, the level of citizens' trust in governments and the wealth of municipal districts. Falleti (2005) considered the impact

of the territorial interests of interested parties in Colombia and Argentina. Decentralisation processes have also been used to increase citizens' participation (Escobar-Lemmon, 2006) in countries characterised by a low level of public-service commitment and by electoral apathy (Nickson, 1995).

Public Choice theory interprets the political system as a market in which agents interact in order to attain their objectives (Downs, 1957; Black, 1958; Buchanan and Tullock, 1958; Stigler, 1965; Niskanen, 1971). This theory has been largely constructed on the *citizen-candidate* perspective (Osborne and Slivinski, 1996; Besley and Coate, 1997; Dixit and Londregan, 1998), which in turn is based on the approaches suggested by Downs (1957) and Lindbeck and Weibull (1987). Politicians are considered opportunistic agents and, as such, they act in their own interest, setting aside citizens' interests. From a utilitarian point of view, politicians are either seeking to gain power or to retain it, and to do so they implement policies addressing these goals.

According to this theoretical perspective, the political factors that influence the different reforms carried out in public administration may be ideology, political competition, political stability and the electoral period.

2.1. Political ideology and decentralisation/externalisation

The fact that politicians are driven by ideological motives, and that the latter are consistent with the interests of the core constituencies that elected them, needs to be taken into account. Because the Spanish setting is characterised by a strong left-right duality (Bastida and Benito, 2010; García-Sánchez et al., 2011a and 2012), the analysis of ideology in this country should be based on these two political options.

It is commonly assumed that right-wing parties are more likely to seek reductions in public expenditure and to lower the tax burden than are left-wing parties (Allers et al., 2001). In other words, conservative parties are believed to be more in favour of introducing budgetary discipline.

Nevertheless, empirical evidence regarding the influence of ideology is not totally conclusive. On the one hand, there are studies such as that by Blais and Nadeau (1992), based on ten Canadian provinces, which confirm the greater contribution made by left-wing governments to increases in public deficit. Tellier (2006), in another study

focusing on Canada, reported that left-wing governments incur higher public expenditure than do centre and right-wing ones. Allers et al. (2001), based on a sample of Dutch municipalities, showed that the more progressive (i.e. left-wing) the government, the greater the tax burden. Reid (1998) argued that Canadian centre-left municipal governments are characterised by higher levels of growth in total real per capita expenditure.

On the other hand, Bosch and Suarez-Pandiello (1995) and Benito and Bastida (2004) do not believe the behaviour of progressive parties in local government to be different from that of conservative ones. Benito and Bastida (2008) reached the conclusion that the political ideologies adopted by local governments in Spain present no clear influence on the tax situation of municipalities. Galli and Rossi (2002), based on a sample of German Länders, showed that the ideology of a party has no systematic impact on public expenditure, because sound tax policies are not influenced by ideological factors. In addition, Hagen and Vabo (2005) found no significant relationship between ideology and the financial characteristics of Norwegian local governments. Likewise, Seitz (2000) reported the irrelevance of the effect of ideology on the tax policies of German states.

Some recent empirical studies, foremost among which is the book by Jones and Walter (2008), conclude that the policies carried out by Republicans and conservatives for the last 30 years in the US have failed, thus damaging the economy, and therefore it might be affirmed that, although their stated goals are different, expenditure programmes financed by both these ideologies have the same budgetary implications¹.

Focusing on the process of organisational reforms in an international context, Dubin and Navarro (1988), Dijkgraaf et al. (2003) and Walls et al. (2005) have shown that, albeit weak, there is a greater disposition towards privatisation within right-wing administrations. Escobar-Lemmon (2006) found that most decentralising laws were passed during the administrations of Liberal parties. Tavares and Camões (2007) in their study of Portuguese public services claim that the ideological variable is of no relevance to decision taking regarding water provision and refuse collection.

¹Progressive parties support social programmes (social benefits, healthcare, etc.), while conservative ones devote funds to other expenditures such as prisons, the police force and the army.

In relation to Spain, Bel et al. (2010a) report that ideology does not influence the privatisation of solid waste disposal and water supply services in a sample of Spanish municipalities; similar conclusions were reported for the sub-samples of municipalities analysed by Bel and Fageda (2008). The latter study highlighted the importance of political interests over ideology in accounting for the privatisation of public services. In the same vein, these authors show that ideological factors are of relatively little importance regarding decisions to share management functions between the public sector and private enterprises (Bel and Fageda, 2010). In this respect, González-Gómez and Guardiola (2009) concluded that ideology is not a determining factor in the outsourcing carried out by local governments.

However, the spectacular shift towards privatisation and decentralisation which began in 1996 when the right-wing People's Party (PP) came to power is undeniable. This party's privatisation programme affected most public corporations and it was claimed that "the ultimate goal of the reduction and restructuring of the public business sector is to increase productive efficiency and to adequately allocate scarce resources" (Gamir 2005). Regarding the decentralisation of regional competences, this high impact event in Spanish economic history was later confirmed by Prado-Lorenzo et al. (2009), for whom conservative governments are greater believers in private initiative and are therefore more predisposed to corporatisation processes based on the adoption of private management techniques. Furthermore, they consider that the existence of decentralised agencies improves the performance of public administration (Aberbach and Rockman, 1999).

Because of the controversy regarding how ideology might influence decisions related to the decentralisation of public services, our first hypothesis is based on the theoretical arguments and empirical results of Prado-Lorenzo et al. (2009):

H1: Right-wing local governments tend to use decentralisation/externalisation to a greater extent than do parties of other ideologies.

2.2. Political competition and decentralisation/externalisation

The above ideological effect may be modified by the intensity of political competition. Ni and Bretschneider (2007) argue that when the level of political competition is high, the checks and balances of political control will prevent over-

reliance on political decisions, thus resulting in a propitious environment for reforms to be carried out.

According to a partisan model of government, in an environment of low political rivalry, ruling politicians are better able to implement their ideology and carry out the necessary reforms. More specifically, the partisan view assumes that political parties represent the interests of the different segments of the electorate that support them, and that when they are in power they implement policies that benefit these segments. Solé-Ollé (2006) recently confirms the empirical prevalence of the Partisan model for several Spanish local governments.

Inter-party competition is vital for devolving institutional power to citizens, which makes it necessary for politicians to pay attention to the demands of their constituents (Smith and Fridkin, 2008).

However, the aforementioned empirical evidence presents contradictory results regarding the effect of this factor on public sector programmes and reforms. Thus, García-Sánchez et al. (2011b) reported evidence of the important impact of political competition on local governments' economic and sustainability policies aimed at enhancing their population's quality of life. The same authors (2011c) observed a negative impact of this political factor on the development of e-government.

Based on the above arguments, we state the second hypothesis of this study:

H2: In environments characterised by a low degree of political competition, local governments tend to implement decentralisation/externalisation to a greater extent.

2.3. Political stability and decentralisation/externalisation

Moreover, the intensity of political competition usually involves a higher probability that the governments have been formed by a coalition of parties. If we extrapolate the Weak Government Hypothesis (RSH) proposed by Roubini and Sachs (1989a and 1989b) for budgetary deficit to public administration reforms, it can be affirmed that the political structure of the administration affects any decentralisation process. When governments are weak and divided they are less effective at introducing changes than when they are stable and govern with a working majority. This has been

confirmed in several subsequent empirical studies (Poterba, 1994; Blais et al., 1993; Borge, 2005; Hagen and Vabo, 2005; Benito and Bastida, 2008). With only one political party in power, voters can clearly see who is responsible for the decisions taken, thus, in a fragmented government the different political actors take different actions in order to obtain higher electoral support for their own party.

In this respect, Warner and Hebdon (2001), Bel and Fageda (2008) and González-Gómez et al. (2010) argued that electoral support is significant, i.e. parties that govern with an absolute majority have greater freedom to introduce the externalisation of municipal services, as their decision-making is supported by a large part of the electorate. Accordingly, our third hypothesis is as follows:

H3: More stable local governments tend to use decentralisation/externalisation to a greater extent than do less stable ones.

2.4. Electoral period and decentralisation/externalisation

Authors such as Aghion and Bolton (1990), Milesi-Ferreti (1995) and Milesi-Ferreti and Spolaore (1994) have found that governments strategically use different public policies or actions to influence election results by taking into account voter preferences. In this sense, Escobar-Lemmon (2006) and O'Neill (2003) reported that territorial decentralisation is a manoeuvre used by politicians aimed at improving electoral results.

More specifically, Frey and Schneider (1978a, 1978b and 1979) designed a model of political-economic interactions describing the interdependence between government and the economy. In this model, the government establishes public policies that fit its ideological stance, but is subject to electoral constraints, with respect to its future re-election. These constraints are independent of the government's ideology, and electoral pressures may also affect the use of policy instruments (Tellier, 2006).

Moreover, it has been shown that reforms or ideological actions are mainly undertaken in the initial years of government. Thus, Baber and Sen (1986) observed that political parties, of all colours, tend to introduce budgetary discipline measures, for instance debt reduction, in the two years immediately following their election. Miranda (1994) showed that politicians who have been in power for long periods of time tend to

be more moderate and to oppose major reforms. However, Warner and Hebdon (2001) observed that politicians who have been in power for longer periods of time also tend to make greater use of restructuring processes, as a result of their accumulated experience.

Thus, in accordance with the majority of prior empirical evidence, we state our fourth hypothesis as follows:

H4: Local governments tend to use decentralisation/externalisation to a greater extent in the years immediately following their election victory.

3. PUBLIC DEBT AS EXPLANATORY FACTOR

Public debt has been used strategically by politicians in order to manipulate voter preferences and to influence election results, in France (Aubin et al., 1988; Binet and Pentecote, 2004; Foucault et al., 2008), Japan (Kohno and Nishizawa, 1990; Yoshino and Mizoguchi, 2010), Canadian provinces (Blais and Nadeau, 1992; Reid, 1998; Kneebone and Mckenzie, 2001; Tellier, 2006), Israel (Rosenberg, 1992), the U.S. (Poterba, 1994; Grier, 2008), Germany (Galli and Rossi, 2002; Berger and Holler, 2007; Schneider, 2010), Flanders (Ashworth et al., 2005), Spain (García-Sánchez et al., 2011a), Brazil (Sakurai and Menezes-Filho, 2010) and China (Guo, 2009).

To prevent this opportunistic behaviour, many national authorities have imposed restrictions on public indebtedness, with limits differing from country to country. In Spain, all sub-national governments (Autonomous Regions, Provincial Assemblies and Municipalities) are subject to some type of budgetary restriction.

However, diverse mechanisms and procedures have been implemented to circumvent these restrictions and achieve favourable election results. Thus, Bennett and Dilorenzo (1982 and 1984), Blewett (1984), Marlow and Joulfaian (1989), Bunch (1991), Escudero (2002), Grossi and Mussari (2008), Grossi and Thomasson (2011) and Prado-Lorenzo et al. (2009) have shown that the functional decentralisation of public administrations through the creation of corporations and other autonomous agencies is aimed at transferring part of their expenses and debt to these independent companies in order to comply with the restrictions imposed on their public finances. These actions

might be facilitated by a lack of transparency within these entities (Chan, 2003).

Moreover, central governments have tended to transfer decision-making on fiscal resources to sub-national administrations, since, according to the fiscal federalism theory, this allows an optimum public sector structure to be attained and fiscal tasks to be distributed in order to maximise economic well-being (Carrera, 1998; Ahmad and Brosio, 2006; Dafflon and Madiès, 2011). Thus, resorting to decentralisation in order to achieve levels of indebtedness higher than those permitted by law will be influenced not only by proximity to the debt limits established, but also by the total amount of revenue raised autonomously.

Nevertheless, this effect is expected to be achieved from functional decentralisation, but not from externalisation, because outsourcing relies on private companies, which do not incur public debt. Therefore, the following hypotheses are proposed solely with respect to functional decentralisation.

3.1. Fiscal illusion and functional decentralisation

Underlying the concept of fiscal illusion is the idea that citizens, as voters, have a mistaken notion about the price they ought to pay for public goods and services. They tend to underestimate the cost of public goods and services in relation to the taxes they pay; this leads to greater demand for and production of these services, which in turn provokes increased public spending (Higuera et al., 2004).

At first, fiscal illusion was maintained by financing higher public spending with external funding (borrowing or public debt), with the idea that taxpayers do not realise that current indebtedness must be covered by future taxes (Pommerehne and Schneider, 1978; Levy and Feigenbaum, 1987; Wagner, 1987). Nowadays, this opportunistic use of public debt has led competent national authorities or governments to establish limits on the amount of debt that sub-national administrations can incur. However, as Von Hagen (1991) observed, budgetary restrictions influence the choice of how to acquire debt, rather than the decision to issue public debt or not. Thus, governments circumvent debt restrictions by taking certain activities outside the budget.

Alarms have been sounded as to the ultimate goal of the decentralisation process, as irresponsible use may endanger intergenerational equity (Prado-Lorenzo et

al., 2010). The excessive use of decentralised agencies has been associated with attempts to avoid legal limitations on indebtedness, since public administrations can transfer costs and debts from their own financial statements to those of the decentralised agency (Garlatti 2001; Bremeier et al., 2006; Grossi and Reichard, 2008), formally complying with the restrictions while maintaining the fiscal illusion.

Such agencies have been called “Underground Government” (Bennett and Dilorenzo, 1982) or “Backdoor Government” (Samuelson, 1988), highlighting schemes designed by opportunistic politicians to hide the real costs of electoral programmes and thus to manipulate the will of the voters, for whom the perceived utility has apparently increased.

Empirical evidence has shown that public administrations with higher levels of debt are more likely to create public corporations (Prado-Lorenzo et al., 2009 and 2010), especially after legal limits to the amount of debt are established (Farnham, 1985), in order to increase the external resources available to them in the medium and long term (Bennett and Dilorenzo, 1982 and 1984; Blewett, 1984; Marlow and Joulfaian, 1989; Bunch, 1991; Monasterio, 1996; Salinas et al., 1996; Monasterio et al., 1999; Escudero, 2002).

In line with the above arguments, the following hypothesis is:

H5: Local governments with higher debt levels will implement significant functional decentralisation processes.

3.2. Political Budget Cycle

Politicians are driven by ideological motives and respond to the interests of their core constituencies. On the one hand, right-wing governments believe more in private initiative, so they are more receptive to decentralisation processes based on the adoption of private management techniques. It is commonly assumed that these governments seek to reduce public expenditure and to lighten the tax burden (Allers et al., 2001). In this sense, we expect that right-wing parties make greater use of decentralisation than others, with the aim of increasing the efficiency and effectiveness of the public sector.

On the other hand, left-wing governments are more favourable to state intervention, and consequently they tend to increase public debt (Tellier, 2006; García-Sánchez et al., 2011a); therefore, they may decide to create public agencies as a mean of getting more debt that allow them to implement their ideological programmes.

In according with the above, the effect of the political ideology on decentralisation processes is unclear *a priori*. But, the final aim of each ideology is different, so we establish the following sub-hypothesis for clarifying this effect:

H6: Right-wing local governments tend to use functional decentralisation to a greater extent than other governments; however, the use of these agencies as a means of raising the level of debt is more commonly done by left-wing governments, due to the effect of the partisan budgetary cycle.

However, some authors disagree with these views. Riherd (1995) showed that the basic determinant of a state's debt level is not the number of public agencies, but rather the way in which debt activity is directed and controlled. Thus, more centralised states, as regards the supervision and control of public agencies, show a higher degree of effectiveness of debt restrictions. Accordingly, we consider the effect of accounting regulations on the use of functional decentralisation.

3.3. Accounting regulations

Increasing decentralisation in the provision of public services by local authorities has highlighted the need to develop techniques, similar to those used in the business sector, to prepare financial statements that represent a true picture of the municipality in budgetary, economic and financial terms. Moreover, when a local government establishes a network of interacting entities, the responsibility for their performance cannot be attributed to government alone, although it plays a major role in coordinating public policies, as the results also depend on the kind of decentralised entities (Grossi and Soverchia, 2011).

Accounting regulations are important, in requiring consolidated accounting statements, because annual individual accounts do not provide a faithful image of the overall economic-financial situation of a municipality, since part of its debts are transferred to the dependent agencies, which present their own financial statements.

Countries such as the United Kingdom, New Zealand, Sweden and Australia already take into account the importance of consolidation and have made consolidated statements compulsory for all companies in the public sphere (Montesinos et al., 2010). This increasing use of the consolidation of annual accounts provides feedback for decision making, helping control political actions and improve accountability, and satisfies demands for information and transparency (Grossi and Mussari, 2008; Grossi and Newberry 2009; Grossi and Pepe 2009).

In Spain, the consolidated text of the Local Government Finance Act (Art. 166), states that local authorities must publish, as well as the general budget, the degree of consolidation between the local authority budget per se and all the budgets and forecasts of its municipal corporations. In addition, Article 209 specifies that the general accounts of a local authority should contain both those of the municipality itself and those corresponding to its wholly-owned companies. Furthermore, the municipal council may integrate the consolidated accounts of different agencies into its general accounts. Such accounting practices are possible (Benito and Bastida, 2007) because the public companies created are, in general, 100% owned by the municipality (IGAE, 1999-2007).

However, the above budget and accounting requirements cannot be extended to other decentralised agencies, such as foundations. The latter entities, therefore, could be used to increase municipal debt without increasing local debt, as they do not form part of the consolidated budget or the general account. Taking into account the above arguments, we establish another hypothesis:

H7: In local governments with higher debt levels, the functional decentralisation process through public companies is less often used to increase municipal debt than is the creation of foundations as a result of specific accounting regulations (the obligation to consolidate accounts).

4. EMPIRICAL RESEARCH DESIGN

4.1. Sample for the analysis

The population selected for this study is that of the 153 local governments whose budgetary data are included in the Spanish Public Sector Database (BADESPE). This

database includes all the provincial capitals in Spain and practically all municipalities with a population of over 50,000 inhabitants. The time period analysed is 1999-2007, inclusive, instead of 1999-2010, due to the availability of the budgetary data. With this sample, the full available dataset is used for the analysis.

4.2. Dependent variables

The dependent variables correspond to the different modes of public services delivery in local governments in Spain. They are described as follows:

- **TOTAL_DECENTRALISATION**: numerical variable that represents the number of decentralised agencies created in each municipality. Concretely, this process may be carried out by:
 - **COMPANIES**: number of government owned corporations created by each municipality.
 - **AUTONOMOUS ORGANISATIONS (AAOO)**: number of autonomous bodies created in each municipality.
 - **PUBLIC BUSINESS ENTITIES (PBE)**: number of municipal business entities created by each municipality.
 - **FOUNDATIONS**: number of municipal foundations created in each municipality.
- **EXTERNALISATION**: numerical variable that represents the number of private agencies that have acquired the right to provide public services in each municipality.
- **MIXED_COMPANIES**: numerical variable that represents the number of mixed companies that are created in each municipality. Both public and private sectors are owners of these companies.

4.3. Independent Variables

Based on the posited hypotheses, the variables considered in the analysis are related to political factors and the level of public debt of each municipality. Concretely,

to test hypotheses H1, H2, H3, and H4, we defined the following variables:

- **RIGHT_IDEOLOGY:** dummy variable that takes the value of 1 if the governing party is classified as conservative in ideology and 0, otherwise. This allows us to test hypothesis H1.
- **POLITICAL_COMPETITION:** numerical variable representing political rivalry. It is measured following Solé (2006), as the difference between the percentages of votes obtained by the parties coming in first and second place. This is used to test hypothesis H2.
- **STABILITY:** numerical variable used to identify the electoral support obtained by the party presently controlling local government. It is represented by the percentage of seats obtained in the most recent election. This is used to test hypothesis H3.
- **ELECTION_YEARS:** number of years remaining until the next election is due. Following Ashworth et al. (2005) and Bastida and Benito (2009), this variable takes the value of 0 in the election year, 1 in the first year before an election, 2 in the second year prior to an election and 3 in the year after an election, or in other words, the third year prior to an election.
- **YEARSinGOVERNMENT:** numerical variable that identifies the number of years the local government has been in power.

These two last variables enable us to test hypothesis H4.

In addition, to test hypotheses H5 and H7, we defined the following variables:

- **DEBT_pc:** numerical variable that represents the level of public debt per capita.

In 2001, the ruling conservative government approved the Budgetary Stability Act, which set important limitations on the debt capacity of local governments. To determine whether this law reduced practices of fiscal illusion, we included the following variables:

- **LIMIT_DEBT:** dummy variable that takes the value of 1 in the years the

Budgetary Stability Act was in effect and 0, otherwise.

- **LIMIT_DEBT_pc**: numerical variable resulting from the product of the variables DEBT_pc and LIMIT_DEBT.

And finally, the following variable is used to test hypothesis H6:

- **RIGHT_DEBT_pc**: numerical variable resulting from the product of the variables DEBT_pc and RIGHT_IDEOLOGY.

Table 4 summarises the variables included for each hypothesis and the expected effect on dependent variables:

Table 4. Hypotheses and variables

HYPOTHESIS	VARIABLES	EXPECTED EFFECT
H1: Conservative local governments tend to use decentralisation/externalisation to a greater extent than do parties of other ideologies.	RIGHT_IDEOLOGY	+
H2: In environments characterised by a low degree of political competition, local governments tend to implement decentralisation/externalisation to a greater extent.	POLITICAL_COMPETITION	-
H3: More stable local governments tend to use decentralisation/externalisation to a greater extent than do less stable ones.	STABILITY	+
H4: Local governments tend to use decentralisation/externalisation to a greater extent in the years immediately following their election victory.	ELECTION_YEARS YEARS_in_GOVERNMENT	+
H5: Local governments with higher debt levels will implement significant functional decentralisation.	DEBT_pc	+
H6: Right-wing local governments tend to use functional decentralisation to a greater extent than do other governments; however, the use of these agencies as a means of raising the level of debt is more common among left-wing governments, due to the effect of the partisan budget cycle.	RIGHT_DEBT_pc	-
H7: In local governments with higher debt levels, functional decentralisation by means of public companies, in order to increase municipal debt, is less commonly used than the creation of foundations, as a result of specific accounting regulations (the obligation to consolidate accounts).	LIMIT_DEBT_pc	+ foundations - companies

Source: The authors

4.4. Control variables

To reduce biased results, the following control variables, broadly confirmed as having an influence on externalisation and decentralisation processes, were included in the analysis.

- **POPULATION:** numerical variable reflecting the number of inhabitants in each municipality. Larger municipalities are expected to use decentralisation to a greater extent, since they need a higher degree of specialisation to satisfy the needs of all their users (Montesinos et al., 2010)
- **GDP_pc:** the local income level is measured by gross domestic product per capita. Escobar-Lemmon (2003) highlighted the impact of the wealth owned by municipal districts on decentralisation in Colombia and Venezuela. From the research done at the regional level (Farnham, 1985), we extrapolate that a higher standard of living is related to a lower level of fiscal pressure, and therefore, that the administration would have to resort to debt as a form of financing.

In addition, different authors have shown that these decentralised agencies have emerged as an attractive source of revenue that fosters the total or partial recovery of the cost of the service provided by charging the user directly, without having to raise taxes on the whole population (Rubin, 1988; Molinari and Tyer, 2003). In this sense, the following variables are included in the analysis:

- **DIRECT_FISCALPRESS_pc:** numerical variable that represents the direct fiscal pressure, calculated by the ratio of income through direct taxes to the local GDP, measured in per capita terms. In general, public administrations with a high direct tax burden will tend to create decentralised agencies as a way of obtaining revenue without increasing taxes even more. Thus, we expect this variable to have a positive effect on decentralisation variables.
- **INDIRECT_FISCALPRESS_pc:** numerical variable that represents the indirect fiscal pressure, calculated by the ratio of income through indirect taxes to the municipal GDP, measured in per capita terms. However, the relationship for direct fiscal pressure does not exist in the case of an indirect tax burden, which is basically associated with taxes on economic activity, such as taxes on

construction for the municipal administration. These activities do not directly affect the tax burden of citizens in general, so a higher indirect tax burden would mean a good deal of income for the administration and it is expected to decrease the dependence on debt as a source of financing and the decentralisation processes addressed to concealing part of the institutional debt. Therefore, we expect this variable to have a negative effect on decentralisation variables.

4.5. Research models

More specifically, and in order to test the proposed hypotheses, we focused our analysis technique for obtaining panel data on the selection of several dependence models based on linear regressions. Specifically, we used the following models:

$$\begin{aligned} \text{Decentralisation}_{it} = & \beta_0 + \beta_1 \text{DEBT_pc}_{it} + \beta_2 \text{LIMIT_DEBT_pc}_{it} + \beta_3 \text{LIMIT_DEBT}_{it} + \\ & + \beta_4 \text{RIGHT_DEBT_pc}_{it} + \beta_5 \text{RIGHT_IDEOLOGY}_{it} + \beta_6 \text{POLITICAL_COMPETITION}_{it} + \\ & + \beta_7 \text{STABILITY}_{it} + \beta_8 \text{ELECTION_YEARS}_{it} + \beta_9 \text{YEARS_in_GOVERNMENT}_{it} + \beta_{10} \text{POPULATION}_{it} + \\ & + \beta_{11} \text{GDP_pc}_{it} + \beta_{12} \text{DIRECT_FISCALPRESS_pc}_{it} + \beta_{13} \text{INDIRECT_FISCALPRESS_pc}_{it} + \varepsilon_{1i} + \mu_{1it} \end{aligned} \quad [1']$$

$$\begin{aligned} \text{EXTERNALISATION}_{it} = & \alpha_0 + \alpha_1 \text{DEBT_pc}_{it} + \alpha_2 \text{LIMIT_DEBT_pc}_{it} + \alpha_3 \text{LIMIT_DEBT}_{it} + \\ & + \alpha_4 \text{RIGHT_DEBT_pc}_{it} + \alpha_5 \text{RIGHT_IDEOLOGY}_{it} + \alpha_6 \text{POLITICAL_COMPETITION}_{it} + \\ & + \alpha_7 \text{STABILITY}_{it} + \alpha_8 \text{ELECTION_YEARS}_{it} + \alpha_9 \text{YEARS_in_GOVERNMENT}_{it} + \alpha_{10} \text{POPULATION}_{it} + \\ & + \alpha_{11} \text{GDP_pc}_{it} + \alpha_{12} \text{DIRECT_FISCALPRESS_pc}_{it} + \alpha_{13} \text{INDIRECT_FISCALPRESS_pc}_{it} + \varepsilon_{2i} + \mu_{2it} \end{aligned} \quad [2']$$

$$\begin{aligned} \text{MIXED_COMPANIES}_{it} = & \lambda_0 + \lambda_1 \text{DEBT_pc}_{it} + \lambda_2 \text{LIMIT_DEBT_pc}_{it} + \lambda_3 \text{LIMIT_DEBT}_{it} + \\ & + \lambda_4 \text{RIGHT_DEBT_pc}_{it} + \lambda_5 \text{RIGHT_IDEOLOGY}_{it} + \lambda_6 \text{POLITICAL_COMPETITION}_{it} + \\ & + \lambda_7 \text{STABILITY}_{it} + \lambda_8 \text{ELECTION_YEARS}_{it} + \lambda_9 \text{YEARS_in_GOVERNMENT}_{it} + \lambda_{10} \text{POPULATION}_{it} + \\ & + \lambda_{11} \text{GDP_pc}_{it} + \lambda_{12} \text{DIRECT_FISCALPRESS_pc}_{it} + \lambda_{13} \text{INDIRECT_FISCALPRESS_pc}_{it} + \varepsilon_{3i} + \mu_{3it} \end{aligned} \quad [3']$$

where,

“**Decentralisation**” represents the different decentralised entities: COMPANIES, AUTONOMOUS ORGANISATIONS (AAOO), PUBLIC BUSINESS ENTITIES (PBE) and FOUNDATIONS and all of them jointly (TOTAL_DECENTRALISATION),

i indicates the municipality and *t* refers to the time period,

β , α , λ are the parameters to be estimated,

ε_{1i} , ε_{2i} , ε_{3i} represent the persistent unobserved heterogeneity,

μ_{1it} , μ_{2it} , μ_{3it} represent the classic disturbance term.

Many previous studies have used cross-sectional models in which the dependent variable is explained by the results derived from observations for a specific year, either because it was the last year available or because an important event occurred then (Warner and Hebdon, 2001; Levi and Tadelis, 2010). However, these models present a significant limitation, namely their low explanatory capacity, which is closely related to the period of analysis considered.

One way of overcoming this restriction is to use panel data models, which provide greater consistency and explanatory power by considering several periods of time. This technique allows us to control for unobservable heterogeneity in local public administrations and avoids problems of possible endogeneity between the dependent and independent variables.

Background about panel data models used in the context of public management can be found in the studies by Chandler and Feuille (1994), Bel and Miralles (2003) and Bel et al. (2010b), which address the explanatory factors of the privatisation of different municipal services.

In the present study, we examine different static and dynamic panel data models to find the determinants of local government decentralisation processes during the period 1999-2007, using the Generalised Method of Moments (GMM) estimator developed by Arellano and Bond (1991). To eliminate the risk of obtaining biased results, we controlled for unobservable heterogeneity by modelling it as an individual effect, which is eliminated by taking the first differences of the variables. The problem of endogeneity between dependent and independent variables was corrected using the numerical right-hand-side variables in the models lagged from $t-1$ to $t-3$ as instruments for the equations in differences.

5. EMPIRICAL RESULTS

5.1. Descriptive analysis

Table 5 shows the descriptive statistics of the variables used for the analysis. On average, each local government created three companies during the period in question, but very few foundations. Furthermore, while virtually no foundations were created during the period when there was no debt limit (1999-2001), the number of foundations

increased in the subsequent period (2002-2007), when the debt limit was established. These descriptive results are in accordance with the explanatory factors hypothesised.

Table 5. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Independent Variables					
POPULATION	1377	150720.3	286755.8	20218	3155359
GDPpc	1377	18492.18	4973.666	0	33834.27
DEBT_pc	1063	65.63929	51.12293	0	643.231
LIMIT_DEBT	1377	0.6666667	0.4715758	0	1
LIMIT_DEBT_pc	1377	42.81987	49.0159	0	643.231
RIGHT_DEBT_pc	1063	30.64115	44.76197	0	492.7353
DIRECTFISCALPRESS_pc	1331	0.0148926	0.0203156	1.60E-07	0.1570237
INDIRECTFISCALPRESS_pc	1331	0.004883	0.0451422	1.50E-10	0.9552636
RIGHT_IDEOLOGY	1377	0.4996369	0.5001815	0	1
STABILITY	1377	0.4615561	0.0920018	0.25	0.76
POLITICAL_COMPETITION	1377	0.165557	0.1238849	0	0.6
ELECTION_YEARS	1377	1.333333	1.15512	0	3
YEARS_in_GOVERNMENT	1377	7.027596	5.436937	0	20
Dependent Variables					
Period 1999-2007					
COMPANIES	1377	2.941176	3.806	0	27
FOUNDATIONS	1377	0.2185911	0.7865161	0	7
AAOO	1377	3.451707	3.316958	0	19
PBE	1377	0.0849673	0.4271481	0	4
TOTAL_DECENTRALISATION	1377	6.69862	6.469288	0	43
EXTERNALISATION	1377	1.820625	0.7561253	0	3
MIXED_COMPANIES	1377	0.248366	0.4470989	0	2
Period 1999-2001					
COMPANIES	459	2.638344	3.773027	0	26
FOUNDATIONS	459	0.0762527	0.4680424	0	5
AAOO	459	3.446623	3.416963	0	19
PBE	459	0.0849673	0.4274589	0	4
TOTAL_DECENTRALISATION	459	6.246187	6.390697	0	42
EXTERNALISATION	459	1.823529	0.7573596	0	3
MIXED_COMPANIES	459	0.2440087	0.4449401	0	2
Period 2002-2007					
COMPANIES	918	3.092593	3.815415	0	27
FOUNDATIONS	918	0.2897603	0.8964511	0	7
AAOO	918	3.454248	3.267696	0	19
PBE	918	0.0849673	0.4272258	0	4
TOTAL_DECENTRALISATION	918	6.924837	6.49988	0	43
EXTERNALISATION	918	1.819172	0.7559164	0	3
MIXED_COMPANIES	918	0.2505447	0.4484004	0	2

During the period considered, virtually no public business entities were created, in contrast with the high number of autonomous organisations that appeared. Both types of organisation are public, but Public Business Entities (PBE) are not funded from the State budget, nor do they receive transfers from other public administrations, and thus their appeal is limited.

Decentralised agencies are wholly owned by municipalities, and none are listed on any stock exchange. This situation is similar to that produced by corporatisation in Sweden, but different from that in Italy, where such agencies are normally joint stock companies that can be, and often are, traded on the stock exchange (Argento et al., 2010).

5.2. Explanatory analysis

Tables 6 and 7 shows the explanatory factors for the modes of public services delivery, which are represented by means of the total decentralisation variable and by its breakdown into different entities, of the externalisation variable and the mixed companies variable.

As regards **total decentralisation**, all the variables are statistically significant at the 99% confidence level, except “LIMIT DEBT”, “LIMIT DEBT pc” and “DIRECT FISCALPRESS pc”, which are not statistically significant in the analysis. The variables “DEBT pc”, “INDIRECT FISCALPRESS pc”, “RIGHT IDEOLOGY”, “STABILITY”, “ELECTION YEARS”, “YEARS in GOVERNMENT”, “POPULATION” and “GDP” have a positive effect on the dependent variable. On the other hand, “RIGHT DEBT pc” and “POLITICAL COMPETITION” have a negative effect on “TOTAL DECENTRALISATION”.

Regarding **companies**, all the variables are statistically significant at the 99% confidence level, except “LIMIT DEBT”, which is non-significant. In general, the variables show a positive relation to the number of companies created by Spanish municipalities, although in the case of “LIMIT DEBT pc”, “RIGHT DEBT pc”, “INDIRECT FISCALPRESS pc” and “POLITICAL COMPETITION”, the relation is inverse.

Table 6. Explanatory factors of the decentralisation of local public services

	Static panel-data estimation, two-step difference GMM									
	Total Decentralisation		Companies		Foundations		Autonomous Organisations		Public Business Entities	
	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.
DEBT_pc#	0.0011925*	0.0002837	0.0005113*	0.0000929	-0.0006861*	0.000047	0.0012131*	0.0002248	omitted	omitted
LIMIT_DEBT_pc#	-0.0004239	0.0002579	-0.001043*	0.0001402	0.0008013*	0.0000457	0.0000934	0.0002614	omitted	omitted
LIMIT_DEBT	-0.0285513	0.022609	-0.0059319	0.0100542	-0.1015333*	0.0052268	0.0667568*	0.0225728	omitted	omitted
RIGHT_DEBT_pc#	-0.0016553*	0.0003719	-0.0009364*	0.0001451	0.0000479	0.0000603	-0.0008754*	0.0001758	omitted	omitted
RIGHT_IDEOLOGY	0.5444749*	0.0800693	0.1501305*	0.0433012	0.2577306*	0.0115126	0.1242339*	0.022748	omitted	omitted
POLITICAL_	-9.032515*	0.6199719	-4.970889*	0.433423	-0.9580259*	0.1585516	-2.944033*	0.2995365	omitted	omitted
COMPETITION										
STABILITY	10.45336*	1.230295	5.186796*	0.6407577	1.15493*	0.2452194	3.828373*	0.4656851	omitted	omitted
ELECTION_YEARS	0.0538934*	0.0067912	0.0229016*	0.0030958	0.0379941*	0.0024134	-0.0057395*	0.0013629	omitted	omitted
YEARS_in_	0.0247*	0.0060332	0.0354867*	0.0041662	-0.0173447*	0.0013786	0.00924*	0.0018616	omitted	omitted
GOVERNMENT										
POPULATION#	0.0000166*	9.62E-07	0.0000148*	7.81E-07	0.0000114*	1.35E-07	-9.74E-06*	2.96E-07	omitted	omitted
GDP_pc#	0.0000959*	8.98E-06	0.0000647*	5.61E-06	0.000045*	2.30E-06	-0.0000206*	2.87E-06	omitted	omitted
DIRECTFISCAL#	5.087036	3.775242	23.84693*	2.917467	-10.43026*	1.147951	-5.85187*	1.683858	omitted	omitted
INDIRECTFISCAL#	23.61065*	3.343819	-23.58643*	2.006013	5.64539*	0.5215937	42.26232*	0.9732414	omitted	omitted
z		2630.11*		198.49*		1466.31*		22307.20*		0
m1		-0.78		1.15		-0.4		-0.9		-
m2		-0.25		-1.28		-0.41		-0.17		-
Hansen		107.56		108.26		111.80		111.41		0

In order to avoid endogeneity problems, for these variables we have used their lags t-1 to t-3 as instruments.

Notes:

i) Heteroskedasticity consistent asymptotic standard error in parentheses.

ii) *, ** and *** indicate significance at the 1%, 5% and 10% level, respectively.

iii) z is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as χ^2 under the null hypothesis of no relationship, degrees of freedom and significance in parentheses.

iv) m_i (m_1 and m_2) is a serial correlation test of order i using residuals in first differences, asymptotically distributed as $N(0,1)$ under the null hypothesis of no serial correlation.

v) Hansen is a test of over-identifying restrictions, asymptotically distributed as χ^2 under the null hypothesis of non-correlation between the instruments and the error term; degrees of freedom and significance in parentheses.

Table 7. Explanatory factors of the decentralisation of local public services

	Static panel-data estimation, two-step difference GMM					
	Total Decentralisation		Externalisation		Mixed Companies	
	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.
DEBT_pc#	0.0011925*	0.0002837	7.46E-06	7.23E-06	-3.08E-06	3.13E-06
LIMIT_DEBT_pc#	-0.0004239	0.0002579	-4.57E-06	8.01E-06	-0.0000147**	6.35E-06
LIMIT_DEBT	-0.0285513	0.022609	0.0013004	0.0011491	0.0002589	0.000229
RIGHT_DEBT_pc#	-0.0016553*	0.0003719	7.34E-06	6.78E-06	2.25E-06	4.65E-06
RIGHT_IDEOLOGY	0.5444749*	0.0800693	-0.00292	0.0028798	0.0036992**	0.0014164
POLITICAL_COMPETITION	-9.032515*	0.6199719	-0.0149928	0.0187239	0.0435927*	0.016139
STABILITY	10.45336*	1.230295	0.0272737	0.0376545	-0.0736378**	0.0334288
ELECTION_YEARS	0.0538934*	0.0067912	0.0001725	0.0001642	-0.0002444**	0.0001019
YEARS_in_GOVERNMENT	0.0247*	0.0060332	-0.000274	0.0002078	0.0004464*	0.0001499
POPULATION#	0.0000166*	9.62E-07	1.72E-08	2.14E-08	-2.33E-08**	1.01E-08
GDP_pc#	0.0000959*	8.98E-06	-2.15E-09	1.25E-07	-2.89E-08	9.11E-08
DIRECTFISCAL# PRESS_pc#	5.087036	3.775242	0.2422369	0.3009671	-0.2800426**	0.1107509
INDIRECTFISCAL# PRESS_pc	23.61065*	3.343819	-0.0059816	0.019968	0.1923926**	0.0942733
z	2630.11*		0.25		1.82**	
m1	-0.78		-0.98		-0.84	
m2	-0.25		1.09		0.99	
Hansen	107.56		11.91		25.35	

In order to avoid endogeneity problems, for these variables we have used their lags t-1 to t-3 as instruments.

Notes:

i) Heteroskedasticity consistent asymptotic standard error in parentheses.

ii) *, ** and *** indicate significance at the 1%, 5% and 10% level, respectively.

iii) z is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as χ^2 under the null hypothesis of no relationship, degrees of freedom and significance in parentheses.

iv) m_i (m_1 and m_2) is a serial correlation test of order i using residuals in first differences, asymptotically distributed as $N(0,1)$ under the null hypothesis of no serial correlation.

v) Hansen is a test of over-identifying restrictions, asymptotically distributed as χ^2 under the null hypothesis of non-correlation between the instruments and the error term; degrees of freedom and significance in parentheses.

Concerning **foundations**, all the variables are statistically significant at the 99% confidence level, except “RIGHT_DEBT_pc”, which is not statistically significant in the analysis. The variables “DEBT_pc”, “LIMIT_DEBT”, “DIRECT_FISCALPRESS_pc”, “POLITICAL_COMPETITION” and “YEARS_in_GOVERNMENT” have a negative effect on the number of foundations created, whereas the impact of the rest of the relevant variables is positive.

In the case of **autonomous organisations** (AAOO), the only non-relevant variable in the analysis is “LIMIT_DEBT_pc”. The remaining variables are significant at the 99% confidence level. The variables “RIGHT_DEBT_pc”, “DIRECT_FISCALPRESS_pc”, “POLITICAL_COMPETITION”, “ELECTION_YEARS”, “POPULATION” and “GDP_pc” have a negative effect on the dependent variable (“AAOO”), while the other variables have a positive effect on it.

When the dependent variable is “PBE” (**public business entities**), no results are obtained. There are very few observations, and so no meaningful estimate can be achieved. And when the dependent variable is **externalisation** (see Table 7), no variable is statistically significant.

Finally, as regards **mixed companies**, the variables “DEBT_pc”, “LIMIT_DEBT”, “RIGHT_DEBT_pc” and “GDP_pc” are not statistically significant in the analysis. The remaining variables are significant at the 95% confidence level, except “POLITICAL_COMPETITION” and “YEARS_in_GOVERNMENT”, which are relevant at 99%. In general, the statistically significant variables have a positive effect on “MIXED_COMPANIES”, although in the case of “LIMIT_DEBT_pc”, “DIRECT_FISCAL_PRESS_pc”, “STABILITY”, “ELECTION_YEARS” and “POPULATION”, the relation is inverse.

This analysis allows us to determine the factors that affect the implementation of functional decentralisation and externalisation. Neither public debt nor political factors were found to affect externalisation, but functional decentralisation may be explained by some of these variables.

With respect to political factors, our results show that right-wing parties tend to make greater use of functional decentralisation than do other ideologies, and so hypothesis H1 is accepted for this mode of public services delivery. However we have

not enough evidence in the case of externalisation and mixed companies.

“POLITICAL_COMPETITION” has a negative effect on all modes of decentralisation. This means that in environments characterised by a low degree of political competition, local governments tend to implement decentralisation, as proposed in hypothesis H2.

The “STABILITY” variable is positively related with the dependent variables, meaning that more stable local governments tend to use decentralisation to a greater extent than do less stable ones, as proposed in hypothesis H3.

Finally, these results show that politicians are more likely to carry out organisational reforms in local government in their first years in office, taking electoral considerations into account (reflecting the positive effect of the ELECTION YEAR variable, in which the highest value indicates the closest proximity to the previous elections), especially through the creation of companies and foundations. However, autonomous organisations tend to be created at the end of the mandate.

Concerning the time spent in office, politicians make more use of decentralisation when they have been in power for a longer period of time (the positive effect of the “YEARS_in_GOVERNMENT” variable, representing the number of years the political party in power has governed the municipality), especially by creating companies and autonomous organisations, while foundations are more likely to be established during the initial years of government. In short, decentralisation, in its various modes, reflects the phase of the political cycle. Foundations are more often created at the beginning of a government’s mandate, while autonomous organisations are created at its end, with companies being most often created in the years immediately following re-election. Accordingly, hypothesis H4 is partially accepted. Thus, local governments tend to create entities that are more highly controlled as their control of government is consolidated following re-election.

Additionally, this analysis reveals the existence of a direct relationship between the level of municipal debt and that of decentralisation (total decentralisation), as proposed in hypothesis H5. If a distinction between different decentralised entities is made, it can be seen that this relationship is very evident regarding public companies and autonomous organisations, while the effect of public debt on foundations is

negative.

On the other hand, “LIMIT_DEBT_pc”, the variable that shows the effect of the legal limits imposed on indebtedness in 2001, has a negative effect on the decentralisation process based on the creation of companies, and a positive one in the case of foundations. These results confirm hypothesis H7, in the sense that local governments initially created companies in order to be able to incur more debt, thus generating fiscal illusion. Nevertheless, in 2001 restrictions on public indebtedness were imposed and public companies were forced to consolidate their budgets; hence, they ceased to represent an effective instrument when the debt was made apparent. This can be perceived in the initial positive impact of “DEBT_pc” for the period 1997-2001 and in the negative effect of “LIMIT_DEBT_pc” on “COMPANIES” from 2002.

In contrast, as soon as decentralisation through the creation of companies was no longer an effective way to incur more debt, local governments began to create foundations, since these agencies remained outside the compulsory consolidation of accounts and constituted useful instruments for the purpose of moving public debt off the municipal balance sheet. This effect can be perceived in the initial negative impact of “DEBT_pc” for the period 1997-2001 and in the positive effect of “LIMIT_DEBT_pc” on “FOUNDATIONS” from 2002. The latter variable has a positive coefficient, which indicates a higher use of these decentralisation agencies in more recent years.

In addition, when the coefficient of local government debt is correlated with the existence of right-wing political parties in power (Total_Decentralisation: $\beta_1 + \beta_4 = 0.0011925 + (-0.0016553)$; Companies: $\alpha_1 + \alpha_4 = 0.0005113 + (-0.0009364)$; AAOO: $\delta_1 + \delta_4 = 0.0012131 + (-0.0008754)$), this is higher than when other ideologies are in power, in the cases of Total_Decentralisation ($\beta_1 = 0.0011925$), Companies ($\alpha_1 = 0.0005113$) and AAOO ($\delta_1 = 0.0012131$). As the Spanish political context is characterised by a strong right/left-wing party duality (García-Sánchez et al., 2011a), these results show that the decentralisation process as a mechanism targeted at increasing debt is a political measure that is preferentially used by left-wing parties, through the creation of public companies and autonomous organisations. This confirms hypothesis H6. However, in the case of foundations, the effect is similar for both ideologies because the interaction between debt and a right-wing ideology is not

significant from the statistical point of view.

The effects of direct and indirect fiscal pressure on dependent variables do not allow us to draw meaningful conclusions, because in some models these variables are not statistically significant and, when they are, the effect depends on the decentralised entity.

Public debt was not found to affect externalisation, as we had hypothesised, because this process is based on recourse to private companies, which cannot make use of public debt. Neither does any political factor affect the externalisation variable, because, in general, Spanish local governments tend to externalise the same public services: water, waste disposal and public transport, independently of political ideology, political environment or the electoral period.

However, for mixed companies, the results are not so clear. Some variables are statistically significant but less so than in the case of decentralisation. These companies have not been used for the purpose of achieving higher levels of indebtedness, bypassing the legal limits, because the private sector participates as a shareholder. On the other hand, mixed companies are more likely to be created by right-wing parties at the end of their mandate, in environments with high political competition and when the party does not enjoy an absolute majority.

6. DISCUSSION OF RESULTS

The results obtained demonstrate the influence of certain political factors on the process of functional decentralisation carried out by Spanish municipalities between 1999 and 2007. In general, decentralisation via the creation of foundations tends to take place in the years immediately following elections. This pattern has also been pointed out by Baber and Sen (1986) with respect to other reforms. But it is opposite to the results obtained by Escobar-Lemmon (2003 and 2006) for territorial decentralisation, possibly due to the fact that functional decentralisation, unlike territorial decentralisation, does not allow a closer political approach to citizens. On the contrary, it subsumes responsibility for the service in question into organisations that citizens often mistake for private companies (Prado-Lorenzo et al., 2009). However, corporatisation processes (creation of public companies) are more likely to be implemented when politicians win the elections and are re-elected, which is in line with

the arguments of Warner and Hebdon (2001), who hold that parties which have been in power for a longer period of time make more use of restructuring processes, on the basis of their acquired experience. Autonomous organisations are more often used at the end of the mandate.

Our empirical evidence shows that conservative parties make greater use of decentralisation. These results are in line with those of Aberbach and Rockman (1999) and of Prado-Lorenzo et al. (2009), but contrast with the evidence reported by Bel and Fageda (2008), Tavares and Camões (2007), González-Gómez and Guardiola (2009) and Bel et al. (2010a) regarding the externalisation of municipal services, and by Bel and Fageda (2010) regarding shared service management between public and private companies. Thus, it might be considered that the decision to decentralise is not systematic, but a pragmatic choice (Bel et al., 2010a).

In general, the whole process of decentralisation is more common in environments where political competition is lower and the stability of the party in power is higher. So, our results are consistent with the claims made by those who defend partisan government models: in environments where political competition is lower, the party in power implements its ideology and carries out its reforms more competently, in this case by means of decentralisation. The effect of stability on this process is consistent with the arguments of Warner and Hebdon (2001) and Bel and Fageda (2008), who state that politicians who govern with an absolute majority have greater freedom in decision-making, especially as far as socially controversial decisions are concerned (González-Gómez et al., 2010), which is the case of decentralisation.

However, mixed companies are used by parties that did not obtain large majority and they govern in political environments with a high competition. The reason is that the creation of these entities is a reform that is not considered as strong as decentralised or externalised agencies.

In addition to political factors, the findings of the present study reflect an initial use of municipal decentralisation as a mechanism to transfer part of the municipal debt to external agencies. These results are in line with those obtained in previous studies, such as Bennett and Dilorenzo (1982 and 1984), Blewett (1984), Marlow and Joulfaian (1989), Bunch (1991), Escudero (2002) and Prado-Lorenzo et al., (2009). Thus, Spanish

decentralisation agencies, obeying the same motive for corporatisation as in Germany (Bremer et al., 2006) and Italy (Garlatti 2001), seek to escape from the traditional local government budgeting system with its in-built inefficient mechanisms of spending and carried-over regulations.

However, in line with authors such as Rihard (1995) and in contrast to the results obtained by Farnham (1985), our findings indicate that these practices cease to be effective as soon as legal limits on debt are introduced, with accounting rules that oblige the local administration to include the public debt taken on by its agencies in the consolidated accounts. In this respect, it is interesting to observe whether the effect of these factors depends on the kind of decentralised agencies (specifically companies and foundations) created, since the accounting rules are different for each case.

Thus, in Spain, local administrations must present consolidated financial information, including that corresponding to the public companies created, but not that for other decentralised agencies. The empirical evidence shows that foundations are now becoming more important and are displacing companies in processes of decentralisation carried out with the objective of obtaining external funds.

7. CONCLUSIONS

Among the reforms proposed in the NPM theory are those of decentralisation and externalisation, in order to avoid the rigidities of a system subject to common administrative law, and to improve the efficiency of the public sector.

Although studies have highlighted problems associated with these processes, such as excessive fragmentation, which can lead to difficulties in coordination between agencies, the duplication of the resources employed, or possible cases of corruption, a significant number of decentralised and externalised entities have been created in Spain.

In this chapter we examine the question of whether public debt and political factors influence the processes of decentralisation and externalisation carried out in the local management of public services. We assessed 153 Spanish municipalities with over 50,000 inhabitants for the period 1999-2007, inclusive, taking into account the large number of such processes implemented during this period, as a result of which the General Comptroller of the State Administration (IGAE) decided to carry out yearly

inspections of the entities thus created. The results obtained show that externalisation processes cannot be explained by any of these factors, while functional decentralisation is influenced by them.

Concretely, right-wing parties make greater use of functional decentralisation and mixed companies. Especially, the parties that governed with large majority in environments where political competition is less severe tend to create more decentralised entities because, although this issue may be socially controversial, they have greater freedom in decision-making, and can afford to do so. Specifically, foundations are more likely to be used at the beginning of a political mandate; when a government is re-elected, it is more likely to create companies, and at the end of the mandate, autonomous organisations.

However, parties that did not obtain large majority and they govern in political environments with a high competition use mixed companies to a greater extent, because these entities are reforms that are not considered as strong as decentralised agencies.

The important decentralisation processes taking place at the local level, with respect to public services delivery, are relevant because the resulting agencies can be used politically as a means to circumvent the restrictions imposed on raising external financing. Previous studies have failed to consider factors associated with the existence of accounting norms which, by requiring consolidated accounts, make it more difficult for local governments to transfer part of their debt to the accounts of decentralised units. Moreover, the findings of previous empirical research are strongly associated with the annual period considered.

Our findings show that local governments create decentralised entities, especially public companies, to sidestep the legal limitations placed on debt, so it produces fiscal illusion. These practices gradually disappeared as a result of the effectiveness of new accounting rules on consolidated accounts that forced local governments to report their debt and that of certain publicly owned units. Moreover, public companies are replaced by foundations, which are not included in consolidated accounts. So, decentralisation can be perceived as an opportunity for political bargaining, in which decisions can be made far from democratic control (Citroni et al., 2012).

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CHAPTER 3

The Impact of Functional Decentralisation and Externalisation on Quality of Life

1. INTRODUCTION

Social welfare has always been a central topic of study in economic sciences. At the individual level, quality of life (QoL) or welfare is derived from the consumption of a series of economic and social tangible goods (food, health attention, amenities, etc.) and also from intangible factors, such as personal emotions or attitudes (González et al., 2011a).

Social welfare considers the components of well-being associated with health, welfare, freedom of choice and basic liberties, among others, as well as the determinants of well-being associated with the availability of food, clothing, drinkable water, education facilities, health care and income in general (Dasgupta and Weale, 1992). So, the concept of QoL identifies individual happiness and well-being (EEA Report, 2009) and in some cases these concepts are used as synonyms.

Furthermore, QoL is related to many dimensions of life, although some of which are difficult to measure. There is an abundance of literature searching for an appropriate representation of all those dimensions through series of economic, environmental and social indicators without the need to assign them monetary values for aggregation. Some of these authors are Blomquist et al. (1988), Dasgupta and Weale (1992), Hashimoto and Ishikawa (1993), Zhu (2002), Marshall and Shortle (2005), Campanera and Higgins (2011), and so on.

In the case of Spain, we can highlight Royuela et al. (2003), Zarzosa (2005) and González et al. (2011a and b). The first authors developed a methodology that allow the simultaneous comparison of time periods and areas, the aggregation of variables with different units of measurement and the several constituents of wellbeing. This indicator comprises three main indexed related with individual opportunities for progress, social equilibrium and community conditions of life. At the same time, these indexed are formed by 18 sub-indexes that are measured by 63 variables.

The second author created an indicator of QoL for the municipalities from Valladolid province. For it, she employed information about the economic activity, education and culture, labour situation, demographic aspects, health, environment and incomes. The indicator is a complex measurement, used for Trapero (1977) before, for

measuring the social welfare for different territories in a concrete moment, or for different moments in a concrete territory.

González et al. (2011a and 2011b) have created another index for represent the QoL in Spanish municipalities, for what they applied the DEA and VEA methodology. They take into account 8 drawbacks and 11 advantages for approximate the different dimensions about QoL: health, education, personal activities, housing, social connections, environment, personal security and economic security.

Nevertheless, the most important welfare factors and most used by authors are usually related to public services that are enjoyed by citizens, such as consumption, social services, housing, transport, environment, labor market, health, education, culture and leisure and security services (González et al., 2011a). However, there has been widespread interest in measuring not only the quality of services but also QoL and improvements in governance processes (Bovaird and Löffler, 2003).

A large number of these public services are provided by local governments, so potential government inefficiencies could be devastating for the social welfare of citizens (Vergara, 2000). In this sense, one of the solutions invoked to prevent inefficiencies in the public Sector is the introduction of private sector principles, such as those proposed under NPM theory. As it was explain before, some of the most important reforms were functional decentralisation and externalisation processes at local level. So maybe there is a relationship between these processes and QoL of the population, since the most important welfare factors are usually related to public services that are delivered by public administration, which has tended to make use of decentralisation and externalisation processes in recent years, in order to deliver public services more efficiently to their citizens.

However, there are few studies that deal specifically with this issue. The majority of studies relate the mode of public services delivery with regional disparities (West and Wong, 1995; Ter-Minassian, 1997; Tannenward, 1999; Zhang, 2006; Ezcurra and Pascual, 2008; Lessmann, 2009; Hong, 2011) or with the sustainability of cities (Wu and Wang, 2007; Karger and Hennings, 2009), but not directly with the QoL of the population. In addition, most of them consider administrative rather than functional

decentralisation and many of them are focused on only one mode of delivery, either externalisation or functional decentralisation.

Accordingly, the main aim of this chapter is to observe the effect of functional decentralisation and externalisation processes on the citizens' QoL. Concretely, we expect to contribute to this line of research by (i) specifying the impact of these processes; (ii) conducting a complete analysis of functional decentralisation, taking into account the different decentralised entities – public companies, foundations, autonomous organisations and public business entities – instead of only one mode of delivery; and (iii) choosing a time period that permits the use of panel data methods, which provide more robust results and allow us to control the unobservable heterogeneity and correct the endogeneity problems between dependent and independent variables.

The study area corresponds to the 78 Spanish cities with a population of over 100,000 for which MERCO (Spanish Corporate Reputation Monitor) carried out a study of their levels of QoL for the fiscal years 2007, 2008 and 2009. The municipality is the most important level of analysis of QoL in Spain, rather than the province or the region, because, as González et al. (2011c) showed in their study of QoL in Spain, the local level accounts for 52.6% of the variance in QoL in the country, versus 37.8% for the regions and 9.6% for the provinces. Moreover, the challenges of adopting policies aimed at enhancing QoL are focused at this level (Santos and Martins, 2007).

The effects of both modes of public services delivery (functional decentralisation and externalisation) have been tested empirically by dependence models using panel data models to lend certain dynamism to the analysis and to achieve better consistency, as well as better explanatory power. This allows us to overcome the shortcoming of previous studies that are usually theoretical or use static econometric techniques.

Our results show that functional decentralisation is the most appropriate mode of public services delivery in terms of QoL, through any entity: public companies, foundations, autonomous organisations or public business entities.

2. DECENTRALISATION, EXTERNALISATION AND QUALITY OF LIFE: Research Hypotheses

Welfare state ideologies gained force after the Second World War, in response to citizens' increasing demands for better services and an improved QoL (Gladstone, 1995; Vigoda, 2000). For this purpose, public administrations seek to provide more services for citizens and are urged to become more effective, efficient and business oriented. So, based on the NPM theory, they introduce techniques and organisational structures and management taken from the private sector, viewed as a model of efficiency (Haynes, 2003) including decentralisation and externalisation processes in order to improve accountability (Kettl, 2000).

The welfare factors most commonly used to measure the QoL of citizens are related to social services, housing, transport, environment, health, education, culture, security services, etc. (González et al., 2011a). In Spain, the most of them are provided by local governments, so, there is probably a relationship between the QoL of the population and the modes of public services delivery (In Spain, functional decentralisation, externalisation and mixed companies).

Moreover, in the last decade, there has been growing interest in the assessment of policy outcomes, measuring the success of public interventions in terms of the QoL (Bovaird and Löffler, 2003). Improving the QoL is one of the most important aims of public policies (Santos and Martins, 2007). In this sense, various hypotheses have been proposed to analyse the effect of functional decentralisation and externalisation processes on citizens' QoL.

2.1. Functional decentralisation and QoL

In the 1950s and 1960s, demands from the population were related to needs like poverty alleviation, health, education, etc., and so in many countries, governments tried to address these problems by designing more efficient local governments (Gupta, 2004). For this purpose, they focused on different mechanisms under the NPM theory, which seeks to carry out legislative mandates efficiently and economically and execute policies that improve the QoL (Gudrais, 2009). Some of these mechanisms are different forms of decentralisation, which in the 1980s became very popular in many countries as

a means of achieving development objectives ranging from people's participation to political stability (Dutta, 2009), redistribution of income with the objectives of equality and improved QoL (Gupta, 2004) or as a way to solve the "state failure" (Zapf, 1984), that are consequences of an inefficient public sector.

Since then, identities of a universal nature have tended to be replaced or questioned by other more individualistic ones, in which citizens are subject to the consequences of the welfare state from the provision of public services in a straightforward manner (Navarro, 1997). In this sense, decentralisation affects the QoL through local development, which is considered an institutional complement of the decentralisation process. Specifically, Barroso (2007) states that local development strives to activate the human, material, institutional and cultural resources with the aim of achieving economic growth and improving the level and QoL of citizens. Therefore, public services may affect operating conditions and perhaps the QoL (Bradbury et al., 1997).

Functional decentralisation can improve the QoL of the population and the functioning of a city and its services, as Marshall (2004) concluded in his study of the city of Barcelona. Proper organisation in the provision of services implies a higher quality of these services, which have positive repercussions on the QoL of the population (Sanderson, 1996).

It must be accepted that public administrations frequently face difficult economic situations (Domínguez, 1997; García, 2000) that oblige them to seek alternatives in order to satisfy citizens' needs, both as regards the quantity and the quality of the services provided. For this reason, in recent years the processes of corporatisation as a form of decentralisation have acquired special importance (Molinari and Tyer, 2003; Utrilla, 2007).

Several studies have analysed the effects of decentralisation, in various countries and different sectors. For example, regarding the health care sector in the USA, Wright and Perry (2010) indicate that the changes in the Reagan administration in health policy were motivated by concern about the welfare state, and concluded in corporatisation. In Italy, this sector was renovated through the programme launched by Local Health, in which corporatization was implemented, involving hospitals and local health units

(Bifulco, 2011). This is one of the European cases in which NPM has been applied in a way similar to the UK model, but nevertheless, its implementation has created regional differences. In some regions, the implementation was strongly oriented towards enforcing citizens as consumers; in other contexts, more emphasis was placed on the promotion of citizenship.

In the case of the Indian transport sector, Goyal (2007) found that corporatisation – among other practices such as partial privatisation, better utilisation of assets or the restructuring of management – is a mechanism to motivate agents to cooperate and compete, obtaining a substantial increase in quality and decrease in the cost of public services, which reduces inequalities, and so the QoL improves for the average citizen.

In Korea, Hong (2011) found a negative relationship between regional disparities in terms of human resources, health and welfare and the levels of functional decentralisation from the year 2000. This author used various indicators of QoL to measure the disparities, and so these results imply the existence of a positive relationship between QoL and this kind of decentralisation. Furthermore, Wälti (2004) found that multilevel structures affect environmental performance by differentiating the effects of economic development and corporatist accommodation structures. The results of this study show that in a weak multilevel context, high economic development has a positive effect on environmental performance, whilst corporatist accommodation structures positively affect the environmental performance in strong multilevel systems.

In general, national governments have been gradually transferring more functions to the local level, so that more resources are needed to ensure a high QoL. However, unless additional resources are identified, basic infrastructure and social services provision will decline, leading to a downward spiral of reduced economic prospects and lower QoL (Warner, 2010). In this situation, local governments feel somewhat overwhelmed with so many tasks, and are tending to use corporatisation, in order to obtain help from the private sector.

In accordance with the above, we establish the first hypothesis of this study:

H8: Functional decentralisation processes have a positive impact on the QoL of the population.

2.2. Externalisation and QoL

Another mode of public services delivery is externalisation, “outsourcing” or “contracting out”, which introduces private sector ideas with the aim of improving public services delivery, leaving the provision of these services in the hands of specialist suppliers (Cannadi and Dollery, 2005; González et al, 2011b). In this way, externalisation would improve the quality of all public services, because public organisations can then focus on more strategic operations and externalise those that are less important (Brown and Potoski, 2003; González et al., 2011b). For this reason, public organisations tend to promote these practices instead of public provision, which is perceived by individuals as inefficient and overly bureaucratic. The promotion of these practices is often carried out at election time to demonstrate the interest of making policy changes (Bensghir and Tekneci, 2008) and thus the government may improve its image.

However, outsourcing can also have negative effects. For instance, citizens may perceive private enterprise as an obstacle between them and the government (Norton and Blanco, 2009; Gonzalez et al., 2011d), and the State could be emptied of content because its role would be limited to that of choosing private sector providers (Martin 2000; Norton and Blanco, 2009; González et al., 2011d). Moreover, cases of corruption may increase (Fernández, 2007; González et al., 2011d) when politicians decide who is to be the private provider.

In this sense, Vigoda (2000) conducted a survey in a large Israeli city to determine the relationship between citizens’ demands and public administration’s responsiveness, and found that citizens’ satisfaction deteriorated when public administration presents a business orientation. In the case of Australia, in 1990 a movement toward the outsourcing of many public services has started (i.e. waste collection, construction and welfare services). Nevertheless, in 2000 the Government recognised the existence of major problems related with cost and the fulfilment of objectives caused by outsourcing, especially in public sector information technology services (Broughton and Chalmers, 2002). In Denmark, contracting out was one of the suggested tools for modernisation of governments in the early 1990s, but the Social Democratic-led government in 1993 proposed another modernisation programme

focused on employees and citizens, and mechanisms in the form of contracting out were used to a lesser extent (Greve, 2006).

As can be seen, the theoretical benefits that outsourcing can provide do not seem to convince many authors, who have indeed found it to produce quite pernicious effects on the population. The lack of a common vision as for the relationship between outsourcing and QoL of the population has led to the inclusion of this variable in this study, with the aim of reaching an enlightening conclusion in the case of Spain. To this end, we established the following hypothesis, which will be tested by the empirical models later:

H9: Externalisation processes negatively affect the QoL of the population.

However, the existence of mixed companies in which part of the management is in public sector hands (like decentralisation) and another part is in the hands of the private sector (like externalisation) provokes a mix of the previous hypothesis, in the sense that the negative effect proposed in H9 will be less negative in the case of mixed companies. Accordingly, we pose the following sub-hypothesis:

H9.1: This negative effect of externalisation on QoL is less significant in the case of mixed companies.

3. EMPIRICAL RESEARCH DESIGN

3.1. Sample for the analysis

The data used correspond to 78 Spanish cities with populations of over 100,000 for which MERCO¹ (Spanish Corporate Reputation Monitor) carried out a study of their levels of QoL for the fiscal years 2007, 2008 and 2009. The initial sample of 153 municipalities and the period of time were reduced because these are the full available dataset about QoL provided by MERCO. This is an organisation and reputational assessment instrument similar to the one published in Fortune magazine in the United States. It draws up six rankings that measure the reputation in different areas: the best firms to work for, (mercoPersons), the most prestigious leaders (mercoLeaders), the

¹ <http://www.merco.info/es/countries/4-es>

most reputable firms (mercoFirms), the best financial brands (mercoBrands) and the best cities in which to live, work, visit, study and do business (mercoCity). At the present time, its reports are reviewed by KPMG under ISAE3000 standard.

3.2. Dependent variable

As dependent variable, we used the QoL of inhabitants in Spanish municipalities. This variable is measured using the score obtained by each of the Spanish cities in the *mercoCity*² analysis, which is directed by teachers at the Complutense University of Madrid. Its objective is to determine the level of QoL in urban areas, in particular, the largest Spanish cities. To do so, it considers 250 sustainability indicators; these are aggregated to obtain a score for each municipality. The methodology comprises of a four step assessment:

i) Macro-survey: compiled the opinions of 9,000 citizens for the years 2008 and 2009 and 9,100 for 2010, from habitants aged 16 years or older living in cities of over 100,000 inhabitants. Respondents must assess 41 different indicators such as the social, economic, functional and physical situation of their own city. Telephone interviews using the CATI system are used for this purpose (Computer Assisted Telephone Interview).

ii) Benchmarking: analysis of more than 100 indicators for highly reliable secondary sources related to the different parameters of urban sustainability: environment, urban planning and housing, security, mobility, culture, economy, social services and quality of life.

iii) Direct Assessment: Analysis of Merits: consists in a formal application for additional information from municipal administrations in order to assess the evolution of different municipal indicators, for example the level of cities' urban sustainability, mobility, competitiveness, knowledge, solidarity and excellence.

² <http://www.merco.info/es/countries/4/rankings/3>

iv) Expert Assessment: experts in urban management choose the three best cities in Spain according to a series of headline indicators. This randomly chosen panel comprises more than 100 experts from the public and private spheres, the academic world and civil servants in urban management.

The final ranking is computed as the weighted sum of the scores of the four stages mentioned.

The maximum score is 1000, which indicates that its inhabitants enjoy a high level of QoL. Madrid obtained 1000 points over the three years, which indicates that i) it is the Spanish city whose inhabitants enjoy the greatest economic, social and environmental well-being; and ii) it is the preferred city for living both by experts in urban management and by other third parties.

3.3. Independent Variables

The following independent variables have been chosen appropriately to test the hypotheses put forward in this study.

To test hypothesis H8 on the effect of the decentralisation process on QoL, several variables were defined, identifying the different typologies of local public services delivery.

- **TOTAL_DECENTRALISATION:** numerical variable that represents the number of decentralised agencies created in each municipality. Concretely, this process may be carried out by:
 - **COMPANIES:** number of Government owned corporations created by each municipality.
 - **AUTONOMOUS ORGANIZATIONS (AAOO):** number of autonomous bodies created in each municipality.
 - **PUBLIC BUSINESS ENTITIES (PBE):** number of municipal business entities created by each municipality.

- **FOUNDATIONS:** number of municipal foundations created in each municipality.

And to test hypotheses H9 and H9.1 on the effect of the introduction of the private sector on QoL, we defined two variables that identify the level of autonomy of the private sector within local services management.

- **EXTERNALISATION:** numerical variable that represents the number of private agencies that have acquired the right to provide public services in each municipality.
- **MIXED_COMPANIES:** numerical variable that represents the number of mixed companies that are created in each municipality. Both public and private sectors are owners of these companies.

3.4. Control variables

Furthermore, in order to avoid biased results, we included a set of variables whose influence on the level of the QoL of the population has been widely confirmed (Cheng, 1992, Bavetta and Padovano, 2000; Camagni, 2002; García-Sánchez and Prado-Lorenzo, 2008; Dave, 2011; Prado-Lorenzo et al., 2012).

More concretely, taking into account that the QoL is determined by a wide mix of socio-economic and political characteristics (EAA Report, 2009), different variables that represent these factors were selected:

- **UNEMPLOYMENT:** voters and interest groups channel votes and resources respectively, to the centre of power that best satisfies their objectives, so they can influence the policy implementation decisions of the political leadership (Bavetta and Padovano, 2000), including QoL policy decisions. Thus, these actors are expected to be particularly interested in participating in public decision-making in order to obtain more benefits. Traditionally socioeconomic variables have been used as surrogates for these actors, given that a higher economic and educational status usually leads to higher participation and voting rates; in addition, as society increases in population and urbanisation, diverse

organisations develop to represent their interests (Cheng, 1992). Prado-Lorenzo et al. (2012) found a significant direct relationship between urban sustainability and municipal economic activity. We use the level of municipal unemployment as a proxy of citizens' economic level. Previous papers, for example, Cheng (1992), have generally used the variables representing the municipal population and GDP to identify these groups. With respect to the first variable, it must be pointed out that a control variable of population density has to be entered subsequently, and that there is a high correlation with the population variable, and so this cannot be used. In the case of GDP, it was not available for the fiscal years analysed.

- **DENSITY:** numerical variable that reflects the population density of each municipality. Population density is a basic QoL indicator (EEA Report, 2009). There is a general assumption that cities of differing sizes and types achieve consistently high levels of collective welfare, which illustrates both the strength and the potential vulnerability of large metropolitan agglomerations, which are more powerful attractors of enterprises, symbols of economic power and modernity, but also extremely expensive machines, engendering enormous social and environmental strains (Camagni, 2002). However, several aspects of sustainability, such as the environment, urbanisation, social welfare and quality of life are more highly related to population density (Camagni, 2002; Howley et al., 2009; Dave, 2011). The consideration of population density and its strong correlation with the factors that form it, population and surface, make it impossible to use the three variables together in the analysis models.

Finally, we consider, as control variables, some political factors. Public choice theory provides an analysis of the complex political environment in which voters, interest groups and politicians play an important role in government decisions to adopt particular policies (Mueller, 1979 and 1989). Politicians are the main actors in the decision-making process regarding the future development of a city. They are considered opportunistic agents, and as such, they act in their own interest, leaving citizens' interests to one side. From a utilitarian point of view, politicians are either trying to enter government or to be re-elected, and to do so they implement policies with the purpose of achieving that aim. Therefore, they select a given amount of effort

(resources, agent's time, expertise, financial means) to provide services to voters in exchange for votes, and to interest groups in exchange for resources that can be reinvested to achieve a positive electoral outcome (Bavetta and Padovano, 2000). According to this theoretical perspective, political factors that determine the different reforms carried out in the public administration are linked to ideology, competition and political stability, which can significantly affect the QoL of a city. Accordingly, the variables that represent these factors are:

- **RIGHT_IDEOLOGY:** dummy variable that takes the value of 1 if the governing party is conservative and 0, otherwise. Previous studies have found a negative influence of right-wing parties on the implementation of 21 Local Agenda García-Sánchez and Prado-Lorenzo, (2008). In the national sphere, Anderson and Mizak (2006) observed that the main predictor of a pro-environmental law vote is whether the American legislator is a liberal democrat, and Steurer and Hametzer (2010) conclude that countries with social democratic governments improve social rights for all their citizens, promote equality of high social standards as well as social benefits, which are universal and independent of class and status. While, countries with conservative governments are characterised by granting modest social rights, and maintain existing class and status differentials, with limited redistributive effects. Because of this, we expect a negative influence of right ideology on the QoL.
- **POLITICAL_COMPETITION:** numerical variable that represents political competition, calculated, in accordance with Solé (2006), as the difference between the percentages of votes obtained by the parties coming in first and second place. Politicians may ignore their electoral promises for citizens without any immediate penalty (Cárcaba and Garcia, 2010). Hence, as political competition increases, the checks and balances of political control will prevent overreliance on political decisions (Ni and Bretschneider, 2007) and a favourable environment for reforms could be created. Smith and Fridkin (2008) argue that interparty competition plays a key role in the decision of politicians to devolve institutional power to citizens so that they have to pay attention to the demands of their constituents. In this sense, public programmes are more representative of the desires of the whole population of a country, rather than

just those of the inhabitants that voted the party in power, who could present a lower/higher interest in QoL than the rest of the population. In addition, Prado-Lorenzo et al. (2012) showed that political competition has a positive effect on the sustainability of Spanish cities. Based on these arguments we expect a positive relationship between competition policy and the QoL.

- **STABILITY:** numerical variable identifying the electoral support the local government obtained in the latest elections, and this is represented by the percentage of seats obtained by the governing party. It is necessary to consider that the level of political stability may lead to an advancement of or a halt in the activities related to sustainability, because the implementation of these measures tends to require sufficient support to choose to assign resources, with effects that are detectable only in the medium or long term (Prado-Lorenzo et al. 2012). For this reason, there is expected to be a positive relationship between political stability and the QoL of the local population.

3.5. Research model

Based on the variables selected to test the hypotheses proposed, we have defined the following model:

$$\begin{aligned} \text{QoL} = & \beta_0 + \beta_1 \text{Decentralisation}_{it} + \beta_1 \text{EXTERNALISATION}_{it} + \beta_2 \text{MIXED_COMPANIES}_{it} + \\ & + \beta_3 \text{UNEMPLOYMENT}_{it} + \beta_4 \text{DENSITY}_{it} + \beta_5 \text{RIGHT_IDEOLOGY}_{it} + \beta_6 \text{POLITICAL_COMPETITION}_{it} + \\ & + \beta_7 \text{STABILITY}_{it} + \varepsilon_i + \mu_{it} \end{aligned}$$

[4']

where,

QoL is the dependent variable proposed to identify the quality of life of each city.

“**Decentralisation**” represents the different decentralised entities: COMPANIES, AUTONOMOUS ORGANISATIONS (AAOO), PUBLIC BUSINESS ENTITIES (PBE) and FOUNDATIONS and all of them jointly (TOTAL_DECENTRALISATION).

i indicates the municipality and *t* refers to the time period,

β are the parameters to be estimated,

ε_i represents the persistent unobserved heterogeneity,

μ_{it} represents the classic disturbance term.

To estimate this model, we need an adequate methodology that takes into account that the dependent variables take values between 0 and 1000. The technique adopted is the Tobit regression for panel data models, which allows us to use the QoL index considering that it is left and right-side censored (0-1000). The Tobit model estimates coefficients by the maximum likelihood method. In addition, using the random-effects estimator, it controls for individual heterogeneity because the individuals are observed in different periods. Concretely, the random error term is broken down into two parts: μ_{it} which changes among municipalities and periods of time, and the individual effect ε_i which characterises the municipality and is invariant over time; thus, these can be interpreted as the factors that are not included in the regression and are specific to each municipality.

An important limitation is the use of data for only three years. Nevertheless, as explained above, we are using the full dataset that is available, because the QoL index is only published for the period of time under consideration.

4. EMPIRICAL RESULTS

4.1. Descriptive Analysis

Table 8 shows the descriptive statistics for the variables included in the models. The average score is 429.69 on a scale from 0 to 1000. In addition, there was an average of approximately nine decentralised entities (TOTAL DECENTRALISATION), in contrast with two externalised ones (EXTERNALISATION). This shows that public services management is predominantly effected via decentralisation and specifically by means of public companies, which is in line with the following explicative results. 59% of the municipalities are governed by a right-wing party, and they have an average unemployment rate of 6.168% and a population density of 2930 per sq. km.

Table 8. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Dependent Variable					
QoL	234	429.688	138.8608	200	1000
Independent Variables					
COMPANIES	234	4.393162	4.684844	0	29
FOUNDATIONS	234	0.6410256	1.228849	0	6
AUTONOMOUS ORGANISATIONS	234	3.602564	2.672414	0	11
PUBLIC BUSINESS ENTITIES	234	0.1282051	0.5641426	0	4
TOTAL DECENTRALISATION	234	8.764957	7.262719	0	47
EXTERNALISATION	234	1.782051	0.7112964	0	3
MIXED COMPANIES	234	0.2435897	0.4301681	0	1
UNEMPLOYMENT	234	6.168376	2.345488	2.6	13.5
DENSITY	234	2929.984	3725.374	51.88	18359.85
POLITICAL COMPETITION	234	0.1442308	0.1072463	0	0.49
STABILITY	234	0.4714103	0.075263	0.3	0.66
Frequency					
RIGHT IDEOLOGY	234	0.5897436			

4.2. Explanatory Analysis

Table 9 shows the effects of the three different modes of public services delivery (functional decentralisation, externalisation and mixed companies) on the level of QoL. In **Model 1**, the significant variables are “TOTAL_DECENTRALISATION”, “UNEMPLOYMENT”, “RIGHT_IDEOLOGY”, “POLITICAL_COMPETITION” and “STABILITY”, the first two of these at a 99% level of confidence, and the remainder at 95%. There was a positive effect on the dependent variable in every case except “UNEMPLOYMENT” and “POLITICAL_COMPETITION”, which had a negative impact on the level of QoL.

Models 2, 3, 4 and 5 show the impact of the different forms of decentralised entity (public companies, foundations, autonomous organisations and public business entities) on QoL. In **Model 2**, the variables “COMPANIES” and “UNEMPLOYMENT” are statistically significant at the 99% confidence level, with the first having a positive effect and the second, a negative one, on the dependent variable (QoL). “RIGHT_IDEOLOGY” impacts positively on QoL and is significant at 95%. Finally, “POLITICAL_COMPETITION” has a negative impact and “STABILITY” a positive one on the dependent variable, and they are statistically significant at the 90% confidence level.

For **Model 3**, “FOUNDATIONS” has a positive effect on QoL, and this is statistically significant at 99%. The effect of the “UNEMPLOYMENT” variable is also significant at 99% confidence, but this has a negative impact. In addition, “DENSITY” and “RIGHT_IDEOLOGY” have a positive effect on QoL, and are statistically significant at 99% and 95%, respectively.

The delivery mode of autonomous organisations (**Model 4**) also has a positive effect on QoL, which is statistically significant at 99%. “UNEMPLOYMENT”, “DENSITY” and “POLITICAL_COMPETITION” have the same impact as above.

Finally, in **Model 5**, we can observe that public business entities affect QoL positively, in the same way as the other forms of decentralised entity. In this case, the effect is statistically significant at the 99% confidence level, while “UNEMPLOYMENT” and “RIGHT_IDEOLOGY”, the other variables that are significant in this model, again have the same effect on the dependent variable.

These results show that municipalities which use functional decentralisation for public services delivery, rather than other modes such as externalisation or mixed companies, tend to have a higher level of QoL. Any form of decentralisation (public company, foundation, autonomous organisation or public business entity) has a positive effect on QoL. This finding leads us to accept hypothesis H8. However, there is insufficient evidence to accept hypotheses H9 and H9.1, because externalisation and the creation of mixed companies are not statistically significant in any model, although the effects on QoL are in accordance with the hypotheses proposed (the effect of externalisation on QoL is negative and the effect of mixed companies is between the impact of decentralisation and externalisation).

With respect to the control variables, in general, municipalities that are governed by right-wing parties that have won the previous election with an absolute majority and whose environment is characterised by a low degree of political competition have a higher level of QoL. These right-wing parties create companies, foundations and public business entities to increase citizens’ QoL, and when political competition is lower, local governments use companies and autonomous organisations with the same aim. Finally, and as expected, municipalities with a low rate of unemployment have a higher level of QoL.

Table 9. The impacts of the modes of public services delivery on QoL

QoL	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coef.	Std.	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error
TOTAL_DECENTRALISATION	1.017093*	0.16202								
COMPANIES			1.272999*	0.2686868						
FOUNDATIONS					5.548956*	0.9038976				
AAOO							1.261955*	0.4238117		
PBE									9.944949*	2.756156
EXTERNALISATION	-0.582743	1.67740	-0.9617702	1.801482	-2.095692	1.541646	-2.457717	1.978213	-2.320168	1.917775
MIXED_COMPANIES	0.9333321	2.73689	0.5163341	2.931273	0.9741523	2.582151	-1.133602	3.275207	-0.2699025	3.188949
UNEMPLOYMENT	-1.338854*	0.41814	-1.28339*	0.4303565	-1.226194*	0.4119802	-1.266472*	0.4414947	-1.194774*	0.4357846
DENSITY	0.0005503	0.00037	0.0006372	0.0004032	0.0007334*	0.000349	0.0010541**	0.0004409	0.0004981	0.0004591
RIGHT_IDEOLOGY	5.102268**	2.50669	6.577771**	2.673115	5.000152**	2.363301	4.949697	3.060742	7.447527**	2.933456
POLITICAL_COMPETITION	-34.72637**	16.9562	-32.34835***	18.13661	-21.8452	15.96726	-34.06459***	20.52145	-26.09997	19.8072
STABILITY	49.91533**	24.0605	45.15601***	25.75466	26.61842	22.35573	32.63454	28.74109	44.13017	28.2505
D2007	-8.947451*	1.45841	-8.730665*	1.49411	-8.463508*	1.455967	-8.903067*	1.521078	-8.639419*	1.504019
D2008	-5.226809*	1.17030	-5.120727*	1.195978	-4.68772*	1.175454	-5.086814*	1.210726	-4.898131*	1.19935
_cons	24.77144**	10.7001	-29.19288**	11.39838	40.47333*	9.60513	39.14238*	12.35943	34.93325*	12.18731
/sigma_u	9.515938*		10.22178*		8.903535*		11.60089*		11.22847*	
/sigma_e	3.858209*		3.871135*		4.027289*		3.76845*		3.7807*	
rho	0.8588207		0.8745657		0.8301527		0.9045522		0.8981729	

*, ** and *** indicate significance at the 1%, 5% and 10% level, respectively.

5. DISCUSSION OF RESULTS

Our results show that municipalities which make use of functional decentralisation in their public services delivery tend to enjoy a higher QoL. This finding is in agreement with Sanderson (1996) and Hong (2011), as well as Molinari and Tyer (2003) and Utrilla (2007), who have highlighted the importance of corporatisation as a form of decentralisation in recent years.

However, as observed by many authors (Wolf, 1993; Martin 2000; Savas, 2005; Fernández, 2007; Norton and Blanco, 2009; Gazzola and Pellicelli, 2009; González et al., 2011b), outsourcing provokes a negative effect on QoL, although this effect is not statistically significant in the models examined. In the case of mixed companies, the effect is not as negative as the effect of externalisation, even it is positive in some models, because of their part public/part private status. But this effect is not significant in our analysis.

Therefore, we conclude that functional decentralisation, rather than the use of the private sector (externalisation or mixed companies), is the best way to deliver local public services, as it allows more quality public services to be provided, thus improving the population's well-being (Sanderson, 1996; Hong, 2011).

Regarding the political and socioeconomic variables, we observed that in municipalities which are governed by a conservative party and where political competition is lower, the QoL is higher, which contrasts with the findings of García-Sánchez and Prado-Lorenzo (2008) and Prado-Lorenzo et al. (2012). These differences could be explained by our inclusion of different modes of public services delivery, which can modify the effect of political factors, and, as observed in the previous chapter, because such decentralisation processes are often promoted by right-wing ideologies.

We also observed, in line with Prado-Lorenzo et al. (2012), a positive effect of the economic level of the municipality on its inhabitants' well-being. Concretely, our results show that the QoL is higher in municipalities with a lower unemployment rate. This is because areas with greater economic activity (taking unemployment rate as a proxy variable of economic activity) are more prosperous and so local governments can provide more and higher-quality services.

6. CONCLUSIONS

This study is grounded on the idea that the living conditions of a municipality could have an impact on the QoL of its population, and that these conditions are strongly influenced by the public services provided by the local government.

Nowadays, municipalities are assuming an increasing number of public services (FEMP, 2006). The proper management of such services, and their sufficient quality, impact positively on the QoL of the population (Goyal, 2007). As a form of management, functional decentralisation and externalisation have been adopted by numerous local governments in recent years, and this development could affect the QoL of their populations (Barroso, 2007).

Some studies have been made of this question, but most analyse the impact of public services management on regional disparities or on cities' sustainability, but not the direct impact on the population's QoL. In addition, much of this research has only focused on a single form of management, either decentralisation or externalisation.

This chapter is intended to highlight the effects of the functional decentralisation and externalisation of local public services on the population's QoL. For this purpose, we examined 78 Spanish cities with a population of over 100,000, where MERCO (Spanish Corporate Reputation Monitor) studied levels of QoL in 2007, 2008 and 2009. The effect of both forms of public services management were tested empirically, through dependence models using panel data models, to lend a certain dynamism to the analysis and to achieve better consistency, as well as better explanatory power, with respect to previous studies, which mainly use theoretical or static econometrics techniques.

Our results reveal the positive impact of functional decentralisation on QoL. Moreover, all forms of decentralised entity – public companies, foundations, autonomous organisations and public business entities – have the same direct effect on citizens' well-being. However, externalisation and mixed companies are not statistically significant in our analysis. Hence, we conclude that local governments make use of public services (to a greater or lesser extent) to manage public administration, through functional decentralisation, rather than the private sector (through externalisation or mixed companies), in order to improve their inhabitants' QoL.

Finally, the political and socioeconomic variables examined show that the population's QoL is higher in municipalities which are governed by a conservative party, enjoying a more stable political position and where little political competition is present, as well as in municipalities with a lower unemployment rate (as was to be expected).

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CHAPTER 4

The Impact of Functional Decentralisation and Externalisation on Local Governments Efficiency

1. INTRODUCTION

The three main pillars on which NPM rests are: effectiveness, efficiency and flexibility. In the words of Pollitt and Bouckaert (2000), “public management reform is usually thought of as a means to an end, not an end in itself. To be more precise, to multiple ends. These include making *savings* (economies) in public expenditure, improving the *quality* of public services, making the operations of government more *efficient* and increasing the chances that the policies which are chosen and implemented will be *effective*.” To achieve these important objectives, public management reform may make use of diverse processes, including privatisation, decentralisation and externalisation (Kettl, 2000).

Some years ago, the study of efficiency acquired increasing importance, when the European Economic and Monetary Union established restrictions with a view to attaining budgetary stability, which oblige governments to assign their resources efficiently to satisfy their citizens (Benito et al., 2010). In Spain this particularly affects local governments, which provide most public services.

In order to improve the efficiency of the public administration and to reduce public sector spending, politicians began to reform public services in different ways. In the case of Spain, reforms under the NPM theory arrived late (Hood, 1996); however, as the empirical evidence shows, local administrations are resorting to private contracting (Pina and Torres, 1998; García, 1999; Ramió-Matas and García-Codina, 2006) and decentralisation of the administration (Cuadrado, 2008; Prado-Lorenzo et al., 2009, Benito and Bastida, 2003a, 2003b, 2005, 2008; Montesinos et al., 2010) in order to supply the services that users demand.

A large number of studies have analysed efficiency at the local level, including Worthington (2000) for Australia; Bueckner (1979) for New Jersey; Grossman et al. (1999) for the USA; Vanden et al. (1993), De Borger et al. (1994) and De Borger and Kersten (1996) for Belgium; Tairou (2000) for France; Worthington et al. (2001) for Wales; Dijkgraaf and Gradus (2003) for the Netherlands; Dijkgraaf et al. (2003) for Denmark; Reeves and Barrow (2000) for Ireland; and Ohlsson (2003) for Sweden.

However, literature focused on the effect of decentralisation and externalisation with respect to Spanish local government efficiency is scarce. Most studies have

focused merely on the dichotomy between private and public management, and do not consider the different ways of providing public services through functional decentralisation. In addition, previous papers suffer other limitations as regards the samples selected and the number of services analysed. In general, their analyses are carried out in a specific year, so the real effect is difficult to observe, and they are only focused on one region of Spain. Furthermore, only one or two services are included in most such studies, and so the evidence obtained cannot be generalised for all public services.

Accordingly, the main aim of this chapter is to analyse the effect of functional decentralisation and externalisation processes on the efficiency of Spanish local governments. Concretely, we expect to add empirical evidence on this topic and clarify the situation about this line of research by (i) specifying the impact of these processes; (ii) conducting a complete analysis of functional decentralisation, taking into account the different decentralised entities – public companies, foundations, autonomous organisations and public business entities – instead of only one mode of delivery; and (iii) choosing a time period that permits the use of panel data methods, which provide more robust results and allow us to control the unobservable heterogeneity and correct the endogeneity problems between dependent and independent variables.

With this goal in mind, we considered 129 Spanish municipalities with populations of over 10,000 between 1999 and 2007, inclusive. In order to provide more precise findings, the process of decentralisation is disaggregated according to the legal form of the organisation: corporations, autonomous organisations, public business entities and foundations.

The results obtained show that both pure forms of public services management have a negative impact on efficiency. Nevertheless, public business entities created by right-wing parties may improve the annual efficiency of the local governments, as well as, companies with an ownership structure formed by a public-private sector mix increases inter-annual efficiency, especially when they are promoted by right-wing governments too.

2. EFFICIENCY, FUNCTIONAL DECENTRALISATION AND EXTERNALISATION: Research Hypotheses

In general, in research into efficiency at the local level in Spain, certain authors can be highlighted, such as Pina and Torres (1992 and 2001), Bosch et al. (2000), Diez-Ticio and Mancebón (2002 and 2003), Prieto and Zofio (2001), Giménez and Prior (2003 and 2007), Balaguer-Coll (2004), Garcia-Sanchez (2006 and 2007), Balaguer-Coll et al. (2007 and 2010), Benito et al. (2010) and Bel et al. (2009), although most of these studies do not focus on how functional decentralisation and externalisation processes affect efficiency in the provision of public services.

The main conclusion in the case of Spain is that the use of the private sector in the provision of public services does not guarantee greater efficiency, and so the balance between public and private management is not optimal, as shown by Bel and Warner (2008) and Bel et al. (2009) in the case of water and waste services. Other papers support this idea¹ in the specific case of water services (Garcia-Sanchez, 2006; Garcia-Rubio et al., 2009; Ordóñez de Haro and Bru-Martinez, 2003) and refuse collection services (Bosch et al., 2000).

However, the evidence is not overwhelming in other countries. In general, in regard to refuse collection services, authors find that private provision generates savings in costs, as in the study by Reeves and Barrow (2000) in Ireland, McDavid (2008) in Canada², Dijkgraaf and Gradus (2003) in the Netherlands³, Dijkgraaf et al. (2003) in Denmark⁴ and Ohlsson (2005) in Sweden. For water services, some authors do not find a superiority of private or public provision in the USA (Bhattacharyya et al., 1994 and 1995; Wallsten and Kosec, 2005), England and Wales (Saal and Parker, 2001; Bottasso and Conti, 2003; Saal et al., 2007), Brazil (Faria et al., 2005; Seroa da Motta and Moreira, 2006; Sabbioni, 2008) and some countries in Africa (Kirkpatrick et al., 2006).

¹ Although this is the evidence most found, it must be pointed out that Picazzo-Tadeo et al. (2007 and 2009) find that private management is better.

² This evidence is stronger in small municipalities.

³ However, the population does not experience this saving directly due to the fiscal system in the Netherlands.

⁴ Private production is used more in small municipalities. In addition, these authors find evidence in the opposite sense, that is, public production is used more by municipalities with high unemployment rates and by those that receive high levels of transfers.

But, at the same time, other authors find that private provision is preferable in Colombia (Arevalo and Schippener, 2002; Beato and Diaz, 2003), Cote d'Ivoire (Collignon, 2002) and other countries in Africa (Estache and Kouassi, 2002), as well as Honduras (Diaz, 2003) and Argentina (Estache and Trujillo, 2003; Salatiel, 2003).

Water and waste disposal services have been the ones most studied, although some studies have addressed local police (Díez Ticio and Mancebon, 2002; Drake and Simper, 2002 and 2003; Garcia-Sanchez, 2007), public transport (Kerstens, 1999; Pina and Torres, 2001; Garcia-Sanchez, 2009), fire services (Cuenca, 1994; Kristensen, 1983; Ahlbrandt, 1973), and so on.

However, most studies are focused merely on the dichotomy between private and public management, and do not consider the different ways of providing public services through functional decentralisation. In addition, previous papers suffer other limitations as regards the samples selected and the number of services analysed. In general, their analyses are carried out in a specific year, and so the real effect is difficult to observe. Furthermore, only one or two services are included in most of the studies, and so the evidence is not generalised for all public services.

From the theoretical point of view, functional decentralisation is defined as the creation of management units that are smaller and more flexible with a business orientation (Aberbach and Rockman, 1999), which makes them more dynamic and enhances public sector efficiency. In addition, outsourcing is expected to improve efficiency, because management is in the hands of specialist suppliers (Cannadi and Dollery, 2005; González et al, 2011) that are accustomed to incorporating performance criteria in public services delivery.

Accordingly, the following hypothesis is proposed:

H10: Functional decentralisation and externalisation have a positive effect on local government efficiency.

3. MEASURING EFFICIENCY

The literature reveals that a wide range of statistical techniques has been used by different researchers to estimate efficiency. Among these techniques, Data Envelopment Analysis (DEA) is the most commonly accepted because this methodology is superior to estimations that use ordinary least squares, and is consistent with the definition of the production function (Russell, 1985).

The use of DEA techniques when multiple outputs are produced offers advantages such as: (i) allowing the overall analysis of each unit; not requiring prior definition of a production function that needs the creation of a mythical unit with which to perform the comparison (Shang and Sueyoshi, 1995), (ii) providing information on the best practices for each inefficient unit, (iii) allowing the inclusion of exogenous variables as uncontrollable inputs, and (iv) not requiring the assumption of fulfilment of statistical hypotheses such as normality and absence of heteroskedasticity.

DEA techniques measure the efficiency of various local governments (called DMUs or units) which provide the same municipal services. Each local government uses a vector X of inputs and produces a vector Y of outputs. The efficiency of a DMU is measured as the maximum ratio of the linear combination of the outputs to the linear combination of the inputs. The maximum is found by selecting the optimal weights associated with the inputs and outputs. The highest possible efficiency reaches the value of 1, indicating a point on the frontier and hence a technically efficient DMU.

In this paper, in line with Prado-Lorenzo and García-Sánchez (2007), García-Sánchez (2008) and García-Sánchez et al. (2011a and 2011b), the indices of technical efficiency were calculated using the VRS-DEA estimator with the application of bootstrapping, and calculated overall for each of the four sectors. We used Wilson's Software Package for Frontier Efficiency Analysis with R (FEAR) to estimate bootstrapped technical efficiency (Wilson, 1995). In addition, based on our panel data, the analysis of the evolution of efficiency was carried out using the Malmquist Productivity Index (e.g. García-Sánchez et al., 2011a and 2011b), originally developed by Caves et al. (1982a and 1982b). From the point of view of outputs, these indices interpret the differences in productivity as the different capabilities, given the

restrictions imposed by technology, for incrementing output without additional consumption of resources (decreasing inputs without reducing outputs).

3.1. Input and output for DEA index

According to Balaguer-Coll et al. (2010), the selection of inputs is based on budgetary variables that reflect municipality costs that in turn reflect the economic structure of Spanish local government expenditures. In this sense, Spanish legislation defines three basic categories: current, capital and financial expenditures. Current expenditures are further divided into four categories, but this paper takes only three of them into account: personnel expenditure (X_1); current goods and services expenditures (X_2); and current transfers (X_3). Capital expenditures are also broken down into real investments (X_4) and capital transfers (X_5), which refer to payments from institutions to finance certain investments.

The selection of outputs, Table 10, is based on the services provided by each municipality, and the classification of municipal services made by Prado-Lorenzo and García-Sánchez (2006) has been adopted for it. In cases where similarities exist between Spanish municipal services and the areas of competence of other European local governments, the outputs were selected according to several parallels with previous studies.

Table 10. Output variables

MUNICIPAL SERVICES	OUTPUTS
Protection or emergency services	
Police services (public and road safety)	Surface area (Y_1)
Fire prevention and extinguishing	Population Density (Y_2)
Utility services	
Paving of public roads and access	
Public street lighting	Surface area (Y_1)
Supply of drinking water and sewerage	
Support services and transportation	
Street cleaning, waste collection and treatment	Surface area (Y_1)
Public transport	Population (Y_3)
Planning services	
Urban planning	Surface area (Y_1)
Urban management	Taxes on construction (Y_4)
Human and health services	
Social services	Unemployed population (Y_5)
Culture and Sports	Population (Y_3)
Environmental protection and public parks	Surface area (Y_1)
Health services	Number of economic activities (Y_6)

Source: The authors

The emergency services item includes police and fire services. The police service pursues: (i) public safety through the prevention of crimes and offences of any nature, patrolling the geographical area of the town, and (ii) road safety, facilitating traffic flow. The fire service has as its objective “to reduce the probability of fires occurring and help to limit losses in property and lives in fires that do occur” (Schaenman and Swart, 1974). The probability of the fire spreading will be represented using the variable density of population, in line with Duncombe and Yinger (1993).

Utility services comprise the paving of public roads, street lighting and water supply and sewerage services. The first two services represent the civil construction works necessary to maintain road surfaces in good repair and adequate street lighting. Water supply refers to the continual distribution of water that has been made drinkable and safe by means of various preliminary treatments, adapted to the daily demand of the customers. The purpose of the sewerage service is to remove the sewage originating from both rainfall and from the return of the drinking water supply after it is used, which involves channelling the sewage from the place where it is generated or where user consumption occurs to water treatment plants. All of these services are represented by the street infrastructure surface area, which identifies the kilometres of infrastructure needed for paving and street lighting and to supply water or remove sewage.

The support services and transport group comprises: (i) street cleaning, which consists of the manual or mechanical washing of the town streets and paved surfaces, (ii) collection of municipal solid waste that is generated in households, industries, shops and offices, provided that it is not classified as hazardous⁵; and (iii) public transport, which provides mobility for citizens within the municipal area. In addition, political authorities usually impose obligations on public transport companies, and these obligations can be manifested in different ways: a minimum level of service for those users that do not have other means of transport or maintaining routes that are not economically justifiable.

Urban planning services deal with the architectural ordering of the town, and involve the suitable distribution of residential areas, parks, leisure spaces, etc., as well as verification that the planning proposed is adapted to the town. The importance of this

⁵ The waste is deposited by the residents in metallic or polyethylene containers distributed throughout the urban surface area that are then emptied into collection vehicles.

service is due not only to town planning or to ensuring that building regulations are fulfilled, but to the fact that it is the municipal service that generates the most resources for the local council. The taxes linked to urban development are very important for towns, specifically the Real Estate Tax (IBI), the Tax on Construction, Installations and Works (ICIO) and the Tax on the Added Value of Urbanized Land, which together comprise more than 65% of the total tax collection of local government.

Human and health services include social services, upkeep of cemeteries, culture and sports, as well as environmental protection and business regulations in matters of health and consumer protection. In general, these services are meant to attain and guarantee basic welfare for certain social groups with special needs or situations, as well as the general population through control of air quality, etc.

3.2. Annual efficiency

DEA is a multiple-input and multiple-output production technology, where inputs $x \in \mathbb{R}_+^d$ are used in the production of outputs $y \in \mathbb{R}_+^p$ and can be represented by the production set ψ of attainable input-output combinations:

$$\psi = \{(x, y) \in \mathbb{R}_+^{p+d} : x \text{ can produce } y\}.$$

The technology is defined as $L(y) = \{x : (x, y) \in \psi\}$.

The value of the efficiency measure is given by $\theta(x, y) = \|x\| / \|x^f\|$,

where $\theta(x, y) = \min \{\theta : \theta x \in L(y)\}$, $x^f \in \text{Isoq}L(y) = \{x : x \in L(y), \mu x \notin L(y), \mu < 1\}$, is the frontier input.

A unit is considered technically efficient if the efficiency measure equals one. Following Charnes et al. (1978), the constant return to scale (CRS) DEA efficiency estimator, θ^{CRS} , is given by $\theta^{\text{CRS}} = \min \{\theta : \theta x_i \in L_n^{\text{CRS}}(y_i)\}$, where x_i is the d -vector of inputs and y_i is the p -vector of outputs. $L_n^{\text{CRS}}(y_i)$ is the piece-wise linear conical hull of the data, defined by $L_n^{\text{CRS}}(y_i) = \{x : y_i \leq Yz, x \geq Xz, z \in \mathbb{R}_+^n\}$. Where $Y = (y_1, y_2, \dots, y_n)$ is a $(p \times n)$ matrix of outputs, $X = (x_1, x_2, \dots, x_n)$ is a $(d \times n)$ matrix of inputs and z is a n -vector of non-negative intensity variables.

Following Banker et al. (1984), the variable returns to scale (VRS) DEA efficiency estimator is given by the solution of the linear programs $\theta^{VRS} = \min\{\theta: \theta x_i \in L_n^{VRS}(y_i)\}$. $L_n^{VRS}(y_i)$ is the piece-wise linear convex hull envelopment of the observed sample x_n given by $L_n^{VRS}(y_i) = \{x: y_i \leq Yz, x \geq Xz, \sum_{i=1}^n z_i = 1, z \in R_+^n\}$.

According to Simar and Wilson (1999), the safest approach in estimating efficiency, which avoids a possible misspecification, is to use the VRS estimator.

As a result of the advancement in the development of bootstrap techniques (Simar and Wilson, 2000a and 2000b), we decided to apply resampling methods and bootstrapping techniques, in accordance with Simar and Wilson (1998). The SW-algorithm is given by the following steps:

- 1) Transform the input-output vectors using the original efficiency estimates $\{\theta, i = 1, \dots, n\}$ as $(x_i^f, y_i) = (x_i \theta, y_i)$.
- 2) Generate smoothed resample pseudo-efficiencies γ_i^* as follows:
 - Given the set of estimated efficiencies $\{\theta\}$ use $h = 0,90n^{-1/5} \min\{\sigma_\theta, R_{13}/1.34\}$ to obtain the bandwidth parameter h .
 - Generate $\{\delta_i^*\}$ by resampling, with replacement, from the empirical distribution $\{\theta\}$ of the estimated efficiencies.
 - Generate the sequence $\{\delta_i^*\}$ using $\delta_i^* = \delta_i^* + h\varepsilon_i^*$ if $\delta_i^* + h\varepsilon_i^* \leq 1$; $2 - (\delta_i^* + h\varepsilon_i^*)$ otherwise.
 - Generate the smoothed pseudo-efficiencies $\{\gamma_i^*\}$ using $\gamma_i^* = \delta_i^* + (\delta_i^* - \delta_i^{*a})/\sqrt{1 + h^2/\sigma_\theta^2}$.
- 3) Let the bootstrap pseudo-data be given by $(x_i^*, y_i^*) = (x_i^f/\gamma_i^*, y_i)$.
- 4) Estimate the bootstrap efficiencies using the pseudo-data and the linear program $L_n^{VRS}(y_i) = \{x: y_i \leq Yz, x \geq Xz, \sum_{i=1}^n z_i = 1, z \in R_+^n\}$ as $\theta^{SW*} = \min\{\theta: \theta x_i^* \in L_n^{VRS}(y_i^*)\}$.
- 5) Repeat steps 2 to 4 B times to create a set of B unit-specific bootstrapped efficiency estimates $\theta^{SW*b}, i=1, \dots, n, b = 1, \dots, B$.

Table 11 (page 118) includes a year by year summary of the main variables in this estimation. On average, in all analysed years the efficiency index “ \hat{v} ” about the provision of public services is close to 1 (around 0.97), which represents the perfect efficiency, and the average is lower only in 2002 (0.9632). However, the efficiency index is lower when we apply the bootstrap technique which takes account of slack efficiency measures, specifically in years 2002, 2003, 2006 and 2007.

3.3. Inter-annual evolution of efficiency

The definition of the Malmquist indices can be made in the following terms: the starting point is a group of production possibilities, $S^t = \{(x^t, y^t) | x^t \text{ can introduce } y^t, t = 1, \dots, T \text{ where } x^t = \text{Inputs vector in } t \text{ and } y^t = \text{Outputs vector in } t.$

Assuming that such a group complies with the requirements established by Shephard (1970), we can establish an input distance function, whose inverse represents a measure of technical efficiency.

$$D_i^t(x_i^t, y_i^t) = \sup \{ \theta < 0 : (x_i^t / \theta, y_i^t) \in S^t \}$$

This function takes values ranging between zero and one. Thus, when a decision unit is efficient, its distance function will be one, and if it is inefficient, its value will be lower than one and the higher its inefficiency level is, the nearer to zero it will be. In that case, and as a factor-oriented radial indicator, we could conclude that it is possible to reduce the use of inputs in the proportion included between the value of the distance function and one.

The distance functions so-defined constitute the foundations to create the Malmquist productivity indices.

$$M_i^t(x_i^t, y_i^t, x_i^{t+1}, y_i^{t+1}) = \frac{D_i^t(x_i^t, y_i^t)}{D_i^t(x_i^{t+1}, y_i^{t+1})}$$

Here, $D_i^t(x_i^t, y_i^t)$ represents the distance function of unit i during period t (taking the technology of period t as a reference), taking values between zero and one. On the other hand, $D_i^t(x_i^{t+1}, y_i^{t+1})$ is the distance function establishing a comparison of productivity of company i during period $t+1$, with respect to the technology of period t ,

that is, the proportional variation that should occur in the input vector in $t+1$ to be over the frontier in t .

An index higher than 1 indicates that the total factor productivity has increased from period t to period $t+1$; values lower than 1 imply a decrease with respect to the most efficient units; and, finally, when the index takes value 1, it means a stable situation.

Table 11 (page 118) includes a year by year summary of this estimation. It shows that the mean of the Malmquist index is higher than 1 in all years, and so the total factor productivity has risen on average from period t to $t+1$ in Spanish municipalities.

4. EMPIRICAL RESEARCH DESIGN

4.1. Sample for the analysis

The data employed correspond to the 129 local governments whose budgetary information was included in the Spanish Public Sector Database (BADESPE) for the total period 1999 to 2007, inclusive. It includes all provincial capitals and almost all municipalities with a population of 10,000 or more. Other data were obtained from the La Caixa Annual Statistical Report and the Spanish Statistical Institute. The initial 153 municipalities were reduced due to the lack of availability of some data.

4.2. Dependent and independent variables

The dependent variables correspond to the annual efficiency index obtained by the DEA methodology, as well as the Malmquist index, which represents their evolution.

The independent variables correspond to the externalisation and decentralisation processes carried out in the local administrations of large municipalities. Concretely, the variables employed are:

- **TOTAL_DECENTRALISATION**: numerical variable that represents the number of decentralised agencies created in each municipality. This process may be carried out by:

- **COMPANIES:** number of government owned corporations created by each municipality.
- **AUTONOMOUS ORGANISATIONS (AAOO):** number of autonomous bodies created in each municipality.
- **PUBLIC BUSINESS ENTITIES (PBE):** number of municipal business entities created by each municipality.
- **FOUNDATIONS:** number of municipal foundations created in each municipality.
- **EXTERNALISATION:** numerical variable that represents the number of private agencies that have acquired the right to provide public services in each municipality.
- **MIXED_COMPANIES:** numerical variable that represents the number of mixed companies that are created in each municipality. Both public and private sectors are owners of these companies.

In addition, we include the following variables that represent the number of the different agencies created by right-wing parties. As we evidenced in chapter 2, the use of decentralised agencies with the aim of increasing the level of public debt is more used by left-wing parties. So, maybe the right-wing parties use these entities with the aim of raising the efficiency.

- **RIGHT_TOTAL_DECENTRALISATION, RIGHT_COMPANIES, RIGHT_AA OO, RIGHT_PBE, RIGHT_FOUNDATIONS, RIGHT_EXTERNALISATION, RIGHT_MIXED_COMPANIES:** variables that were calculated as the product of “RIGHT_IDEOLOGY” and the variables that represent the different modes of public services delivery. These variables show the decentralised and externalised entities that have been created by right-wing parties. With them we want to test if right-wing parties are in favour of private control mechanisms in order to improve public sector efficiency (Borge et al., 2008), such as it is commonly assumed.

4.3. Control variables

In order to avoid biased results, several control variables have been included in order to represent the economic and tourist level and political factors. They are as follows:

- **GDP_pc**: income level is measured using the variable gross domestic product per capita. It has been shown that the higher the citizens' economic level, the greater the income local government collects, and the less pressure exists on politicians and managers to be efficient in the provision of municipal services (Spann, 1977; Silkman and Young, 1982). In a similar way, De Borger and Kerstens (1996) find that a higher economic level is linked to more inefficiency. However, when Giménez and Prior (2003) analysed the impact of municipal economic level on efficiency, they concluded that differences in economic level are not significant when evaluating efficiency.
- **TOURISM_INDEX**: Mathieson and Passell (1976), Díez-Ticio and Mancebón (2003) and García-Sánchez (2006) explain that seasonal populations have an important impact on municipal services given that they increase the demand for the services designed to satisfy citizens' needs. However, if we examine other investigations of the tourist condition and overall municipal efficiency, we see there is no agreement in the literature. Bosch et al. (2000) posit that the tourist level of the municipality has an impact on efficiency, specially related to the refuse collection services, because in some cases, the population of very tourist municipalities is above their normal resident population. But in contrast, Bel (2006) concludes that tourist activity is not significant when it comes to assessing the efficiency of municipalities.
- **RIGHT_IDEOLOGY**: dummy variable that takes a value of 1 if the governing party is conservative, and 0, otherwise. It is commonly assumed that right-wing parties are in favour of introducing budget discipline (Allers et al., 2001) and private control mechanisms in order to improve public sector efficiency (Borge et al., 2008). However, previous evidence is contradictory: Vanden et al. (1993) and Benito et al. (2010) do not find a significant influence of the political ideology of the incumbents. In contrast, De Borger and Kerstens (1996), and De

Grauwe (1985) observed a direct relationship between progressive parties and local authorities' efficiency.

- **POLITICAL_COMPETITION:** numerical variable that represents political rivalry. It is measured according to Solé (2006) as the difference between the percentages of votes obtained by the parties coming in first and second place. Based on the Weak Government Hypothesis, the intuition is: the higher the competition, the higher the efficiency through higher accountability, because politicians will be pressed to assign better available resources if they have more opponents for the elections. This hypothesis shows that fragmentation has a negative effect on decision-making power, and so it impacts on the ability of governments to be efficient (Roubini and Sachs, 1989; Volkerink and de Haan, 2001; Ashworth et al., 2005 and 2006; Coffé and Geys, 2005; Goeminne et al., 2007). In addition, political competition prevents politicians from extracting rents in exchange for services (Fisman and Gatti, 2002), and so they can focus on providing services efficiently.
- **STABILITY:** numerical variable identifying the electoral support the local government obtained in the latest elections, represented by the percentage of seats obtained by the governing party. If the governing party has an absolute majority, it can control expenditure with fewer difficulties in relation to other parties, and so efficiency may not be the criterion used when local governments have to decide how public services are to be managed and a negative relationship between electoral support and efficiency of public services has been found (Balaguer-Coll et al., 2007).

4.4. Research models

In order to achieve the proposed aim of analysing the effect of decentralisation and externalisation processes on the efficiency of local public services, and based on the variables selected, we estimated the following models, in which efficiency indexes depend on the modes of public services delivery (functional decentralisation and externalisation) and on different control variables included to avoid biased results.

$$\begin{aligned} \text{Efficiency} = & \beta_0 + \beta_1 \text{Decentralisation}_{it} + \beta_2 \text{EXTERNALISATION}_{it} + \beta_3 \text{MIXED_COMPANIES}_{it} + \\ & \beta_7 \text{RIGHT_IDEOLOGY}_{it} + \beta_8 \text{POLITICAL_COMPETITION}_{it} + \beta_9 \text{STABILITY}_{it} + \\ & \beta_{11} \text{TOURISM_INDEX}_{it} + \beta_{10} \text{GDP_pc}_{it} + \beta_4 \text{RIGHT_Decentralisation}_{it} + \\ & \beta_5 \text{RIGHT_EXTERNALISATION}_{it} + \beta_6 \text{RIGHT_MIXED_COMPANIES}_{it} + \varepsilon_{1i} + \mu_{1it} \end{aligned} \quad [5']$$

where,

“**Efficiency**” represents different kinds of efficiency: (i) annual efficiency; and (ii) the inter-annual variation of efficiency measured by the Malmquist index.

“**Decentralisation**” represents each of the different decentralised entities: “COMPANIES”, “AAOO”, “PBE” and “FOUNDATIONS”, and all of them jointly (“TOTAL_DECENTRALISATION”).

i indicates the municipality and **t** refers to the time period,

β are the parameters to be estimated,

ε_i represents the persistent unobserved heterogeneity,

μ_{it} represents the classic disturbance term.

To estimate these models, we use truncated regressions, which have been shown by Simar and Wilson (2007) to provide better and consistent statistical inference than Tobit regressions. These authors showed that using the Tobit regression (also called a censored regression model) is an inappropriate approach. Moreover, they justified a truncated regression, because of its satisfactory performance in Monte Carlo experiments.

It is worth noting that the Tobit model is designed to estimate linear relationships between variables in cases where the dependent variable shows either left or right censoring. When censoring variables, it is common to set a threshold, so that there can be censoring above that threshold (which takes place in cases with a value at or above that threshold) or below the threshold (values that fall at or below, that are finally censored). With censored variables, all observations are in the dataset, but the real values of some of them are not known. With truncation some of the observations are not included in the analysis because of the value of the variable.

Specifically, we apply Simar and Wilson's (2007) Algorithm#1. This process is carried out in a way similar to that used for the evolution of productivity estimated through the Malmquist Index. The truncated regression is estimated in Stata, since this software lets us treat information as panel data.

5. EMPIRICAL RESULTS

5.1. Descriptive analysis

Table 11 presents the statistics for the dependent variables discussed above. Over the entire period considered, mean annual efficiencies increased by around 97%, although the index presents a lower value when bootstrapping processes are used (these procedures guarantee the validity of efficiency measures against sample modifications). A Malmquist index higher than one indicates a positive evolution of local government efficiency from 1999 to 2007.

Table 11. Descriptive statistics of annual efficiency

	Annual Efficiency (vdhat)		Bootstrap efficiency (vdhat_bc)		Inter-annual variation of efficiency	
	Mean (Std. Error)	Std. Deviation	Mean (Std. Error)	Std. Deviation	Mean (Std. Error)	Std. Deviation
1999	.97597 (.006448)	.073235	.95357 (.005996)	.068097		
2000	.97326 (.006573)	.074657	.94457 (.006026)	.068443	1.7145 (0.2340)	2.657677
2001	.97744 (.005881)	.066794	.95349 (.005467)	.062094	2.2867 (0.3552)	4.034701
2002	.96318 (.007393)	.083964	.92767 (.006632)	.075328	1.4857 (0.1941)	2.204465
2003	.96961 (.006001)	.068161	.93054 (.005209)	.059165	2.2749 (0.4621)	5.248171
2004	.97643 (.005897)	.066975	.95194 (.005469)	.062112	1.8760 (0.2942)	3.341100
2005	.97992 (.004341)	.049300	.95093 (.003776)	.042892	1.6168 (0.2422)	2.750954
2006	.97008 (.005849)	.066432	.93256 (.005067)	.057545	1.2506 (0.1082)	1.229392
2007	.96907 (.006011)	.068276	.92729 (.005234)	.059447	1.5639 (0.1733)	1.968850

Table 12 provides the descriptive statistics for independent variables, showing that, on average, each municipality created seven decentralised entities between 1999 and 2007. Of these, two or three were public companies, three or four were autonomous organisations, and at most, one foundation or public business entity was created. Of these municipalities, 49.35% were governed by right-wing parties.

Table 12. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
COMPANIES	1161	2.689061	3.723498	0	27
FOUNDATIONS	1161	0.2170543	0.7983292	0	7
AUTONOMOUS ORGANISATIONS	1161	3.35745	3.309685	0	19
PUBLIC BUSINESS ENTITIES	1161	0.1007752	0.4635036	0	4
TOTAL_DECENTRALISATION	1161	6.364341	6.348831	0	43
EXTERNALISATION	1161	1.796727	0.7462709	0	3
MIXED COMPANIES	1161	0.255814	0.4539323	0	2
POLITICAL_COMPETITION	1161	0.1751352	0.1258471	0	0.6
STABILITY	1161	0.4683917	0.0919993	0.25	0.76
TOURISM_INDEX	1030	412.1728	1085.503	0	9898
GDP_pc	1161	18451.79	5079.808	0	33834.27
RIGHT_TOTAL_DECENTRALISATION	1161	2.689922	4.446267	0	32
RIGHT_EXTERNALISATION	1161	0.9078381	1.042683	0	3
RIGHT_MIXED_COMPANIES	1161	0.1369509	0.3634424	0	2
RIGHT_COMPANIES	1161	1.087855	2.213018	0	21
RIGHT_FOUNDATIONS	1161	0.0964686	0.5455111	0	7
RIGHT_AAOO	1161	1.490956	2.517551	0	14
RIGHT_PBE	1161	0.0146425	0.1460724	0	2
			Frequency		
RIGHT_IDEOLOGY			0.4935401		

5.2. Explanatory analysis

Table 13 shows the effect of the different modes of public services delivery on the inter-annual variation in local government efficiency.

Model 1 takes into account the three general modes of public services delivery: functional decentralisation, externalisation and mixed companies. Only “EXTERNALISATION” is statistically significant at the 90% confidence level, with a negative effect on the level of annual efficiency. Of the control variables, “POLITICAL_COMPETITION” and “TOURISM_INDEX” are statistically significant at 95% and “GDP_pc” is significant at 90%; all of these have a negative impact on the efficiency index.

Models 2, 3, 4 and 5 show the results for each type of decentralised entity. In **Model 2**, the statistically significant variables in the analysis are “COMPANIES” and “EXTERNALISATION”, at the 90% confidence level, and with a negative effect on the annual efficiency. “POLITICAL_COMPETITION”, “TOURISM_INDEX” and “GDP_pc” are also statistically significant at 95%, also with a negative effect on the efficiency index.

Table 13. Effects of public services delivery on annual efficiency

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.
TOTAL_DECENTRALISATION	-0.0005976	0.0004305								
COMPANIES			-0.001272***	0.0007054						
FOUNDATIONS					-0.0078243**	0.0039844				
AAOO							0.0002047	0.0007788		
PBE									-0.0231262*	0.0048902
EXTERNALISATION	-0.0062189***	0.0035568	-0.0066029***	0.0035601	-0.0058448***	0.0035368	-0.0064587***	0.0035671	-0.0061333***	0.0035202
MIXED_COMPANIES	0.0067483	0.006611	0.0056126	0.0066458	0.007004	0.0066111	0.0067958	0.0066639	0.0046386	0.0065612
RIGHT_IDEOLOGY	-0.0164057	0.0125964	-0.0147025	0.0125764	-0.0017757	0.0110831	-0.013654	0.0117693	-0.0143366	0.0110436
POLITICAL COMPETITION	-0.0687855**	0.0281629	-0.0647501**	0.0285228	-0.0662563**	0.0278854	-0.069435**	0.0279451	-0.0619545**	0.0277767
STABILITY	0.0352038	0.0391009	0.0304355	0.0394346	0.0323407	0.0386573	0.0364308	0.0388514	0.0192875	0.0389877
TOURISM_INDEX	-5.26E-06**	2.24E-06	-4.71E-06**	2.11E-06	-1.00E-06	2.27E-06	-7.02E-06*	1.96E-06	-2.70E-06	1.93E-06
GDP_pc	-8.55E-07***	4.78E-07	-9.69E-07**	4.77E-07	-8.67E-07***	4.70E-07	-7.34E-07	4.82E-07	-7.34E-07	4.70E-07
RIGHT_TOTAL_DECENTRALIZATION	0.0011134	0.0007126								
RIGHT_COMPANIES			0.001748	0.0013048						
RIGHT_FOUNDATIONS					-0.008313	0.0051775				
RIGHT_AAOO							0.001788	0.0012721		
RIGHT_PBE									0.0377766*	0.014044
RIGHT_EXTERNALISATION	0.0061065	0.0055127	0.0062983	0.0055993	0.0030465	0.0054006	0.0057308	0.005415	0.0064479	0.0053892
RIGHT_MIXED_COMPANIES	-0.0144621	0.0090494	-0.0140305	0.0090927	-0.01833**	0.0089124	-0.0141688	0.0089628	-0.0127415	0.0088267
d01	0.0015861	0.0079022	0.0019085	0.0078995	0.001823	0.0078528	0.0011998	0.0078992	0.001358	0.0078203
d02	-0.0236007*	0.0079634	-0.0231721*	0.0079586	-0.0232958*	0.0079099	-0.0241457*	0.0079614	-0.023871*	0.0078774
d03	-0.0211367*	0.0080726	-0.020612**	0.0080716	-0.0199449**	0.0080022	-0.0216046*	0.0080563	-0.0207751*	0.0079722
d04	0.0010971	0.0082423	0.0017576	0.0082378	0.0039002	0.0081867	0.0003005	0.0082141	0.0012284	0.008123
d06	-0.0161772***	0.0086989	-0.0149648***	0.0086892	-0.0121844	0.0086274	-0.01734**	0.0086603	-0.0162023**	0.0085337
d07	-0.0215921**	0.0088933	-0.0199874**	0.0088653	-0.0162781***	0.0088221	-0.0229476*	0.008864	-0.0213484**	0.0086981
_cons	0.9792882*	0.0185391	0.9826596*	0.018695	0.9737542*	0.0180201	0.9731865*	0.0181706	0.9820339*	0.0180858

For **Model 3**, the statistically significant variables are “FOUNDATIONS” and “EXTERNALISATION”, with a negative impact on the annual efficiency of local governments. In addition, “POLITICAL_COMPETITION” and “GDP_pc” are significant at the 95% and 90% confidence levels, respectively. All of these negatively affect the level of annual efficiency of local governments.

For **Model 4**, “EXTERNALISATION”, “POLITICAL_COMPETITION” and “TOURISM_INDEX” are statistically significant at 90%, 95% and 99%, respectively. Again, all have a negative effect on the efficiency index. Autonomous organisations have a positive effect on efficiency although this is not statistically significant.

Finally, in **Model 5**, the relevant variables are “PBE” and “RIGHT_PBE”, at the 99% confidence level, “EXTERNALISATION” at 90% and “POLITICAL_COMPETITION” at 95%. All of them have a negative effect on the annual efficiency, except the public business entities created by right-wing governing parties.

These results show that private sector involvement in public services delivery worsens efficiency in Spanish local government, rather than improving it. Therefore, the main justification advanced for incorporating the private sector in the provision of local services is rejected (as regards Spain) because externalisation has a negative effect on the level of annual efficiency, while mixed companies have no statistically significant bearing on the analysis.

The same results are also applicable to the functional decentralisation process: a negative impact on efficiency is caused by all kinds of entities, especially companies, foundations. However, when public business entities are created by right-wing parties, they have a positive impact on the annual efficiency of the local government. In addition, we note that efficiency is lower in municipalities that are characterised by a high degree of political competition.

Table 14 shows the effects of the modes of public services delivery on the inter-annual variation of the efficiency. In all models, the only relevant variable is “RIGHT_MIXED_COMPANIES”, with a positive effect on this variation. Thus, the use of mixed companies by right-wing parties does increase the inter-annual efficiency in Spanish local government. This means that the hypothesis H10 of this chapter could be only partially accepted.

Table 14. Effects of public services delivery on **inter-annual variation of efficiency**

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.
TOTAL_DECENTRALISATION	-0.0091361	0.0231884								
COMPANIES			0.0058966	0.0381822						
FOUNDATIONS					0.257407	0.2072414				
AAOO							-0.0384311	0.0422394		
PBE									-0.0578194	0.2674176
EXTERNALISATION	0.2335579	0.1918028	0.2309398	0.1921229	0.2193783	0.1917771	0.2489577	0.1922449	0.2282207	0.1917514
MIXED_COMPANIES	-0.2746374	0.3569369	-0.275391	0.3590955	-0.2371746	0.359058	-0.23794	0.3595147	-0.2837442	0.3580262
RIGHT_IDEOLOGY	0.2300469	0.6828895	0.0613953	0.6829815	0.1042354	0.6043279	0.1941308	0.63648	0.1205084	0.6034517
POLITICAL_COMPETITION	-0.2077118	1.519295	-0.3880838	1.539445	-0.2609327	1.512196	-0.3632296	1.508047	-0.2685288	1.514601
STABILITY	1.703228	2.100597	1.935057	2.120794	1.867416	2.087367	1.899719	2.086007	1.690349	2.114779
TOURISM_INDEX	-0.0000128	0.0001233	-0.0000723	0.0001161	-0.0001379	0.0001256	-5.98E-06	0.000107	-0.0000533	0.0001071
GDP_pc	6.53E-06	0.0000253	9.93E-06	0.0000253	0.0000103	0.0000251	5.39E-06	0.0000255	0.0000103	0.0000251
RIGHT_TOTAL_DECENTRALIZATION	-0.0139371	0.0379715								
RIGHT_COMPANIES			0.0040536	0.0689636						
RIGHT_FOUNDATIONS					-0.1487092	0.2717569				
RIGHT_AAOO							-0.0245625	0.0682654		
RIGHT_PBE									-0.3477093	0.7994656
RIGHT_EXTERNALISATION	-0.1765492	0.2992764	-0.1286283	0.304284	-0.1181388	0.2946633	-0.1662639	0.2936056	-0.1531666	0.2949072
RIGHT_MIXED_COMPANIES	0.8539368***	0.4891089	0.9225768***	0.4918457	0.887546***	0.4847455	0.828402***	0.4840236	0.9194603***	0.4822358
d01	0.5618015	0.3985466	0.202138	0.4415601	0.2687994	0.4421376	0.1473583	0.4407579	0.2007161	0.4373585
d02	-0.243163	0.4004236	0.7556573	0.43032	0.818402	0.4314155	0.7098484	0.4297969	0.755237***	0.4271493
d03	0.5526443	0.4048597	-0.0535627	0.4231281	0.0087993	0.4245843	-0.0921647	0.4221976	-0.0542091	0.420227
d04	0.1560998	0.4121769	0.728637	0.4147804	0.795366	0.4175159	0.6983579	0.4152015	0.7244367***	0.4133486
d06	-0.4776747	0.4332463	0.3216144	0.4080228	0.3476551	0.4079864	0.3002798	0.4087686	0.3187414	0.4072939
d07	-0.1401369	0.4427806	-0.330265	0.3981349	-0.3216357	0.3980518	-0.3364651	0.3980037	-0.3321873	0.3980374
_cons	0.5217489	1.007036	0.1513473	1.11897	0.1039804	1.075853	0.3749493	1.078355	0.2640827	1.078748

6. DISCUSSION OF RESULTS

Our results show that externalisation is harmful to efficiency in Spanish local government, which is in accordance with the popular view of this question, i.e. that the involvement of the private sector in the provision of public services does not guarantee greater efficiency, such as Bel and Warner (2008) and Bel et al. (2009) in the case of waste disposal and water services in Spain, by Garcia-Sanchez (2006), Garcia-Rubio et al. (2009) and Ordóñez de Haro and Bru-Martinez (2003) for water services in Spain, and by Bosch et al. (2000) for waste disposal services in Spain. This conclusion has also been reached in studies elsewhere, for example in the USA (Bhattacharyya et al., 1994, 1995; Wallsten and Kosec, 2005), England and Wales (Saal and Parker, 2001; Bottasso and Conti, 2003; Saal et al., 2007), Brazil (Faria et al., 2005; Seroa da Motta and Moreira, 2006; Sabbioni, 2008) and some countries in Africa (Kirkpatrick et al., 2006).

Moreover, our analysis reveals that, in general, the decentralisation of public services delivery impact negatively on the efficiency of local governments in Spain. It means that these agencies produce poor coordination, overlapping functions and the misuse of resources (Rhodes, 1994). In this respect, according to Talbot and Johnson (2007) and Andrews and Boyne (2009), the evidence suggests that large bureaucracies are cheaper and that regrouping processes should be encouraged.

Only the public business entities created by right-wing parties may improve the level of annual efficiency in Spanish local governments, as well as, the mixed companies created by the same parties could raise the inter-annual variation of efficiency. Thus, to a certain extent, there is a relation between the political ideology of the governing party and the level of local government efficiency, as reported by De Borger and Kerstens (1996) and De Grauwe (1985). However, their results are contrary to ours; these authors concluded there was a direct relationship between left-wing parties and local government efficiency, and this is not the case in Spain.

Finally, our findings show that annual efficiency is lower in municipalities that are characterised by high political competition, as was expected, because political competition prevents politicians from extracting rents in exchange for services (Fisman and Gatti, 2002), and so they must focus on providing services efficiently and on increasing their decision-making power, and this again impacts on local government

efficiency (Roubini and Sachs, 1989; Volkerink and de Haan, 2001; Ashworth et al., 2005 and 2006; Coffé and Geys, 2005; Goeminne et al., 2007). GDP was not found to be very significant in our analysis, which is in accordance with Giménez and Prior (2003). The tourism index impacts negatively on the annual efficiency, according to Bosch et al. (2000).

7. CONCLUSIONS

There is generalised concern about the ineffectiveness and inefficiency detected in the rendering of public services at all levels, these failings normally being associated with bureaucracy and political incompetence, and closely linked to the very nature of public assets (Prado-Lorenzo and García-Sánchez, 2010).

In order to overcome these problems, international studies have led to the design of a new public operating system. The aim of this new approach is to achieve a public sector which operates exclusively in areas where there does not exist a more suitable provider, which might render the service effectively and efficiently (Pilcher, 2005). To do so, the public sector externalises public services whenever possible or collaborates with the private sector to meet citizens' needs. Moreover, internal restructuring is carried out, to eliminate bureaucracy, adopt more rational processes and obtain greater autonomy in management by the creation of decentralised units (Greiling, 2006; Kolthoff et al., 2007).

The empirical evidence compiled to date is contradictory as regards the best form of management for public services, and no clear relationship has been found between the form of managing public services and the efficiency of local governments. In addition, most studies in this area have focused only on the dichotomy between private and public management, and have not considered the different forms of providing public services through functional decentralisation. Moreover, these studies often present other limitations: in general, their analyses are carried out only for one specific year, and so the real effect is not apparent; and/or they focus only on one specific region; and/or only one or two services are addressed. These factors mean that the evidence obtained cannot be generalised to all public services.

Therefore, the aim of the present study is to analyse the effect of processes of decentralisation and externalisation on the efficiency of Spanish public services, in

order to contribute to the empirical evidence available on this question. For this purpose, we examined 129 Spanish municipalities with populations of over 10,000 for the period from 1999 to 2007, inclusive. Furthermore, to obtain more precise findings, the different forms of decentralisation were disaggregated according to the legal form of the organisation (corporations, autonomous organisations, public business entities and foundations).

The results obtained show that involving the private sector in public services delivery through outsourcing improve neither the level of annual efficiency nor the inter-annual variation of this level of local governments in Spain. Similar effects were observed for decentralisation entities, especially public companies and foundations.

However, the public business entities could improve the level of annual efficiency in Spanish local governments and the combination of public and private sector delivery, in the form of mixed companies, may increase the inter-annual efficiency of public administrations. But this effect is observed when such agencies (public business entities and mixed companies) are created by right-wing governing parties.

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CHAPTER 5

The Impact of Functional Decentralisation and Externalisation on the Transparency of Local Governments

1. INTRODUCTION

Citizens, as providers of resources, increasingly require information and accountability in relation to the activities that are defrayed by their resources. In this regard, transparency favours the understanding of the policies implemented by governments, and citizens are encouraged to take part in decision-making (Guillamón et al, 2011b). Transparency enables the observation and analysis of the ways in which governance, business and public affairs should be conducted (Heald, 2006). The OCDE (2001) defines it as “openness¹ about policy intentions, formulation and implementation”.

Furthermore, the economic difficulties that many countries and local governments are suffering have led higher authorities, such as the World Bank, the Financial Monetary Institution and the European Commission, among others, to focus on the behaviour of the public sector. More specifically, several financial scandals that have become public knowledge have intensified interest in particular topics like transparency² and corruption³, concepts that are closely linked, since government transparency is essential to prevent corruption (Hood, 2001; Fozzard and Foster, 2001) because the lack of transparency in governments favours this bad behaviour (Tanzi, 1998).

Several authors have focused their attention on the socioeconomic and political determinants of the level of public transparency (Alesina and Perotti, 1996; Ferejohn, 1999; Alesina et al., 1999; Traummuller, 2001; Fisman and Gatti, 2002a; Alt

¹ In general, transparency and openness are used as synonyms (Nolan Committee, 1995), although some authors find distinctions between them. For example, Larsson (1998) posits that transparency extends beyond the concept of openness to make it more simple and comprehensible, and he also states that transparency requires external recipients that are capable of processing the information provided.

² Sharman and Chaikin (2009) posit that good governance is assessed first in terms of the degree of transparency in decision-making and policy implementation. This assessment affects the image that citizens have of the government, so that there is a trend towards open-government in the United States and in most OECD countries.

³ Corruption is the most important financial problem in developing countries and one of the most important obstacles for economic development (Sharman and Chaikin, 2009). The definition of corruption adopted by the World Bank is the “abuse of public power for private benefit”. However, in some cases, this abuse of power is not necessarily for one’s private benefit, but it can be for the benefit of a certain party, friends, family, etc. (Tanzi, 1998).

et al., 2006; Alt and Lassen, 2006; Piotrowski and Van Ryzin, 2007; Guillamón et al, 2011a and 2011b), but relatively few studies have analysed the impact of functional decentralisation processes on the level of public sector transparency, specifically at the local level, since measuring this concept is a complex task (and more in the local sphere) and, in addition, it is difficult to find reliable data (Guillamón et al., 2011a).

Decentralisation involves the creation of different types of agencies that have greater autonomy in the achievement of their objectives. This requires an adequate system of accountability for their actions. Decentralisation may help to reduce corruption (Huther and Shah, 1998; Fisman and Gatti, 2002a), thus improving the transparency of public administrations in an attempt to restore citizens' confidence so that society might perceive the actions carried out by public administration as ethical and free of corruption (Ostrom et al., 1993).

Nevertheless, the results shown in previous papers are only partial if other modes of public services delivery, such as externalisation or outsourcing, are not taken into account. The effect of these processes on the provision of public services is controversial. Despite the advantages of outsourcing in terms of the efficiency and quality of services, some scholars argue that outsourcing may lead to fraud and corruption (Kettl, 1993; Frederickson, 1999; Jolley, 2008; Pessoa, 2009), since politicians may intervene too often in the selection of the providers of these services, with cases of favouritism in the assignation of contracts (Fernández, 2007; González et al., 2011).

In accordance with the above, the main aim of this study is to observe the effect of functional decentralisation and externalisation processes on the transparency of Spanish local governments. In this regard, our goal is to further contribute to this line of research by (i) specifying the impact of functional decentralisation and externalisation processes; (ii) conducting a complete analysis of functional decentralisation, since we take into account the creation of different entities (public companies, foundations, autonomous organisations and public business entities), instead of only dealing with corporatisation; and (iii) choosing a time period that permits the use of panel data methods, which provide more robust results than cross-sectional studies by the control for unobserved heterogeneity. This method also allows

for the correction of endogeneity problems between dependent and independent variables.

With these goals in mind we selected a sample of the 110 most important Spanish cities, for which information regarding their transparency has been published by the non-government organisation “International Transparency Spain”. This information is available for the years 2008, 2009 and 2010, and therefore our study focuses on this period of time.

The Spanish context was chosen because of the important developments in processes of functional decentralisation (Cuadrado, 2008) and externalisation (Ramió-Matas and García-Codina, 2006), especially in local governments. Furthermore, in relation to transparency, Spanish local governments are to be held responsible for their economic, financial and budgetary undertakings, although there are disparities regarding the processes that they follow (i.e., International Transparency Spain, 2010).

Our results show that the most transparent municipalities tend to be those which are most decentralised in their public services delivery, especially when the transparency concerns corporative information and municipal relations with local citizens. We have insufficient evidence to draw conclusions about the effect of the introduction of the private sector (via externalisation and mixed companies) on the level of municipal transparency.

2. CORRUPTION, DECENTRALISATION AND EXTERNALISATION: Research Hypotheses

2.1. Functional decentralisation and local government transparency

There has been a clear trend towards decentralisation all over the world, both in industrialised countries such as the U.S., France, Italy and Spain, and in developing countries (Bahl and Sjoquist, 1990; Ahmad et al., 1997). Specifically, in the case of Spain -a country that lags considerably behind regarding the incorporation of the reforms proposed by New Public Management (NPM) (Hood, 1996)- we can appreciate a significant development as far as the process of functional decentralisation is concerned (Cuadrado, 2008).

There is much debate on the relationship between the decentralisation of the administrations' activities and the level of corruption. In general, there is a widespread belief that high levels of decentralisation and low levels of corruption are closely related, although, to date, few studies have empirically analysed this proposition (Vernon et al., 2006). The little empirical evidence there is (Huther and Shah, 1998; Fisman and Gatti, 2002a) suggests the existence of a negative correlation between corruption and decentralisation, thus supporting the opinion on this issue of certain institutions like the World Bank (Vergara, 2000).

One of the reasons for this opinion is that decentralisation can correct imbalances in the vertical relationships of governments, and so it is frequently proposed as an action plan to encourage greater responsibility and good governance (Fisman and Gatti, 2002a; Bjedov et al., 2010). Tabellini (2000) emphasise the importance of direct responsibility in the sense that, in decentralisation contexts, politicians and agents become more directly responsible for their actions and, as a result of these higher levels of direct responsibility, their actions and ethical commitment might become improved. Furthermore, decentralisation can help to limit the "predatory" behaviour of governments; although it may have the opposite effect if certain institutional and political restrictions, such as private incentives for local governments, are not respected (Bjedov et al., 2010).

Nevertheless, most studies on the relationship between decentralisation and transparency or corruption only take into account fiscal or administrative decentralisation, not dealing with the functional type. However, the theoretical arguments in favour of decentralisation as a strategy to improve efficiency and efficacy are the same for all its types and, therefore, these ideas also apply to functional decentralisation.

However, there are criticisms about the aforementioned relationship between corruption and decentralisation. Some authors do not support this relationship; this is the case of Prud'homme (1995), who believes that there is a possibility for decentralisation to be accompanied by more corruption. If corruption is more widespread at local than at national level, then decentralisation automatically increases the overall level of corruption. Furthermore, other authors posit that results

may depend on the type of decentralisation that is being dealt with (Fisman and Gatti, 2002b) and the way in which it is measured (Sharma, 2006).

In accordance with the above, and due to the absence of studies analysing the relationship between functional decentralisation and transparency in the case of local governments in Spain, we pose and test the following hypothesis:

H11: Functional decentralisation has a positive (negative) effect on transparency (corruption).

2.2. Externalisation and local government transparency

The introduction of the private sector in public services provision is controversial. Some scholars argue that outsourcing has the potential to produce considerable fraud and corruption if managerial control by the public sector is weak (Kettl, 1993; Frederickson, 1999; Jolley, 2008; Pessoa, 2009). Politicians have intervened too often in the selection of providers, with cases of corruption and favouritism in the allocation of contracts (Fernández, 2007; González et al., 2011).

The level of transparency diminishes as overworked contract managers in governments pay less attention to service delivery and performance indicators than to financial audits (Raffel et al., 2009). To combat bribery, skimming and fraud it is essential to have very tightly drawn contracts and close oversight (Marvel and Marvel, 2007), preferably by experienced government contract managers, since otherwise governments are open to corruption (Kettl, 1993; Frederickson, 1999).

In this regard, public managers should have the capacity to assess the implementation of externalised public services (Bradbury and Waechter, 2009), which is a very time-consuming task (Brown and Potoski, 2003).

In accordance with the above, and due to the fact that we are dealing with a highly controversial topic, we propose the following hypothesis with the aim of clarifying the relationship between externalisation processes and local government transparency:

H12: Externalisation has a negative (positive) effect on transparency (corruption).

However, the existence of mixed companies in which part of the management is in public sector hands (like decentralisation) and another part is in the hands of the private sector (like externalisation) provokes a mix of the previous hypothesis, in the sense that the negative effect proposed in H12 will be less negative in the case of mixed companies. Accordingly, we pose the following sub-hypothesis:

H12.1: This negative effect of externalisation on transparency is less significant in the case of mixed companies.

3. EMPIRICAL RESEARCH DESIGN

3.1. Sample for the analysis

This analysis is based on data for the 110 largest towns and cities in Spain, for which “Transparency International Spain” has published information on economic and financial transparency. It includes all provincial capitals and almost all municipalities with a population of over 50,000 inhabitants. We decided to study local governments because corruption and transparency-related problems tend to be more common at this level (Tanzi, 1994; Prud’homme, 1995), as local politicians usually enjoy greater discretionality of action. The time period analysed comprises the years 2008, 2009 and 2010 because this is the available information in “Transparency International Spain”. With these data, we are using the full dataset available, of the 153 municipalities initially selected.

3.2. Dependent variables

The main aim of this study is to analyse the effect of different modes of public services delivery on the economic and financial transparency of local governments. It follows that the selected dependent variable represents transparency in municipalities. For our purposes, we selected an index published by “Transparency International Spain” (<http://www.transparencia.org.es/>), which gathered information about economic and financial transparency in the largest Spanish cities⁴. This index takes

⁴ In 2008, “International Transparency Spain” sent the questionnaire to the 100 largest municipalities in Spain, but this sample was extended to include 110 cities in 2009 and 2010.

values between 0 and 100 and it is one of the dependent variables in the present study, referred to as “IT_index”.

In addition, this index summarises the information contained in five sub-indexes concerning the following topics: (a) municipal corporations; (b) relationships with citizens and society; (c) economic and financial transparency; (d) transparency related to the bidding for municipal services contracts; (e) transparency in urban planning and public works. In our analysis we deal with all these sub-indexes, each of them appearing as a dependent variable. On this basis we show the areas of transparency that are most influenced by decentralisation and externalisation processes.

This transparency index is useful for the assessment of data provided by local governments, and its publication encourages them to improve their level of transparency (Guillamón et al., 2011b), since it leads to increasing competitiveness among local governments, each of which attempts to get a better score than the rest (Lizcano, 2010).

3.3. Independent variables

The following independent variables were chosen to test the hypotheses of this study. For hypothesis H11, we defined different variables to identify the different typologies of entities involved in the decentralisation process as a mode of public services delivery. These are:

- **TOTAL_DECENTRALISATION**: numerical variable that represents the number of decentralised agencies created in each municipality. Concretely, this process may be carried out by:
 - **COMPANIES**: number of government owned corporations created by each municipality.
 - **AUTONOMOUS ORGANISATIONS (AAOO)**: number of autonomous bodies created in each municipality.

- **PUBLIC BUSINESS ENTITIES (PBE)**: number of municipal business entities created by each municipality.
- **FOUNDATIONS**: number of municipal foundations created in each municipality.

For hypothesis H12 and H12.1, we defined two variables that identify the level of autonomy of the private sector in local services management.

- **EXTERNALISATION**: numerical variable that represents the number of private agencies that have acquired the right to provide public services in each municipality.
- **MIXED_COMPANIES**: numerical variable that represents the number of mixed companies that are created in each municipality. Both public and private sectors are owners of these companies.

3.4. Control variables

Furthermore, in order to avoid biased results, we introduced a set of variables whose influence on the financial transparency of local governments has been widely confirmed. These are our control variables:

- **DEBTpc**: numerical variable that represents the level of public debt per capita. In general, evidence shows that the lowest levels of debt are related to the most transparent budget procedures and institutions (Alesina et al., 1999; Stein et al., 1998; Marcel and Tokman, 2002; Alt and Lassen, 2006; Gavazza and Lizzeri, 2009) and to fiscal transparency (Alt et al., 2006).
- **RIGHT_IDEOLOGY**: dummy variable that takes the value of 1 if the governing party is conservative and 0, otherwise. In this case, the highest levels of transparency appear to be implemented by left-wing parties (Guillamón et al., 2011a), since their aim is to expand the public sector (Ferejohn, 1999).
- **POLITICAL_COMPETITION**: numerical variable that represents political competition, calculated, in accordance with Solé (2006), as the difference

between the percentages of votes obtained by the parties coming in first and second place. Political competition can reduce corruption because it generates more freedom of information, thus helping to limit the chances for corrupt behaviour, and the possible power turnovers imply that politicians' promises are not always credible because of the difficulties in maintaining their position in the future (Montinola and Jackman, 2002). Some authors find that political competition is associated with greater levels of fiscal transparency (Alt et al., 2006), although this effect can be nonlinear (Montinola and Jackman, 2002). In addition, increased competition reduces the chances of looting (Nyblade and Reed, 2008).

3.5. Research models

In order to test the proposed hypotheses, we focused our analysis technique for obtaining panel data on the selection of several dependence models based on linear regressions. Specifically, we used the following models:

$$\mathbf{IT_index} = \beta_0 + \beta_1 \mathbf{Decentralisation}_{it} + \beta_2 \mathbf{EXTERNALISATION}_{it} + \beta_3 \mathbf{MIXED_COMPANIES}_{it} + \beta_4 \mathbf{DEBT_pc}_{it} + \beta_5 \mathbf{RIGHT_IDEOLOGY}_{it} + \beta_6 \mathbf{POLITICAL_COMPETITION}_{it} + \varepsilon_{it} + \mu_{1it} \quad [6']$$

$$\mathbf{IT_subindex} = \alpha_0 + \beta_1 \mathbf{Decentralisation}_{it} + \alpha_2 \mathbf{EXTERNALISATION}_{it} + \alpha_3 \mathbf{MIXED_COMPANIES}_{it} + \alpha_4 \mathbf{DEBT_pc}_{it} + \alpha_5 \mathbf{RIGHT_IDEOLOGY}_{it} + \alpha_6 \mathbf{POLITICAL_COMPETITION}_{it} + \varepsilon_{2it} + \mu_{2it} \quad [7']$$

where

IT_index is the index supplied by "International Transparency España"

IT_subindex represents each topic comprising the global index. Note that these topics are: (a) information about the municipal corporation; (b) relationships with citizens and society; (c) economic and financial transparency; (d) transparency about municipal services contracts bidding; (e) transparency about urban and public works..

"Decentralisation" represents each of the different decentralised entities: COMPANIES, AUTONOMOUS ORGANISATIONS (AAOO), PUBLIC BUSINESS ENTITIES (PBE) and FOUNDATIONS, as well as all of them jointly (TOTAL_DECENTRALISATION).

i indicates the municipality and **t** refers to the time period,

β and **α** are the parameters to be estimated,

ε_i represents the persistent unobserved heterogeneity,

μ_{it} represents the classic disturbance term.

To work with these models, we need an appropriate methodology, because our dependent variables take values between 0 and 100. Therefore, the technique adopted is that of the Tobit regression for panel data models, which allows us to use the IT index and sub-indexes, with left and right-censored data (0-100). The Tobit models are used to estimate efficiency and provide coefficients by the maximum likelihood method. In addition, the random-effects estimator is used to control for individual heterogeneity, taking into account that the individuals are observed in different periods. The random error term is decomposed into two parts: μ_{it} , which varies among municipalities and over time, and the individual effect ε_i , which characterises the municipality and is invariant over time. These can be interpreted as the factors that are not included in the regression and which are specific to each municipality.

4. EMPIRICAL RESULTS

4.1. Descriptive analysis

Table 15 shows the descriptive statistics for the variables used. The mean of the transparency index is 62.45, which is similar to the mean of sub-index E, which summarises the information regarding urban and public works. On average, the highest scores achieved by Spanish municipalities appear in sub-index B, which summarises transparency in the relationship with citizens and society. On the other hand, the lowest scores are displayed in sub-index C, which reports the economic and financial transparency of local governments in Spain. Thus, it is interesting to know whether decentralisation/externalisation processes determine the transparency of local governments.

As far as the rest of the variables are concerned, we can observe that on average, local governments create about 8 public entities in the analysed period, of which 4 are public companies, 1 foundation and 4 autonomous organisations or almost any type of public business entity. Likewise, 2 contracts with private companies for public services delivery are established, while local governments just use mixed companies for this delivery.

Finally, we note that the Spanish municipalities analysed are mainly governed by right-wing governments, although these do not have absolute control, since the

percentage of right-wing governments is 58%. In addition, the difference in votes between the election-winning party and the party with the second largest vote is only 0.16; therefore, Spain is a two-party country.

Table 15. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
IT_index	320	62.45375	21.05091	12.5	100
A_subindex	320	69.69844	20.65767	15.8	100
B_subindex	320	72.66219	18.35811	15	100
C_subindex	320	47.91906	35.23493	0	100
D_subindex	320	55.81563	29.48701	0	100
E_subindex	320	62.99781	24.70239	0	100
TOTAL_DECENTRALISATION	330	8.327273	7.32665	0	43
COMPANIES	330	3.733333	4.1126	0	26
FOUNDATIONS	330	0.5363636	1.242685	0	7
AAOO	330	3.966667	3.361969	0	15
PBE	330	0.0909091	0.4783226	0	4
EXTERNALISATION	330	1.9	0.7390539	0	3
MIXED_COMPANIES	330	0.2727273	0.4660333	0	2
DEBT_pc	327	72.01932	56.32022	1.735725	542.9564
POLITICAL_COMPETITION	330	0.1599091	0.12098	0	0.58
			Frequency		
RIGHT_IDEOLOGY	330		0.5818182		

4.2. Explanatory analysis

4.2.1. The effect of decentralisation/externalisation processes on the global transparency index

Table 16 shows the effect of the different modes of public services delivery in Spain on the global transparency index published by International Transparency.

Both functional decentralisation and externalisation have a positive effect on municipal transparency, although the “TOTAL_DECENTRALISATION” variable is the only statistically significant one, at a 95% confidence level. This justifies hypothesis H11, which was established at the beginning of the study; however, there is not sufficient empirical evidence to accept hypothesis H12 and H12.1, due to the

fact that the externalisation and mixed companies variables are not statistically relevant in the analysis.

In this regard, the most transparent municipalities are the most functionally decentralised ones, in particular through public companies, foundations and public business entities, which are significant at the 99% (“COMPANIES” and “FOUNDATIONS”) and 95% (“PBE”) confidence level. Meanwhile, autonomous organisations are not significant in the model.

In relation to the control variables, political ideology is the only significant variable (at a 90% confidence level) except in the case of autonomous organisations. The effect of this variable on transparency is negative; therefore, the level of transparency is higher in municipalities governed by left-wing parties.

4.2.2. The effect of decentralisation/externalisation on the different transparency sub-indexes.

Tables 17, 18, 19, 20 and 21 show the effects of public services delivery in Spain on the different transparency sub-indexes (A-E) related to (a) municipal corporations; (b) relationship with citizens and society; (c) economic and financial transparency; (d) transparency related to the bidding for municipal services contracts; (e) transparency in urban planning and public works.

Table 16. Effects of modes of public services delivery on global transparency index

IT_index	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error
TOTAL_DECENTRALIZATION	0.4814413*	0.1490412								
COMPANIES			0.949068*	0.2689586						
FOUNDATIONS					2.755157*	0.8850827				
AAOO							0.3620302	0.3146114		
PBE									5.441743**	2.232333
EXTERNALIZATION	1.317619	1.511851	1.518175	1.514199	0.6336287	1.480353	0.6817898	1.499523	0.6223062	1.481434
MIXED_COMPANIES	-1.983231	2.329656	-1.753269	2.333583	-2.044018	2.324515	-3.220523	2.293001	-2.702237	2.309319
DEBT_PC	-0.0123375	0.0181022	-0.0131826	0.0181403	-0.0131862	0.0181277	-0.0094494	0.0179671	-0.0106088	0.0180217
RIGHT_IDEOLOGY	-4.615954**	2.153268	-4.170294***	2.166034	-5.606534*	2.14132	-5.26009	2.14052	-4.115225***	2.200252
POLITICAL_COMPETITION	3.55139	8.88215	2.472429	8.842616	1.891173	8.827408	1.416841	8.887674	2.442628	8.863337
_cons	60.49291*	4.508257	60.49647*	4.399246	65.22245*	4.021277	65.09234	4.434413	65.2742*	4.060387
/sigma_u	9.744763*	0.826345	9.646471*	0.8187699	9.806478*	0.825945	10.16084	0.8512739	9.932612*	0.8395859
/sigma_e	17.45874*	0.74602	17.46408*	0.7457658	17.43314*	0.7436831	17.39925	0.743227	17.41965*	0.7448729
rho	0.2375388	0.0363252	0.2337766	0.0359356	0.2403686	0.0363475	0.254307	0.0376175	0.2453533	0.0370541

Table 17 shows a positive effect of decentralisation and externalisation on transparency regarding municipal corporations. However, the only significant variables are those related to decentralisation processes, and this at different confidence levels (“TOTAL_DECENTRALISATION”, “COMPANIES” and “FOUNDATIONS” at 99%; “AAOO” and “PBE” at 95%). These results comply with hypothesis H11, although we do not have sufficient evidence to accept hypothesis H12 and H12.1 about externalisation and mixed companies.

Again, the political ideology is the only control variable that is statistically significant at the 95% and 99% confidence levels, depending on the model. This variable has a negative effect on transparency, and hence the municipalities governed by left-wing parties tend to be more transparent.

Table 18 shows the effects of decentralisation and externalisation on transparency, with respect to citizens and society. Again, functional decentralisation, whatever form of decentralised entity is adopted, positively affects this kind of transparency, at the 99% confidence level, except “PBE”, which is statistically significant at 95%. These effects confirm hypothesis H11. In addition, “MIXED_COMPANIES” are statistically significant in the analysis at different confidence levels, except in the model of “COMPANIES” and “TOTAL_DECENTRALISATION”. Its effect on transparency is negative, and so the use of the private sector for public services delivery negatively affects local government transparency in its relations with citizens and society, as we proposed in the hypothesis H12.1. Externalisation did not reach statistical significance in this analysis, so there is no evidence for the hypothesis H12.

Table 19 summarises the effects of functional decentralisation and externalisation on economic and financial transparency. Public companies and foundations are the only factors found to be statistically significant, at the 90% and 95% confidence levels, respectively, with a positive effect on the financial transparency. The variables that represent other entities are not significant in the analysis, and so hypothesis H11 is only partially accepted.

Regarding the control variables, the political ideology of the governing party is the only statistically significant factor, at 95% and 99% confidence, depending on the

model, with a negative impact on transparency. Hence, municipalities that are governed by left-wing parties tend to be more transparent in their relations with citizens and society.

Table 20 shows the effects of the functional decentralisation and externalisation of public services delivery on transparency regarding the form of delivery. Both processes have a positive effect on this kind of transparency (except if the decentralisation process involves autonomous organisations), while mixed companies have a negative effect on it. However, none of the variables are statistically significant in the analysis, and so we cannot draw firm conclusions.

Finally, Table 21 presents the effect of decentralisation and externalisation on municipal transparency regarding town planning and public works. In general, transparency is positively affected again, but only functional decentralisation is statistically significant in this model. Municipalities with more public companies were found to be more transparent because the variable “COMPANIES” has a positive effect on this sub-index, at the 90% confidence level. These results, therefore, lead us to partially accept hypothesis H11 but they do not show sufficient evidence for hypothesis H12 and H12.1.

In conclusion, the most transparent municipalities are those which are most decentralised regarding public services delivery, and especially when the transparency concerns municipal information and its relations with citizens. Finally, we did not obtain sufficient evidence about the effect of the introduction of the private sector (via externalisation and mixed companies) on the level of municipal transparency.

Table 17. Effects of modes of public services delivery on transparency subindex “A”

(Information about the municipal corporation)

A_subindex	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error
TOTAL_DECENTRALIZATION	0.6348759*	0.1486361								
COMPANIES			1.214254*	0.273154						
FOUNDATIONS					2.584328*	0.8489841				
AAOO							0.7036126**	0.305176		
PBE									6.35378**	2.836942
EXTERNALIZATION	1.620991	1.443486	1.846146	1.444704	0.662564	1.403035	0.8891282	1.431205	0.6840692	1.406502
MIXED_COMPANIES	-1.301738	2.212932	-1.03883	2.203533	-1.896798	2.195901	-2.834544	2.189246	-2.336085	2.180288
DEBT_PC	0.0159077	0.0169479	0.0150888	0.0169848	0.0163536	0.0169802	0.0191673	0.0168552	0.0181138	0.0168745
RIGHT_IDEOLOGY	-4.854775**	2.036187	-4.320546**	2.046497	-6.058544*	2.035147	-5.703608*	2.033705	-4.436352**	2.075574
POLITICAL_COMPETITION	1.218504	8.389551	-0.228731	8.347763	-1.698391	8.351092	-0.9261335	8.440477	-0.738322	8.375313
_cons	64.14402*	4.358916	64.40951*	4.237279	71.14534*	3.850799	69.00804*	4.313177	70.82469*	3.893755
/sigma_u	12.36576*	1.027678	12.22046*	1.022403	12.7153*	1.053314	12.88383*	1.062868	12.76136*	1.050265
/sigma_e	15.529*	0.692731	15.54061*	0.6945177	15.50129*	0.6920532	15.49013*	0.6909014	15.49601*	0.6904325
rho	0.3880408	0.0470995	0.3820891	0.0471917	0.4022171	0.047581	0.4089131	0.0476026	0.4041214	0.0472867

Table 18. Effects of modes of public services delivery on transparency subindex “B”
(Relationship with citizens and society)

B_subindex	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error
TOTAL_DECENTRALIZATION	0.620282*	0.1352269								
COMPANIES			0.9775496*	0.2265113						
FOUNDATIONS					3.064314*	0.8337539				
AAOO							0.6977834*	0.264754		
PBE									4.70493**	1.954918
EXTERNALIZATION	0.4168973	1.277713	0.3511732	1.274295	-0.5045192	1.243465	-0.2781878	1.263238	-0.6125652	1.245192
MIXED_COMPANIES	-3.200908	1.927202	-3.181148	1.931643	-3.543518***	1.927282	-4.665814**	1.904095	-4.266015**	1.913172
DEBT_PC	0.0019015	0.0145491	0.0020671	0.0145875	0.0017454	0.0145728	0.0049573	0.0144981	0.004386	0.0145216
RIGHT_IDEOLOGY	-2.803538	1.798187	-2.281943	1.807486	-4.04404**	1.791333	-3.62527**	1.792983	-2.348459	1.829243
POLITICAL_COMPETITION	-1.565477	7.396306	-2.638632	7.353234	-4.150084	7.371728	-3.518902	7.424548	-2.887011	7.373138
_cons	69.86174*	3.849996	71.25413*	3.714106	76.36236*	3.396831	74.53273*	3.749978	76.49093*	3.40851
/sigma_u	10.9417*	0.873558	10.96082*	0.8767043	11.15092*	0.8872952	11.45529*	0.9118747	11.29849*	0.9005856
/sigma_e	13.67127*	0.5921047	13.67801*	0.592651	13.65508*	0.5915142	13.64345*	0.5921666	13.65096*	0.5920211
rho	0.3904477	0.0450002	0.3910442	0.0451383	0.4000688	0.0452504	0.4134753	0.0458171	0.4065417	0.0456336

Table 19. Effects of modes of public services delivery on transparency subindex “C”
(Economic and financial transparency)

C_subindex	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error
TOTAL_DECENTRALIZATION	0.3854705	0.299016								
COMPANIES			1.016339***	0.5380346						
FOUNDATIONS					4.461367*	1.732613				
AAOO							-0.3801931	0.6332205		
PBE									7.096722	4.502532
EXTERNALIZATION	3.748173	2.990679	4.215384	2.995486	3.288045	2.933558	2.773178	2.962268	3.270675	2.931397
MIXED_COMPANIES	-1.511153	4.695958	-0.9044271	4.706774	-0.6271726	4.704112	-2.949968	4.622517	-1.797315	4.661939
DEBT_PC	0.0046086	0.0372958	0.0017867	0.0373321	0.0005889	0.037432	0.0076962	0.0369824	0.0047859	0.0370802
RIGHT_IDEOLOGY	-9.066179**	4.348112	-8.368129***	4.366809	-9.946495**	4.332834	-9.714796**	4.326937	-8.165766***	4.445096
POLITICAL_COMPETITION	8.373782	17.59942	8.225113	17.51334	8.224544	17.50872	4.227762	17.5931	8.445343	17.57694
_cons	44.09206*	8.829199	42.2888*	8.618209	46.48687*	7.896851	51.85179*	8.662604	47.08585*	7.960701
/sigma_u	11.66748*	1.247744	11.47578*	1.223735	11.38303*	1.21035	11.96119*	1.272879	11.62588*	1.242164
/sigma_e	35.92221*	1.748544	35.93596*	1.744641	35.9639*	1.743368	35.81969*	1.744751	35.90084*	1.746328
rho	0.0954271	0.0218685	0.0925407	0.0211781	0.0910581	0.0207983	0.1003212	0.0227818	0.0949143	0.0217349

Table 20. Effects of modes of public services delivery on transparency subindex “D”
(Transparency in the outsourcing of services)

D_subindex	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error
TOTAL_DECENTRALIZATION	0.2192425	0.3011931								
COMPANIES			0.7183414	0.5442327						
FOUNDATIONS					0.7633602	1.741863				
AAOO							-0.2170348	0.633554		
PBE									5.30419	4.677495
EXTERNALIZATION	0.6593705	2.953202	1.066989	2.962706	0.3082574	2.900067	0.1119229	2.928313	0.3958898	2.898318
MIXED_COMPANIES	-5.445831	4.662134	-4.851653	4.667389	-5.721279	4.652759	-6.236477	4.59076	-5.370451	4.610193
DEBT_PC	-0.0403146	0.0376185	-0.0436869	0.0376744	-0.03948	0.0377387	-0.0366956	0.0373577	-0.0404742	0.0374438
RIGHT_IDEOLOGY	-4.026495	4.313996	-3.46964	4.335348	-4.434546	4.293452	-4.397425	4.293621	-3.175993	4.399815
POLITICAL_COMPETITION	2.286003	17.64937	2.397232	17.55379	1.360718	17.56934	0.1112382	17.69357	3.021314	17.61906
_cons	63.83076*	8.818347	61.9167*	8.616762	66.34751*	7.869671	68.13913*	8.675965	65.06308*	7.935982
/sigma_u	4.450711*	0.6288658	4.363413*	0.6198667	4.423878*	0.6332837	4.482615*	0.6345486	4.321918*	0.6188429
/sigma_e	36.61238*	1.788946	36.58806*	1.786165	36.6255*	1.789284	36.62139*	1.789835	36.61193*	1.786916
rho	0.0145624	0.0044178	0.014023	0.0042738	0.0143797	0.0044137	0.0147616	0.0044853	0.0137435	0.0042175

Table 21. Effects of modes of public services delivery on transparency subindex “E”
(Transparency in town planning and public works)

E_subindex	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error	Coef.	Std. Error
TOTAL_DECENTRALIZATION	0.3673114***	0.2106962								
COMPANIES			0.6554367***	0.3802455						
FOUNDATIONS					1.932586	1.22767				
AAOO							0.4039366	0.4424692		
PBE									3.880446	3.194067
EXTERNALIZATION	1.221995	2.081577	1.300698	2.088261	0.6792684	2.041539	0.8396577	2.061476	0.7189064	2.039161
MIXED_COMPANIES	0.0638618	3.281165	0.1001333	3.287609	-0.0529866	3.274111	-0.7568025	3.227548	-0.4713168	3.24017
DEBT_PC	-0.0195545	0.0260073	-0.0203194	0.026024	-0.0200909	0.0260598	-0.0160722	0.0258159	-0.0177856	0.0258146
RIGHT_IDEOLOGY	-4.589578	3.029194	-4.346641	3.043596	-5.324524***	3.016046	-5.070648***	3.015164	-4.293696	3.086598
POLITICAL_COMPETITION	14.08317	12.4853	12.9976	12.42228	12.72759	12.41814	13.15419	12.50268	13.19501	12.45973
_cons	62.30998*	6.188528	62.83159*	6.053474	66.06882*	5.518055	64.91017*	6.065233	65.94676*	5.557693
/sigma_u	5.897015*	0.7220455	6.017151*	0.7280606	6.007123*	0.7306353	6.1212*	0.7362843	6.214656*	0.7408533
/sigma_e	25.51694*	1.163129	25.45985*	1.1611	25.47559*	1.162769	25.46996*	1.163384	25.40202*	1.160526
rho	0.0507003	0.0133856	0.0529012	0.0137972	0.0526726	0.0138117	0.0546047	0.0141593	0.0564744	0.0145055

5. DISCUSSION OF THE RESULTS

On the one hand, we observe that the most transparent municipalities are those that have carried out more functional decentralisation processes for the delivery of public services, especially through the creation of public companies and foundations. These results comply with the scarce empirical evidence (Huther and Shah, 1998; Fisman and Gatti, 2002a), which suggests a negative relationship between decentralisation and corruption.

Decentralisation processes improve transparency in Spanish municipalities, because both politicians and the rest of agents involved in them are directly related to service delivery, thus being more responsible for their actions (Tabellini, 2000). This triggers a more ethical behaviour of all the agents involved, limiting predatory behaviour in governments (Bjedov et al., 2010), which would almost certainly lead to corruption.

In Spain, decentralised entities are controlled by different authorities: foundations are non-profit entities that depend on public administrations and perceive monetary funds from them. Accordingly, these entities must be periodically audited to guarantee the adequate use of public funds. Companies and autonomous organisations are attached to councils or departments that control and assess them.

On the other hand, empirical evidence shows that the introduction of the private sector, in the form of outsourcing or as mixed companies, does not trigger corruption in Spanish municipalities.

Some scholars posit that there are sometimes cases of favouritism in the selection of private providers of externalised public services, so in these cases, politicians are the ones who corrupt the municipality (Fernández, 2007; González et al., 2011). However, we do not find sufficient evidence to conclude that outsourcing processes in Spain cause corruption problems at local level. One of the reasons may be an adequate managerial control by the Local Public Sector (Kettl, 1993; Frederickson, 1999; Jolley, 2008; Pessoa, 2009) through close oversight, thus guaranteeing transparency (Kettl, 1993; Frederickson, 1999) in municipalities.

6. CONCLUSIONS

Successive international financial scandals have put the spotlight on the organisations that operate in both the private and the public sector (Svensson et al., 2004), and governments seek to restore public confidence in their activities, while citizens require information and more transparency concerning the activities that are defrayed by their resources (Guillamón et al., 2011b).

Theoretically, decentralisation processes are aimed towards good governance and accountability, being an effective mechanism to control corruption. However, there is a heated debate on the relation between the decentralisation of public activities and the level of corruption or transparency.

Empirically, most studies deal with fiscal or administrative decentralisation, but they set aside functional decentralisation. Hence, this paper adds empirical evidence at local level to this analysis. Furthermore, we consider another mode of public services delivery, externalisation or outsourcing, because if we were to deal only with decentralisation, the results obtained might be biased. With this aim in mind, we selected a sample of the 110 most important Spanish cities, for which “Transparency International Spain” has published information regarding their level of transparency for the years 2008, 2009 and 2010.

The results show that the introduction of the private sector through externalisation or mixed companies does not affect the transparency level of municipalities, while functional decentralisation produces a positive effect. Concretely, the most transparent municipalities are those that use decentralised entities for public services delivery.

Concluding, we do not find that public services delivery through other modes different to direct delivery from the public sector is the cause of cases of corruption in Spanish local governments, in spite of the doubts they raise regarding the inappropriate use of indebtedness (Monasterio et al., 1999; Prado et al., 2009 and 2010; Escudero, 2002) and fraud in relation to the assignation of contracts for services delivery (Fernández, 2007; González et al., 2011). Even we show that the local governments that adopt decentralised agencies are more transparent than the rest.

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CONCLUSIONS

CONCLUSIONS

Historically, different forms of public service provision have co-existed, leaning towards one option or the other depending on the predominant ideology and the economic and political circumstances of the moment. However, it was not until the 1990s that the two forms of service provision were truly combined, based on the ideas expressed in the theory of New Public Management. The fundamental rationale of NPM is to champion the application of certain private sector principles to the management of the public sector, to develop its activities more efficiently. With the arrival of this school of thought, two processes acquired particular importance – functional decentralisation and the outsourcing of public services.

These processes bring public administrations closer, giving them a better understanding of people's needs and preferences. This improves the efficiency of public sector activities and allows administrations to adapt better to changes in their environment through the use of more flexible entities. They also enable the public sector to focus its attention on strategic issues, leaving more operational matters in the hands of specialist suppliers, thus improving the quality of the services provided.

In Spain, the introduction of NPM ideas led to the modernisation of cumbersome bureaucracies and improved the quality and quantity of public services and in the last two decades there has been a significant degree of functional decentralisation and outsourcing, especially in the provision of services by local governments. Thus, the number of public enterprises, autonomous bodies, public companies, foundations, outsourced operations and mixed companies has increased uninterruptedly throughout the country.

Following the implementation of NPM proposals, many of its efficiency and quality goals have been achieved, but at the cost of damaging side effects. The latter have been highlighted by the incoming Spanish government, which decided to initiate a process to “streamline” public companies and foundations, citing their inefficiency and the huge amount of debt generated in the sector, amounting to 6% of Spanish GDP.

With these considerations in mind, this paper provides an analysis of the causes and effects (in terms of quality of life, efficiency and transparency) of processes of functional decentralisation and outsourcing by local governments in Spain. The main

objective of this analysis is to identify the reasons underlying the creation and dissolution of these means of service delivery.

Based on the information obtained from a sample comprising all Spanish municipalities with over 50,000 inhabitants, together with all the provincial capitals, for the twelve years from 1999 to 2010, various econometric and statistical analyses were performed.

This study has two main elements: firstly, a descriptive study, as an initial approach to the data and the determinants of functional decentralisation and outsourcing by local governments in Spain. Secondly, we discuss the effects of these processes in terms of the quality of life of the citizens and the efficiency and transparency of local governments.

The descriptive analysis of the data reveals the trend toward functional decentralisation among all the municipalities studied, although this change has been more radical in some than others. In general, this trend is stronger in large cities, while medium-sized municipalities (between 100,000 and 500,000 inhabitants) present a slight preference for outsourcing. The smaller municipalities have the same pattern, and have made less use of functional decentralisation, although in this case, mainly due to a lack of resources to do so. This shortage has forced them to adopt other forms of service delivery, such as associations, or supra-municipal bodies, by means of which small municipalities combine their resources to provide certain basic services.

Functional decentralisation may be implemented by various types of entities: public companies, foundations, autonomous bodies and public corporate bodies. The municipalities that are most functionally decentralised (normally those with a large population) have mainly relied on public companies and autonomous bodies, creating, on average, three entities of each type in the period considered (1999-2010). However, from 2001 local governments also began to use foundations.

In contrast, mixed companies have had little success. Local governments have preferred to use functional decentralisation or outsourcing rather than this hybrid figure, in their provision of public services. Specifically, municipalities created an average of about seven decentralised entities during the period analysed (1999-2010) and established approximately two contracts with private companies, while virtually no

mixed companies were created.

To determine the factors which facilitated decentralisation and outsourcing, we analysed the influence of the budgetary characteristics and political factors relevant to these processes. Data were obtained for 153 municipalities, but the time period analysed had to be shortened, concluding in 2007. The empirical results show that local governments with a right-wing ideology tend to make greater use of functional decentralisation for the delivery of public services, especially when faced with little political competition and when they are elected with a significant majority.

In general, there is a relation between the type of decentralisation/outsourcing entity created and the phase of the mandate of the government in power. Local governments tend to establish foundations at the beginning of their first term, to create public companies following reelection and to create autonomous agencies at the end of their term.

Although right-wing governments most commonly advocate decentralisation, it is the left-wing ones that most tend to use decentralised institutions as a means of generating funds by increasing indebtedness. So, it is preferable a stricter control when the party in power has left ideology.

Until new rules were introduced in 2001, establishing legal restrictions on borrowing, left-wing governments used public companies for this purpose. However, the new regulations required such mechanisms to be consolidated into the municipal accounts, and the preference changed toward foundations, which were excluded from this obligation. In this sense, all decentralised entities should form part of the consolidated accounts, because otherwise, public administrations will use the entities that are excluded from this obligation.

Having identified the factors that influence the creation of decentralisation/outsourcing entities, we wished to examine their effects on issues such as the quality of life and the efficiency and transparency of local governments. Regarding the former, the quality of life in a municipality is largely determined by the public services offered and, perhaps more importantly, by their quality and the way in which they are provided.

To perform this part of our analysis, the sample had to be reduced to the 78

Spanish cities with over 100,000 population, since the quality of life data supplied by Spanish Corporate Reputation Monitor (MERCOR) were available only for these municipalities and for the years 2007, 2008 and 2009. The results obtained show that functional decentralisation, whatever the type of entity created, has a positive effect on citizens' quality of life, and so its introduction is viewed as more beneficial than that of outsourcing or the creation of mixed companies. Furthermore, the quality of life is higher in municipalities governed by right-wing parties, with a very stable, uncompetitive political environment, and where unemployment is lower.

In the case of local government efficiency, although it was necessary to reduce the sample to 129 municipalities (of the 153 originally included) due to limited data available for the years 1999 to 2007, the results are considered to be representative. One of the strongest reasons for introducing private sector ideas into public service delivery through outsourcing is the efficiency traditionally associated with such activities. However, our results show that, in Spanish municipalities, this innovation improved neither the level of annual efficiency nor the inter-annual variation of this level at local level. The same results are got for functional decentralisation process. These findings show that large bureaucracies are more inexpensive, so maybe, a restructuring of the Spanish local administrative system is necessary.

The only good mechanism in this respect is the creation of public business entities for the annual efficiency and mixed companies for the inter-annual variation of efficiency, whenever they are implemented by right-wing parties.

Finally, the numerous cases of corruption detected in Spanish municipalities have opened up the debate on the misuse of power and resources by local governments. In this regard, we analysed the possible effects of decentralisation and outsourcing on municipal transparency. The latter concept is employed here as an antonym of "corruption" and for this purpose we examined a sample of 110 Spanish cities on which *Transparency International Spain* has published information regarding their level of transparency for the years 2008, 2009 and 2010.

We do not find evidence for concluding that the introduction of the private sector, via outsourcing or mixed companies, promote corruption in local governments in Spain. However, there is evidence about the decentralised entities that contribute most to increase municipal transparency. The reason is that decentralised agencies are closer to

citizens, so politicians' actions are more visible and they have a more ethical behaviour.

In summary, the results obtained show that processes of functional decentralisation produce more positive than negative effects on citizens and the behaviour of local governments in Spain. Firstly, the existence of decentralised entities results in an increased quality of life for citizens and, moreover, administrative corruption is reduced. However, no greater efficiency is achieved in the management of public services, perhaps due to the perverse use made by politicians of these entities, in order to circumvent legal limits to borrowing.

Nevertheless, there are certain monitoring mechanisms that can hinder this type of opportunistic behaviour, such as the accounting requirement for financial-economic budgetary information to be consolidated. Furthermore, the introduction of certain management criteria specific to joint (private-public) ventures could favour the inter-annual variation in local government efficiency.

In conclusion, we believe these results provide certain basic criteria for action by local governments with respect to the creation or dissolution of decentralised entities and/or contracts with private companies for the provision of public services.

“The greatest moral perfection of man is to do his duty”

Emmanuel Kant

SPANISH SUMMARY

Resumen en español

**“Factores Determinantes de la Descentralización Funcional y
Externalización de los Servicios Públicos Locales”**

1. INTRODUCCIÓN

A lo largo de la historia, la preocupación de los gobiernos ha estado orientada a cómo prestar servicios públicos razonables a todos los ciudadanos, independientemente de su capacidad económica, y a un coste aceptable. El Sector Público surge como mecanismo de lucha contra el escaso interés de la iniciativa privada por establecer proyectos empresariales relacionados con la prestación de servicios universales a precios sociales. Sin embargo, una excesiva socialización deja entrever los problemas de las grandes burocracias, en términos de eficiencia y eficacia.

La teoría de la Nueva Gestión Pública surge como un intento de evitar dichos problemas, a través de la modernización del Sector Público, introduciendo elementos del sector privado (Haynes, 2003) que permitieran la prestación de servicios de forma más eficaz y eficiente. Las corrientes que defienden la combinación de elementos de ambos sectores, el público y el privado, podrían fundamentarse en la idea que Aristóteles resumía como “la virtud es el punto medio entre dos vicios contrapuestos”. Esa es precisamente la postura de la Nueva Gestión Pública: tomar los elementos positivos de ambos ámbitos para conseguir una gestión más eficiente de los recursos públicos.

Entre las principales reformas que se han acometido tomando como fundamento las propuestas de la Nueva Gestión Pública, se encuadran los procesos de descentralización funcional y externalización (“outsourcing”) en la prestación de servicios públicos. El primero de ellos permite a la Administración estar más cerca de los ciudadanos y conocer mejor sus necesidades y preferencias (Hayek, 1945). Así, los ámbitos excesivamente burocratizados van diluyéndose y son sustituidos por entidades más flexibles (Aberbach y Rockman, 1999) que permiten mejorar la coordinación y control de las actividades (Tullock, 1965). Por su parte, el “outsourcing” supone una incorporación radical del sector privado en la actividad pública, lo que permite dejar en manos especializadas la prestación de determinados servicios (Cannadi y Dollery, 2005) considerados públicos. Este proceso facilita la mejora en la eficiencia a la vez que permite que el sector público se centre básicamente en las actividades estratégicas (Brown y Potoski, 2003).

Desde finales de los años 90, el aumento del número de entidades dedicadas a la prestación de servicios públicos en España ha sido espectacular, tanto en forma de entes descentralizados como a través de la externalización. Estos entes permitieron modernizar el sector público español, que había quedado obsoleto ante los nuevos aires que corrían en Europa. Muchas entidades fueron creadas con motivo de algún evento importante, cultural, deportivo o social, o con fines de promoción de la industria, el turismo o el comercio. Algunas de ellas no llegaron a conseguir los objetivos que justificaron su creación, otras los consiguieron, pero el evento que les daba razón de ser ha finalizado hace varios años; sin embargo, muchas no fueron disueltas. Esto hace sospechar, con fundamento, de su verdadero uso y finalidad.

Estas sospechas parecen confirmarse especialmente desde que el nuevo gobierno, en su lucha contra el déficit, pusiese de manifiesto la denominada “sobredimensión” del sector público empresarial y fundacional español. Como consecuencia, la segunda era de “recortes” puesta en marcha por el ejecutivo ha consistido principalmente en la simplificación de dicha parcela del sector público. Aparte de sus ineficiencias, el principal problema que plantean estos entes se deriva del enorme montante de deuda que acumulan.

Entidades empresariales, fundaciones, y otras instituciones dependientes de las administraciones públicas, ya sea del Estado, de las Comunidades Autónomas o de los Gobiernos Locales, acumulan una deuda que supone un 6% del PIB de la economía española, habiendo aumentado en casi un 45% en los últimos 4 años justo cuando la crisis financiera internacional se manifiesta de forma más intensa. Esta deuda está contribuyendo a asfixiar económicamente a un gran número de pequeños empresarios, los cuales tienen que soportar importantes retrasos en sus cobros, lo que les obliga a su vez a retrasar los pagos, generándose una dinámica de impagos que trae de cabeza a las autoridades, no sólo nacionales, sino también internacionales.

Al hilo de la reflexión precedente, cabe plantearse cuestiones como por qué han evolucionado en la forma que lo han hecho los procesos de descentralización funcional y externalización, cuáles son las razones reales subyacentes a la creación de este tipo de entidades y cómo afecta su creación a los ciudadanos. La búsqueda de respuesta a estas y otras cuestiones relacionadas es un elemento clave para encontrar una explicación

razonable al proceso y, en cierta medida, a algunas de las situaciones en las que se encuentra actualmente nuestro país.

Así pues, el objetivo del presente trabajo es tratar de determinar las razones reales que subyacen a la elevada proliferación de entes descentralizados y externalizados, creados para la prestación de los servicios públicos, así como los efectos que ello presenta sobre los ciudadanos y sobre la gestión de los gobiernos locales.

De los tres ámbitos públicos posibles (nacional, regional o municipal), el estudio se ha centrado a nivel local, puesto que en 2011 el número de entes dependientes de los Gobiernos Locales era más de 5.000, frente a los casi 2.000 que dependían de las Comunidades Autónomas y los apenas 500 que dependían del Estado. Por lo tanto, son los Ayuntamientos los que tienden en mayor medida al uso de este tipo de entidades para la prestación de sus servicios a los ciudadanos.

Aunque cabe pensar que el uso de los procesos de descentralización funcional y externalización tiene que responder a una mejor atención a los ciudadanos, tampoco puede perderse de vista que algunos de los entes creados son muchos más impermeables a la fiscalización por los órganos de control público. Esto facilita la creación de puestos de trabajo de “diseño” y la generación de recursos vía endeudamiento para fines distintos a la estricta prestación de servicios más eficientes. Además, no hay que olvidar que los ciudadanos son votantes y contribuyentes, por lo que los servicios pueden ser utilizados como arma para la lucha en los procesos electorales.

2. CARACTERÍSTICAS DEL TRABAJO: Estructura y Contenido.

El presente trabajo consta de cinco capítulos y se estructura en dos partes. En la primera, se examinan los procesos de descentralización funcional y externalización realizados por los gobiernos locales españoles, tratando de establecer sus factores determinantes más importantes. La segunda trata de determinar los efectos que los procesos de descentralización funcional y externalización han tenido sobre la calidad de vida de los ciudadanos, así como sobre la eficiencia y transparencia de los gobiernos locales que los han llevado a cabo.

El análisis de los aspectos determinantes de los procesos de descentralización funcional y externalización engloba los capítulos 1 y 2. En el primero de ellos se

conceptualizan dichos procesos en España y se lleva a cabo un análisis descriptivo de los mismos como primera aproximación al estudio. En el segundo capítulo se analizan los determinantes de la descentralización funcional y la externalización, considerando conjuntamente características presupuestarias y factores políticos como elementos potencialmente influyentes.

El examen de los efectos de los procesos de descentralización funcional y externalización engloba los tres capítulos restantes. En el capítulo 3 se analizan los efectos de dichos procesos sobre la calidad de vida de los ciudadanos, mientras que los capítulos 4 y 5 se dedican a estudiar los efectos sobre la gestión de los gobiernos locales en términos de eficiencia y transparencia, respectivamente.

Con estos objetivos en mente, se seleccionó una muestra compuesta por 153 municipios españoles, en la que se integran todos los ayuntamientos de más de 50.000 habitantes y todas las capitales de provincia, aunque su población sea inferior. El ámbito temporal considerado es el período de doce años comprendido entre 1999 y 2010.

El caso español es adecuado para el desarrollo de este estudio debido a la gran importancia de los procesos de descentralización funcional (Cuadrado, 2008) y externalización (Ramió-Matas y García-Codina, 2006) durante las últimas décadas. Los gobiernos locales han tendido hacia el uso de estas formas de provisión de servicios en lugar de la gestión directa con el objetivo de aprovechar las ventajas procedentes de las características del sector privado: eficiencia y eficacia en la gestión, economías de escala en la provisión y calidad de servicios prestados (Pollitt y Bouckaert, 2000).

La selección del ámbito local para el estudio permite obtener un mayor número de observaciones disponibles, además de ser más homogéneas que los datos procedentes de diferentes países (García-Sánchez et al., 2011a y 2011b). Su mayor proximidad a los ciudadanos y a sus tareas diarias les permite conocer mejor sus necesidades y adaptarse a ellas durante la prestación de los servicios públicos.

Sin embargo, el gran número de municipios españoles (8.114 a fecha 01/01/2010 según el Instituto Nacional de Estadística) y las disparidades entre ellos hace necesario un criterio que permita seleccionar una muestra. El más adecuado es el criterio relacionado con el tamaño poblacional (Benito et al., 2010a; Navarro et al., 2010; Guillamón et al., 2011a; Navarro-Galera y Rodríguez-Bolívar, 2011).

En este sentido, la muestra está formada por las localidades de mayor tamaño debido a que estos son los únicos que por ley están obligados a proveer a los ciudadanos de todos los servicios indicados en la Ley Reguladora de Bases de Régimen Local. Por lo tanto, los resultados obtenidos con esta muestra consideran todos los servicios públicos posibles, de manera que serán más robustos y consistentes con la realidad.

Asimismo, las reformas propuestas en aras de la teoría de la Nueva Gestión Pública se encuentran mucho mejor adaptados a las grandes ciudades, puesto que en los municipios más pequeños la gestión es mucho más informal y recae sobre una única figura que suele ser “no profesional”, el alcalde. Sin embargo, las grandes localidades cuentan con candidatos electorales más profesionales, que se suelen dedicar a la política, y con expertos en administración. Por ello, no parece necesario incluir los pequeños municipios en la muestra (Prado-Lorenzo y García-Sánchez, 2007)

La razón para elegir el período de tiempo indicado es que en él se incluye los años de mayor proliferación de entes públicos y la aparición de dificultades económicas graves que ponen de manifiesto las perversiones del sistema. No obstante, la dificultad para disponer de toda la información necesaria para la construcción de las variables empleadas en los análisis ha provocado que en ciertos capítulos se haya tenido que reducir la muestra, en cuanto a individuos y/o periodo temporal, para adaptarse a la información disponible.

En el estudio se han aplicado diferentes técnicas estadísticas y econométricas. El análisis descriptivo del primer capítulo se ha llevado a cabo aplicando el software “SPSS” y la técnica “Biplot”. En el resto de capítulos se utiliza el software “Stata” para la estimación de los modelos de dependencia que permiten contrastar las hipótesis propuestas en cada uno de los capítulos. Los estimadores utilizados responden a las características de las variables empleadas para cada modelo y son adecuados para la aplicación de la técnica de datos de panel, la más razonable para la forma que tiene la muestra empleada.

3. CAPÍTULO 1. Formas de prestación de los servicios públicos locales en España

3.1. La Nueva Gestión Pública

El modelo tradicional de gestión pública se había ido quedando obsoleto, en términos políticos, sociales y administrativos. La teoría de la Nueva Gestión Pública podría ser considerada como un intento de modernización de las administraciones públicas, con el propósito de mejorar sus operaciones (Pollit y Bouckaert, 2000) y conseguir un sistema de gestión más eficaz y eficiente, lo cual permitiría satisfacer las necesidades de los ciudadanos al mínimo coste y con la máxima calidad a través de mecanismos de competencia (García-Sánchez, 2007a).

Este movimiento comenzó a desarrollarse en 1980 en países como Reino Unido, Nueva Zelanda y Australia y más tarde se extendió por Estados Unidos, Canadá, Holanda y Suecia. Como principal característica destaca la introducción de estructuras de gestión y de organización propias del sector privado. En concreto, supone la introducción de criterios de economía, eficiencia, eficacia y excelencia en la implementación de políticas públicas (Ferlie et al., 1996; Osborne y Gaebler, 1993; Pollitt y Bouckaert, 2000), la aplicación de propuestas de gestión como privatización, descentralización y externalización y el uso de mecanismos de control (Kettl, 2000) para la delegación de responsabilidades.

Los procesos de descentralización funcional consisten en la creación de agencias encargadas de la gestión de servicios, de menor tamaño y mayor flexibilidad, en las que predomine una cultura de negocio (Aberbach y Rockman, 1999), con el propósito de evitar las rigideces típicas de los sistemas de la administración pública. De esta forma, los gobiernos locales son capaces de prestar los servicios con mayor rapidez (Downs, 1967) y más adaptados a las necesidades de los ciudadanos, puesto que estas agencias se encuentran más cercanas a ellos (Hayek, 1945).

La externalización, también denominada “outsourcing” o “contracting out”, es un proceso por el que las administraciones públicas trasladan la prestación de servicios públicos al sector privado, a través de la firma de un contrato con una empresa privada. Este proceso se fundamenta en dos ideas básicas: la provisión de servicios se deja en manos de proveedores especializados (Cannadi y Dollery, 2005; González et al, 2011a) y, a la vez, supone una transferencia de conocimiento entre proveedores y clientes,

contribuyendo ambas cosas a mejorar la calidad de los servicios (Norton y Blanco, 2009).

No obstante, la externalización soporta fuertes críticas por los posibles efectos negativos derivados de su uso. Por una parte, los ciudadanos pueden percibir a la empresa privada prestadora de los servicios como un obstáculo entre ellos y su gobiernos (Norton y Blanco, 2009; González et al., 2011a). Por otra, podrían generarse casos de corrupción entre los políticos a la hora de asignar los contratos de prestación a las empresas privadas (Fernández, 2007; González et al., 2011c). Asimismo, la administración pública se vaciaría de contenido, puesto que su tarea se limitaría a la mera selección de los proveedores privados (Martin 2000; Norton y Blanco, 2009; González et al., 2011a).

En España, aunque la llegada de las reformas planteadas por la Nueva Gestión Pública llegaron más tarde que en el resto de países desarrollados (Hood, 1996), han existido importantes avances en los procesos de descentralización funcional (Cuadrado, 2008) y externalización (Ramió-Matas y García-Codina, 2006).

3.2. Formas de gestión de los servicios públicos municipales

Las responsabilidades atribuidas a los gobiernos locales en la prestación de servicios se encuentran estrechamente relacionadas con el tamaño poblacional del municipio y aparecen recogidas en el artículo 25.2 de la Ley Reguladora de Bases de Régimen Local. En ella se establece un mínimo de servicios que deben ser provistos por todos los gobiernos locales, y el resto se fijan de acuerdo con el número de habitantes.

Los servicios mínimos a prestar por un municipio son: alumbrado público, recogida de residuos urbanos y limpieza de la vía pública, provisión de agua potable, alcantarillado, accesos a centros urbanos, mantenimiento de la vía, control de alimentos y bebidas y gestión de cementerios. No obstante, cuando los municipios superan los 5.000 habitantes deben añadir, al menos, parque público, biblioteca y facilidades para el comercio. Adicionalmente, las localidades con más de 20.000 habitantes deben proveer servicios de protección civil y prevención y extinción de incendios, servicios sociales y facilidades deportivas. Finalmente, aquellos municipios con más de 50.000 habitantes deben proveer también de transporte público colectivo y servicios de conservación del medio ambiente.

Las diferentes formas de provisión de los servicios también se encuentran establecidas en dicha ley. Concretamente, los gobiernos locales pueden prestar los servicios públicos a los ciudadanos a través de:

- **Gestión Directa:** los servicios públicos son gestionados, controlados y suministrados directamente por el gobierno local.
- **Descentralización Funcional:** la administración pública crea agencias para la provisión de los servicios, tales como Organismos Autónomos, Entes Públicos Empresariales, Empresas Públicas o Fundaciones.
- **Externalización:** el gobierno local establece un contrato con una empresa privada para la prestación de un servicio concreto. Sin embargo, aunque es la empresa privada la que se encarga de la provisión, la administración pública sigue manteniendo la capacidad de decisión y control sobre el mismo.
- **Empresas mixtas:** se trata de un tipo de ente híbrido entre el sector público y el privado, puesto que el capital de estas empresas se encuentra repartido entre ambos.

Dadas sus características, las entidades utilizadas para la gestión de los servicios pueden presentar distintos tipos de personalidades jurídicas, perteneciendo unas al ámbito público y otras al privado, por lo que necesitan regímenes legales y operativos diferentes. Desde el punto de vista operativo, la Ley General Presupuestaria 47/2003 indica que el sector público administrativo, formado por los Organismos Autónomos, debe aplicar en su gestión los principios y normas del Plan General de Contabilidad Pública. Sin embargo, el sector público empresarial, donde se incluyen las Empresas Públicas y los Entes Públicos Empresariales, y fundacional, formado por las fundaciones públicas, deben aplicar los principios y normas del Plan General de Contabilidad de la empresa privada y las disposiciones del Código de Comercio.

No obstante, las empresas y fundaciones públicas, por el hecho de pertenecer al sector público, incorporan peculiaridades en cuanto a la elaboración de la información financiera. Concretamente, muchas empresas públicas no actúan en régimen de mercado, por lo que la información elaborada según la normativa privada resulta insuficiente. Por ello, la Ley General Presupuestaria obliga a este tipo de entidades a

presentar un informe sobre el cumplimiento de determinadas obligaciones económico-financieras junto a las cuentas anuales. Específicamente, se trata de información relativa a los programas de actuación plurianual y liquidación de presupuestos, subvenciones y aportaciones recibidas, adquisiciones de inmovilizado regionalizadas, ejecución de contratos-programas, cumplimiento de publicidad y concurrencia, legalidad en cuanto a contratación y subvenciones, garantías recibidas de entidades públicas y evolución de las plantillas.

3.3. Análisis descriptivo

Como paso previo necesario para el desarrollo de los análisis empíricos realizados en los capítulos siguientes, se ha estudiado la evolución general de los procesos de descentralización funcional y externalización llevados a cabo en España. Para ello se ha desarrollado un análisis descriptivo global mediante el software SPSS y un análisis individual por municipios a través de la metodología “Biplot”, que nos permite representar en un mismo plano distintas variables e individuos.

Los resultados¹ muestran que durante el periodo analizado (1999-2010), el proceso más utilizado es el de descentralización funcional, especialmente a través de organismos autónomos y empresas públicas, mientras que las fundaciones y los entes públicos empresariales prácticamente no han sido empleados. No obstante, el uso de fundaciones se va incrementando paulatinamente a partir del año 2002, justo cuando se establece en España el límite al endeudamiento para los gobiernos locales.

El análisis descriptivo por municipios muestra que en 1999 los comportamientos de las ciudades españolas eran dispares. Las grandes urbes, Madrid y Barcelona, y otras de tamaño medio como Badalona, Tarragona, Reus y Marbella se declinaron por el uso de la descentralización funcional para la provisión de servicios públicos. Sin embargo, otras como Melilla, Granollers, Elche o Castellón optaron en mayor medida por la externalización. Asimismo, El Ejido, Benidorm, Valladolid, Zamora y ciertos municipios isleños como Telde, Santa Lucía de Tirajana, San Cristóbal de la Laguna y Santa Cruz de Tenerife, utilizan las empresas mixtas como principal forma de provisión, especialmente en el caso de los servicios que forman el ciclo integral del agua.

¹ Las representaciones gráficas se encuentran en las páginas 26 a 29 (capítulo 1)

Por el contrario, algunos municipios optaron por la combinación de distintas formas de gestión. Algunos como Palma de Mallorca, Sevilla, Málaga y Estepona (entre otros), configuran un grupo que optó principalmente por la descentralización funcional, pero utilizaron también la externalización para ciertos servicios públicos. Concretamente, la externalización se empleó para prestar los servicios de abastecimiento y saneamiento de aguas, recogida y tratamiento de residuos urbanos y transporte público colectivo. Sin embargo, Bilbao y Jerez dotan de mayor importancia a la externalización, aplicándola en igual medida que la descentralización funcional para la provisión de los servicios públicos.

Para poder obtener conclusiones sobre la evolución en los mecanismos de gestión utilizados, mediante la comparación entre la situación inicial y final del período objeto de estudio, se ha realizado el mismo análisis para el año 2010. Los resultados permiten comprobar que las grandes ciudades continúan tendiendo hacia la descentralización funcional en mayor medida, aunque se han producido algunos cambios. Concretamente, Barcelona ha intensificado el uso de dicha forma de gestión; Marbella y Reus se asemejan ahora a Palma de Mallorca, Sevilla, Málaga y Estepona que acuden a la externalización para la provisión de ciertos servicios, aparte de la descentralización. Asimismo, el grupo formado en 1999 únicamente por Bilbao y Jerez, incorpora otras ciudades como Tarragona, Granada, Ceuta, Jaén, Mataró, Sabadell y Valencia, las cuales pasan a utilizar en la misma medida tanto descentralización como externalización.

Por el contrario, el grupo inicialmente formado por los municipios isleños y otras localidades como Valladolid, Zamora, Ciudad Real, Sagunto y Sanlúcar de Barrameda, se dividió en dos grupos: los municipios isleños, Ciudad Real, Sagunto y Zamora han combinado el uso de empresas mixtas con la descentralización funcional; mientras tanto, el resto de localidades han tendido hacia la externalización, principalmente aplicada para la prestación de los servicios de recogida y tratamiento residuos y transporte público.

Finalmente, dado que las ciudades de mayor tamaño presentan un comportamiento diferente a aquellas de tamaño más reducido, podría ser interesante comprobar las diferencias entre ellas. Por este motivo, se han agrupado los municipios según su población y se ha aplicado un análisis “Biplot MANOVA” para conocer la evolución de la gestión de servicios públicos según la población.

En general, todos los gobiernos locales han tendido hacia el uso de la descentralización funcional, aunque unos en mayor medida que otros. Así, las localidades entre 100.000 y 500.000 habitantes han mostrado también una leve inclinación hacia la externalización de los servicios públicos, lo que concuerda con los resultados precedentes. Al mismo tiempo, los municipios de menor tamaño, por debajo de 100.000 habitantes, aunque han incrementado el uso de la descentralización funcional, siguen utilizando estos procesos en menor medida que los municipios mayores.

4. CAPÍTULO 2. Factores determinantes de los procesos de descentralización funcional y externalización. Factores políticos y deuda pública

Tal como se indicó anteriormente, los procesos de descentralización funcional y externalización han adquirido especial relevancia en las últimas décadas. Sin embargo, la literatura sobre los motivos que podrían explicar la consecución de dicho significado es escasa.

La ideología y la motivación política son las únicas variables políticas que suelen utilizarse en este tipo de estudios, aunque Bel y Fageda (2007 y 2009) defienden que la selección de la forma de gestión de los servicios públicos municipales está motivada por factores económicos y problemas financieros, unidos a consideraciones de ideología política. El impacto de los factores políticos, especialmente la ideología, sobre los procesos de descentralización territorial han sido analizados por diversos autores (O'Neill, 2003; Escobar-Lemmon, 2003; Mardones, 2007), pero se han dejado de lado otros tipos de descentralización, como puede ser la funcional. Además, existen factores como la competencia y estabilidad política y el momento electoral podrían también influir en la forma de prestación de servicios públicos a los ciudadanos (Miranda, 1994; Warner and Hebdon, 2001; Tellier, 2006; Ni and Bretschneider, 2007; Bel and Fageda, 2008; González-Gómez et al., 2010).

Existe otro factor que en la actual situación de crisis alcanza una especial relevancia: el uso estratégico de la deuda pública por parte de los políticos para manipular las preferencias de sus votantes e influir en el resultado de las elecciones. Este tipo de comportamiento ha sido puesto de manifiesto en numerosos países, siendo un buen ejemplo de ello Francia (Aubin et al., 1988; Binet y Pentecote, 2004; Foucault et

al., 2008), Japón (Kohno y Nishizawa, 1990; Yoshino y Mizoguchi, 2010), Canadá (Blais y Nadeau, 1992; Reid, 1998; Kneebone y Mckenzie , 2001; Tellier, 2006), Estados Unidos (Poterba, 1994; Grier, 2008), Alemania (Galli y Rossi, 2002; Berger y Holler, 2007; Schneider, 2010) o España (García-Sánchez et al., 2011a).

Para prevenir este comportamiento oportunista, las autoridades han impuesto límites al endeudamiento público. En el caso español, todos los gobiernos subnacionales (Comunidades Autónomas, Diputaciones y Municipios) están sujetos a dicha limitación. Sin embargo, se han ido creando mecanismos y procedimientos para saltarse estas restricciones y conseguir resultados electorales favorables. Distintos autores han demostrado que algunos gobiernos crean entidades descentralizadas para transferir parte de sus gastos y deuda pública hacia estos entes independientes (Dilorenzo, 1982 y 1984; Blewett, 1984; Marlow y Joulfaian, 1989; Bunch, 1991; Escudero, 2002; Grossi y Mussari, 2008; Grossi y Thomasson, 2011).

El objetivo de este capítulo ha sido analizar los factores determinantes de los procesos de descentralización funcional y externalización para la prestación de servicios públicos locales en España. Al mismo tiempo, se ha realizado un amplio estudio de estos procesos, considerando los diferentes tipos de entidades descentralizadas utilizados (organismos autónomos, entes públicos empresariales, empresas públicas y fundaciones públicas).

En el análisis se han considerado como elementos determinantes, tanto factores políticos como presupuestarios. Entre los factores políticos, se han incluido la ideología política del gobierno local en el poder, la competencia y estabilidad política y el periodo electoral. En general, la literatura hasta ahora no ha conseguido llegar a una conclusión homogénea sobre el efecto de la ideología política. Aunque algunos autores no encuentran que el comportamiento de los partidos de izquierdas y de derechas en España sea diferente (Bosch y Suarez-Pandiello, 1995; Benito y Bastida, 2004), otros confirman que las formaciones con ideología de derechas tienden al uso de técnicas propias del sector privado en mayor medida (Borge et al., 2008; Prado-Lorenzo et al., 2009). Esta discrepancia en los resultados exige seguir profundizando en la investigación, por lo que se propone la siguiente hipótesis de contraste:

H1: Los gobiernos de derechas usan los procesos de descentralización/externalización para la prestación de servicios públicos en mayor medida que los partidos de otras ideologías.

Asimismo, cabe esperar que en entornos caracterizados por baja competencia política los gobiernos locales tiendan en mayor medida al uso de procesos de descentralización funcional y externalización. La razón es que en estos casos, el control político sobre las decisiones que toma el gobierno es mayor, resultando un entorno propicio para llevar a cabo reformas (Ni y Bretschneider, 2007). Por ello se propone la siguiente hipótesis:

H2: En entornos caracterizados por una reducida competencia política, los gobiernos locales tienden a implementar procesos de descentralización/externalización para la prestación de servicios públicos en mayor medida.

Además, se espera que los gobiernos locales más estables utilicen más dichos procesos, ya que los partidos que gobiernen con mayorías absolutas tendrán más libertad para introducir reformas (Warner y Hebdon, 2001; Bel y Fageda, 2008; González-Gómez et al., 2010). Sobre las bases precedentes, se enuncia la hipótesis siguiente:

H3: Los gobiernos locales más estables tienden a usar los procesos de descentralización/externalización para la prestación de servicios públicos en mayor medida que aquellos menos estables.

En cuanto al ciclo electoral, algunos autores defienden que los gobiernos suelen llevar a cabo las reformas en los años inmediatamente posteriores a su elección (Baber y Sen, 1986). Otros muestran que los políticos que llevan largos periodos de tiempo gobernando tienen a implementar mayores reformas debido a su experiencia acumulada (Warner y Hebdon, 2001). La hipótesis que planteamos propone:

H4: Los gobiernos locales tienden a utilizar los procesos de descentralización/externalización para la prestación de servicios públicos sobre todo en los años inmediatamente siguientes a su victoria electoral.

Asimismo, se incluyen otras tres hipótesis relacionadas con factores presupuestarios. Hasta ahora, existe evidencia empírica que muestra que los gobiernos

locales se valen de las agencias descentralizadas para evitar tener que respetar los límites al endeudamiento legalmente establecidos (Bennett y Dilorenzo, 1982 y 1984; Blewett, 1984; Marlow y Joulfaiian, 1989; Bunch, 1991; Monasterio, 1996; Salinas et al., 1996; Monasterio et al., 1999; Escudero, 2002; Prado-Lorenzo et al., 2009 y 2010). Esto fundamenta el enunciado de la quinta hipótesis:

H5: Los gobiernos locales con mayores niveles de endeudamiento utilizan en mayor medida las agencias descentralizadas.

Aunque habitualmente se piensa que serán los partidos de derechas los que más tiendan al uso de los procesos de descentralización funcional, también se espera que sean los partidos de ideología de izquierdas los que utilicen estos procesos con el objetivo principal de incrementar los recursos disponibles mediante endeudamiento. La razón es que son este tipo de gobiernos los más proclives a la intervención e incremento de la deuda pública (Tellier, 2006; García-Sánchez et al., 2011a). En el caso español, la regulación legal obliga a los gobiernos locales a incluir todas las agencias descentralizadas en las cuentas consolidadas, excepto las fundaciones. Por este motivo, los gobiernos municipales acudirán a este tipo de entidades si quieren incrementar sus niveles de endeudamiento por encima de los límites establecidos. Para contrastar las afirmaciones precedentes, se plantean las siguientes hipótesis:

H6: Los gobiernos locales con ideología de derechas tienden al uso de la descentralización funcional en mayor medida que otras ideologías; sin embargo, el uso de estas agencias como mecanismo para incrementar el nivel de deuda pública es más común entre los gobiernos de izquierdas, debido a los efectos del “ciclo partidista”.

H7: Los gobiernos locales con altos niveles de deuda recurren a la creación de fundaciones en mayor medida que de empresas públicas con el objetivo de incrementar el nivel de endeudamiento, debido a las regulaciones contables específicas (obligación a consolidar cuentas).

Para conseguir los objetivos propuestos, se han examinado 153 municipios españoles de más de 50.000 habitantes para el periodo 1999-2007, incluidas todas las capitales de provincia, aunque no alcanzasen dicha población. La muestra indicada inicialmente se tuvo que reducir en cuanto al periodo temporal, debido a la no

disponibilidad de los datos correspondientes a alguna de las variables, concretamente presión fiscal directa e indirecta y PIB, que son incluidas como variables de control en los modelos indicados a continuación.

Las hipótesis planteadas se contrastan mediante diferentes modelos de dependencia para datos de panel, representados como sigue:

$$\begin{aligned} \text{Descentralización}_{it} = & \beta_0 + \beta_1 \text{DEUDA_pc}_{it} + \beta_2 \text{LIMITE_DEUDA_pc}_{it} + \beta_3 \text{LIMITE_DEUDA}_{it} + \\ & + \beta_4 \text{DERECHA_DEUDA_pc}_{it} + \beta_5 \text{DERECHA_IDEOLOGIA}_{it} + \beta_6 \text{COMPETENCIA_POLITICA}_{it} + \\ & + \beta_7 \text{ESTABILIDAD}_{it} + \beta_8 \text{AÑO_ELECTORAL}_{it} + \beta_9 \text{AÑOS_en_GOBIERNO}_{it} + \beta_{10} \text{POBLACION}_{it} + \\ & + \beta_{11} \text{PIB_pc}_{it} + \beta_{12} \text{PRESION_FISCAL_DIRECTA_pc}_{it} + \beta_{13} \text{PRESION_FISCAL_INDIRECTA_pc}_{it} + \varepsilon_{1i} \\ & + \mu_{1it} \quad [1'] \end{aligned}$$

$$\begin{aligned} \text{EXTERNALIZACION}_{it} = & \alpha_0 + \alpha_1 \text{DEUDA_pc}_{it} + \alpha_2 \text{LIMITE_DEUDA_pc}_{it} + \alpha_3 \text{LIMITE_DEUDA}_{it} + \\ & + \alpha_4 \text{DERECHA_DEUDA_pc}_{it} + \alpha_5 \text{DERECHA_IDEOLOGIA}_{it} + \alpha_6 \text{COMPETENCIA_POLITICA}_{it} + \\ & + \alpha_7 \text{ESTABILIDAD}_{it} + \alpha_8 \text{AÑO_ELECTORAL}_{it} + \alpha_9 \text{AÑOS_en_GOBIERNO}_{it} + \alpha_{10} \text{POBLACION}_{it} + \\ & + \alpha_{11} \text{PIB_pc}_{it} + \alpha_{12} \text{PRESION_FISCAL_DIRECTA_pc}_{it} + \alpha_{13} \text{PRESION_FISCAL_INDIRECTA_pc}_{it} \\ & + \varepsilon_{2i} + \mu_{2it} \quad [2'] \end{aligned}$$

$$\begin{aligned} \text{EMPRESAS_MIXTAS}_{it} = & \lambda_0 + \lambda_1 \text{DEUDA_pc}_{it} + \lambda_2 \text{LIMITE_DEUDA_pc}_{it} + \lambda_3 \text{LIMITE_DEUDA}_{it} + \\ & + \lambda_4 \text{DERECHA_DEUDA_pc}_{it} + \lambda_5 \text{DERECHA_IDEOLOGIA}_{it} + \lambda_6 \text{COMPETENCIA_POLITICA}_{it} + \\ & + \lambda_7 \text{ESTABILIDAD}_{it} + \lambda_8 \text{AÑO_ELECTORAL}_{it} + \lambda_9 \text{AÑOS_en_GOBIERNO}_{it} + \lambda_{10} \text{POBLACION}_{it} + \\ & + \lambda_{11} \text{PIB_pc}_{it} + \lambda_{12} \text{PRESION_FISCAL_DIRECTA_pc}_{it} + \lambda_{13} \text{PRESION_FISCAL_INDIRECTA_pc}_{it} \\ & + \varepsilon_{3i} + \mu_{3it} \quad [3'] \end{aligned}$$

donde “**Descentralización**” representa las diferentes entidades descentralizadas, concretamente: número de EMPRESAS PÚBLICAS, ORGANISMOS AUTÓNOMOS, ENTES PÚBLICOS EMPRESARIALES y FUNDACIONES, y todas ellos conjuntamente (DESCENTRALIZACIÓN TOTAL); “**EXTERNALIZACIÓN**” representa el número de contratos con empresas privadas firmados para la prestación de servicios públicos y “**EMPRESAS MIXTAS**” que mide el número de entidades de este tipo creadas en cada municipio.

“**DEUDA_pc**” refleja el nivel de deuda pública municipal en términos per cápita, “**LIMITE_DEUDA**” representa el límite legal al endeudamiento impuesto desde el 2001 en España a través de una variable dicotómica y “**LIMITE_DEUDA_pc**” es la interacción entre las dos variables anteriores, por lo que indica el nivel de deuda pública durante los años en los que el límite al endeudamiento es efectivo.

“**DERECHA_IDEOLOGÍA**” representa la ideología política del partido en el poder a través de una dummy que toma el valor 1 cuando el partido que gobierna es de ideología de derechas; “**DERECHA_DEUDA**” es la interacción entre la variable anterior y la que representa el nivel de deuda pública, por lo que representa el grado de endeudamiento de los gobiernos de derechas; “**COMPETENCIA_POLÍTICA**” medida a través de la diferencia de votos entre el primer y segundo partido; “**ESTABILIDAD**” representada mediante el porcentaje de votos obtenidos por el partido que gana las elecciones; “**AÑO_ELECTORAL**” indica el número de años faltan hasta las próximas elecciones y “**AÑOS_en_GOBIERNO**” muestra el número de años que lleva el partido en el poder.

“POBLACIÓN” refleja el número de habitantes en el municipio; “PIB_pc” es el PIB per cápita; “PRESION_FISCAL_DIRECTA” y “PRESIÓN_FISCAL_INDIRECTA” representan la presión fiscal directa e indirecta soportada por los habitantes en términos per cápita.

i indica el municipio y t representa el año analizado,

β , α , λ son los parámetros estimados,

ϵ_{1i} , ϵ_{2i} , ϵ_{3i} representan la heterogeneidad inobservable,

μ_{1it} , μ_{2it} , μ_{3it} representan los términos de error clásicos.

El uso de datos de panel nos permite reducir la heterogeneidad inobservable y evitar problemas de endogeneidad entre variables dependientes e independientes. El estimador empleado es el desarrollado por Arellano y Bond (1991) para el Método Generalizado de Momentos, que se encuentra implementado en Stata.

Los resultados obtenidos demuestran la influencia de ciertos tipos de factores políticos sobre los procesos de descentralización funcional. En general, la descentralización mediante fundaciones tiende a materializarse en los años inmediatamente posteriores a las elecciones. Este resultado coincide con el planteamiento realizado por Baber y Sen (1986) para otro tipo de reformas, pero es contrario a los obtenidos por Escobar-Lemmon (2003 y 2006) en el caso de la descentralización territorial. Esto se debe posiblemente a que las entidades territoriales descentralizadas no se encuentran tan cercanas a los ciudadanos como las agencias descentralizadas. Sin embargo, las empresas públicas (corporatización) se emplean en mayor medida cuando los políticos son reelegidos, lo cual se sitúa en línea con los argumentos de Warner y Hebdon (2001). Por el contrario, los organismos autónomos son más utilizados al final del mandato recibido.

Además, los resultados muestran que los procesos de descentralización son más comunes en entornos políticos con baja competencia y una elevada estabilidad de los partidos en el poder. Esta evidencia es consistente con las propuestas de los autores que defienden los modelos partidistas de gobierno: en entornos con escasa competencia política, el partido en el poder implementa su ideología y lleva a cabo reformas de manera más competente. El efecto de la estabilidad pueden explicarse en base a los argumentos de Warner y Hebdon (2001) y Bel y Fageda (2008), quienes defienden que los políticos que gobiernan con mayoría tienen más libertad de decisión, especialmente

en cuestiones socialmente controvertidas (González-Gómez et al., 2010) como puede ser el proceso de descentralización.

La evidencia empírica conseguida muestra que los partidos de derechas tienden a utilizar en mayor medida la descentralización para la prestación de servicios públicos a sus ciudadanos. Estos resultados se encuentran en línea con los encontrados por Aberbach y Rockman (1999) y Prado-Lorenzo et al. (2009), pero en contra de los alcanzados por Bel y Fageda (2008), Tavares y Camões (2007), González-Gómez y Guardiola (2009) y Bel et al. (2010). En este sentido, podría considerarse que la decisión de descentralización no es sistemática, sino pragmática (Bel et al., 2010).

Por otra parte, los resultados muestran un uso inicial de la descentralización funcional como mecanismo para transferir parte de la deuda pública municipal hacia estas agencias externas. Estos resultados concuerdan con los obtenidos anteriormente por Bennett y Dilorenzo (1982 y 1984), Blewett (1984), Marlow y Joulfaian (1989), Bunch (1991), Escudero (2002) y Prado-Lorenzo et al., (2009). Este uso de la descentralización es implementado en mayor medida por los partidos de izquierdas, especialmente a través de empresas públicas y organismos autónomos.

Sin embargo, estas prácticas cesan cuando se hace efectivo el límite legal al endeudamiento introducido en España (año 2001), lo cual coincide con los resultados del trabajo de Riherd (1995). A partir de ese momento, los gobiernos locales comienzan a utilizar en mayor medida la creación de fundaciones para la prestación de servicios, puesto que son las únicas agencias descentralizadas que no se incluyen en la consolidación de cuentas y, por lo tanto, es posible conseguir fondos externos a través de ellas.

A la luz de estos resultados, parece razonable que la administración debiera incluir todas las agencias descentralizadas en sus cuentas consolidadas, puesto que de otro modo, seguirán utilizando aquellas que queden fuera de la consolidación con objetivos presupuestarios.

5. CAPÍTULO 3. Efecto de los procesos de descentralización funcional y externalización sobre la calidad de vida de los ciudadanos

El bienestar social ha sido un tema central de estudio en las ciencias económicas. A nivel individual, la calidad de vida procede del consumo de ciertos factores tangibles e intangibles (González et al., 2011b). Es más, se trata de un concepto relacionado con diversas dimensiones de la vida, muchas de las cuales son difíciles de medir.

Existe una profusa literatura dedicada a la búsqueda de una medida apropiada para la representación del grado de bienestar que disfrutan los ciudadanos, ya sea a través de series, indicadores económicos o indicadores sociales. En España se podría destacar a Royuela et al. (2003), Zarzosa (2005) y González et al. (2011b y 2011c), como investigadores que han profundizado en dicha búsqueda.

Otras líneas de investigación relacionadas, se centran en analizar la relación existente entre las formas de prestación de los servicios públicos y las disparidades regionales (West y Wong, 1995; Ter-Minassian, 1997; Tannenward, 1999; Zhang, 2006; Ezcurra y Pascual, 2008; Lessmann, 2009; Hong, 2011) o la sostenibilidad de las ciudades (Wu y Wang, 2007; Karger y Hennings, 2009), pero no directamente con la calidad de vida.

Sin embargo, los factores de bienestar social más importantes se encuentran relacionados con los servicios que demandan los ciudadanos, especialmente los prestados por los gobiernos locales, ya que son los que más directamente perciben los individuos. Por tanto, la forma mediante la que los gobiernos locales prestan estos servicios podría afectar a su calidad de vida.

Precisamente, entre las formas de prestación que más se han venido utilizando en las últimas décadas se encuentran los procesos de descentralización funcional y externalización. Por ello, el objetivo propuesto en este capítulo es establecer la relación que puede existir entre dichos procesos como formas de prestación de servicios públicos locales, y la calidad de vida de los ciudadanos. Al mismo tiempo, se tienen en cuenta las distintas entidades descentralizadas que podrían crearse: organismos autónomos, entes públicos empresariales, empresas públicas y fundaciones. Y para conseguir resultados más robustos, se considera un periodo de tiempo suficientemente amplio que permita la aplicación de datos de panel en las estimaciones.

Por una parte, la descentralización funcional podría mejorar la calidad de vida de la población y el funcionamiento de la ciudad (Marshall, 2004), puesto que una organización adecuada en la prestación de servicios implicaría que fueran de mayor calidad, lo cual repercutiría positivamente en la calidad de vida de los ciudadanos (Sanderson, 1996). Al respecto, Barroso (2007) postula que el desarrollo local induce al aumento en el uso de recursos humanos, materiales, institucionales y culturales con el objetivo de mejorar el crecimiento económico y el nivel de vida de los ciudadanos. La utilización de la descentralización (aunque territorial o administrativa) como mecanismo para mejorar la calidad de vida puede observarse en países como Estados Unidos (Wright y Perry, 2010), Italia (Bifulco, 2011), India (Goyal, 2007) o Korea (Hong, 2011). Para contrastar las aseveraciones precedentes, se formula la siguiente hipótesis:

H8: Los procesos de descentralización funcional presentan un impacto positivo sobre la calidad de vida de los ciudadanos.

Por otra parte, se espera que los procesos de externalización no contribuyan tanto a la mejora de la calidad de vida de los ciudadanos, sino que por el contrario, podrían llegar incluso a deteriorarla. La literatura existente parece revelar que las administraciones públicas con una mayor orientación hacia el sector privado disminuyen el grado de satisfacción de los ciudadanos (Vigoda, 2000). Existen casos concretos, como Australia (Broughton and Chalmers, 2002) o Dinamarca (Greve, 2006), en los que tras la aplicación del *outsourcing*, la administración se dio cuenta de determinados problemas que estaban perjudicando a los ciudadanos y a la propia administración, principalmente relacionados con costes.

Sin embargo, en el caso de las empresas mixtas, al tratarse de un híbrido entre el sector público y privado, cabe esperar que el efecto negativo sobre la calidad de vida sea menor que en el caso del “outsourcing”. Esto fundamentaría el enunciado de las siguientes hipótesis:

H9: Los procesos de externalización presentan un impacto negativo sobre la calidad de vida de los ciudadanos.

H9.1: Este efecto negativo de la externalización sobre la calidad de vida es menos significativo en el caso de las empresas mixtas.

Para poder contrastar el efecto de los procesos de descentralización funcional y externalización sobre la calidad de vida de los ciudadanos, se seleccionaron las 78 ciudades españolas con más de 100.000 habitantes para las cuales MERCO (Monitor Empresarial de Reputación Corporativa) ha publicado información sobre sus niveles de calidad de vida en los años fiscales de 2007, 2008 y 2009. Como puede deducirse, la muestra inicial tuvo que ser reducida en cuanto al número de individuos y el periodo temporal, debido a la no disponibilidad de datos relativos a la calidad de vida en algunas ciudades y ejercicios.

Al igual que en el capítulo precedente, las hipótesis planteadas se contrastan mediante modelos de regresión lineal de datos de panel para reducir la heterogeneidad inobservable y evitar problemas de endogeneidad entre variables dependientes e independientes. Los modelos planteados se representan de la siguiente manera:

$$\text{CDV} = \beta_0 + \beta_1 \text{Descentralización}_{it} + \beta_2 \text{EXTERNALIZACIÓN}_{it} + \beta_3 \text{EMPRESAS_MIXTAS}_{it} + \beta_4 \text{DESEMPLEO}_{it} + \beta_5 \text{DENSIDAD}_{it} + \beta_6 \text{DERECHA_IDEOLOGÍA}_{it} + \beta_7 \text{COMPETENCIA_POLITICA}_{it} + \beta_8 \text{ESTABILIDAD}_{it} + \varepsilon_i + \mu_{it} \quad [4']$$

donde **CDV** representa el nivel de calidad de vida de los habitantes de cada municipio.

“**Descentralización**” representa las diferentes entidades descentralizadas, concretamente: número de EMPRESAS PÚBLICAS, ORGANISMOS AUTÓNOMOS, ENTES PÚBLICOS EMPRESARIALES y FUNDACIONES, y todas ellos conjuntamente (DESCENTRALIZACIÓN TOTAL); “**EXTERNALIZACIÓN**” representa el número de contratos con empresas privadas firmados para la prestación de servicios públicos y “**EMPRESAS_MIXTAS**” que mide el número de entidades de este tipo creadas en cada municipio.

“**DESEMPLEO**” refleja la tasa de paro local; “**DENSIDAD**” representa la densidad de población en cada municipio; “**DERECHA_IDEOLOGÍA**” representa la ideología política del partido en el poder a través de una dummy que toma el valor 1 cuando el partido que gobierna es de ideología de derechas; “**COMPETENCIA_POLÍTICA**” medida a través de la diferencia de votos entre el primer y segundo partido; “**ESTABILIDAD**” representada mediante el porcentaje de votos obtenidos por el partido que gana las elecciones.

i indica el municipio y **t** representa el año analizado,

β son los parámetros estimados,

ε_i representa la heterogeneidad inobservable,

μ_{it} representa el término de error clásico.

En este caso, la metodología empleada debe ajustarse al tipo de variable dependiente (índice de calidad de vida) que toma valores entre 0 y 1000². Por este motivo, se aplica la técnica Tobit para la estimación de los diferentes modelos de dependencia planteados, usando el software Stata.

Los resultados obtenidos evidencian que los ciudadanos de los municipios que utilizan la descentralización funcional como forma de prestación de servicios públicos presentan un nivel de calidad de vida mayor. Este resultado está en consonancia con los alcanzados por autores como Sanderson (1996), Molinari y Tyer (2003), Utrilla (2007) y Hong (2011).

Respecto al “outsourcing”, los resultados muestran un impacto negativo sobre la calidad de vida de los ciudadanos. La razón de este efecto puede derivarse de las desventajas que muchos autores encuentran en la aplicación de la externalización (Wolf, 1993; Martin 2000; Savas, 2005; Fernández, 2007; Norton y Blanco, 2009; Gazzola y Pellicelli, 2009; González et al., 2011c).

En definitiva, la evidencia conseguida permite afirmar que la descentralización funcional se muestra como la forma de prestación de servicios más adecuada a nivel local. Probablemente, esto sea debido a que permite proveer de servicios de mayor calidad, lo cual se traduce en un aumento de la calidad de vida de quienes los demandan (Sanderson, 1996; Hong, 2011).

Asimismo, en los modelos estimados se introdujeron factores políticos y socioeconómicos como variables de control. Los resultados muestran que los ciudadanos de los municipios gobernados por partidos de derechas y en entornos con una escasa competencia política presentan un mayor nivel de calidad de vida, discrepando de los resultados obtenidos por García-Sánchez y Prado-Lorenzo (2008) y Prado-Lorenzo et al. (2012). Además, en línea con los últimos autores, nuestra evidencia muestra que la calidad de vida es mayor en los municipios con mayor nivel económico. Esto se debe a que las localidades con mejor situación económica son más prósperas y por tanto su gobierno puede proveer servicios de mejor calidad.

² El índice de calidad de vida toma valores entre 0 y 1000, pero fue reescalado dividiendo la variable entre 1000 para manejar un índice entre 0 y 1.

6. CAPÍTULO 4. Efecto de los procesos de descentralización funcional y externalización sobre la eficiencia de los gobiernos locales

Los tres pilares básicos en los que se asienta la teoría de la Nueva Gestión Pública son: efectividad, eficiencia y flexibilidad. Para conseguir que esos objetivos se hagan realidad, las administraciones públicas han llevado a cabo diversas reformas, entre las que cabe destacar los procesos de descentralización y externalización (Kettl, 2000).

El estudio de la eficiencia comienza a ser más relevante hace algunos años, cuando la Unión Europea Económica y Monetaria estableció restricciones al endeudamiento de las administraciones públicas con vistas a la estabilidad presupuestaria. Estas restricciones implicaron que los gobiernos debían asignar de la forma más eficiente posible sus recursos para satisfacer las necesidades de sus ciudadanos (Benito et al., 2010b), especialmente en el caso de los gobiernos locales, que son los que prestan la mayor parte de los servicios públicos en España.

En la búsqueda de la mejora en la asignación de recursos, las administraciones públicas comenzaron a utilizar los procesos de descentralización funcional y externalización en la prestación de servicios a sus ciudadanos. Estas reformas, se iniciaron con cierto retraso en España, pero aun así han tenido especial relevancia durante las últimas décadas (Pina y Torres, 1998; García, 1999; Ramió-Matas y García-Codina, 2006; Cuadrado, 2008; Prado-Lorenzo et al., 2009, Benito y Bastida, 2003a, 2003b, 2005, 2008; Montesinos et al., 2010)

Se han realizado un gran número de estudios que tratan de analizar la eficiencia a nivel local en distintos países, por ejemplo Worthington (2000) para Australia; Grossman et al. (1999) para los Estados Unidos; Vanden et al. (1993), De Borger et al. (1994) y De Borger y Kersten (1996) para Bélgica; Tairou (2000) en Francia; Dijkgraaf y Gradus (2003) en los Países Bajos; Dijkgraaf et al. (2003) en Dinamarca; Reeves y Barrow (2000) para Irlanda; Ohlsson (2003) para Suecia. En el caso de España, se pueden destacar las investigaciones de Pina y Torres (1992 y 2001), Bosch et al. (2000), Díez-Ticio y Mancebón (2002 y 2003), Prieto y Zofio (2001), Giménez y Prior (2003 y 2007), Balaguer-Coll (2004), García-Sánchez (2006 y 2007b), Balaguer-Coll et al. (2007 y 2010), Benito et al. (2010b) y Bel et al. (2009).

Sin embargo, no se encuentra literatura que analice el efecto de la descentralización funcional y la externalización sobre la eficiencia de los gobiernos locales españoles. Los trabajos anteriores se centran exclusivamente en la dicotomía entre gestión pública y privada, y no consideran las diferentes agencias posibles creadas a través de los procesos de descentralización funcional. Además, los análisis se suelen realizar para un año concreto, para municipios de una región determinada y/o para algunos servicios, lo cual dificulta la generalización de los resultados.

En un intento de superar estas limitaciones, el principal objetivo de este capítulo es analizar el efecto de los procesos de descentralización funcional y externalización sobre la eficiencia de los gobiernos locales. Para que el análisis propuesto pueda resultar más preciso, la descentralización se desagrega según el tipo de entidad creada: organismos autónomos, entes públicos empresariales, empresas públicas y fundaciones. Además, en línea con los capítulos precedentes, se utiliza la técnica de datos de panel para conseguir resultados más robustos y evitar problemas de endogeneidad y heterogeneidad.

Desde el punto de vista teórico, la descentralización funcional supone la creación de unidades de gestión más pequeñas y flexibles, con una orientación de negocio (Aberbach and Rockman, 1999), que les permite ser más dinámicas e incrementar la eficiencia de sus actividades (Boyne, 1996). Además, la externalización podría mejorar también la eficiencia debido a que la gestión de los servicios públicos se encuentra en manos de proveedores especializados (Cannadi and Dollery, 2005; González et al, 2011a). En base a estos argumentos, se establece la siguiente hipótesis:

H10: Los procesos de descentralización y externalización presentan un impacto positivo sobre la eficiencia de los gobiernos locales.

Para medir la eficiencia se ha creado un índice a través de la metodología DEA (Data Envelopment Analysis), que es la más aceptada por su adecuación a este tipo de análisis. Concretamente, se ha utilizado el estimador VRS-DEA con la aplicación de “bootstrapping”, calculado mediante el software FEAR (Frontier Efficiency Analysis with R). Asimismo, se calculó un índice Malmquist de productividad para conocer la variación interanual de la eficiencia.

En el cálculo del índice de eficiencia, se consideran los siguientes input: gastos corrientes en bienes y servicios, transferencias corrientes y gastos de capital, divididos en inversión real y transferencias de capital. En el caso de los output, se han considerado los servicios provistos por cada municipio, de acuerdo con Prado-Lorenzo y García-Sánchez (2006). Concretamente, se han analizado los servicios de policía y protección, pavimentación de la vía, alumbrado público, ciclo integral del agua, recogida y tratamiento de residuos, transporte público, planificación y gestión urbanística, servicios sociales, deportivos, culturales y sanitarios, extinción y prevención de incendios y conservación del medio ambiente. Para representar estos servicios se han utilizado distintas variables que ya han sido empleadas en otros trabajos previos a nivel local europeo, tales como: superficie (en el caso de servicios de policía y protección, pavimentación de la vía, alumbrado público, ciclo integral del agua, recogida y tratamiento de residuos urbanos, planificación urbanística y conservación del medio ambiente), densidad de población (para representar los servicios de extinción y prevención de incendios), número de habitantes (en el caso del transporte público y servicios deportivos y culturales), impuestos sobre urbanismo (representando los servicios de gestión urbanística), tasa de desempleo (en el caso de los servicios sociales) y número de actividades económicas (en representación de los servicios sanitarios).

El análisis se aplica a 129 municipios españoles con más de 10.000 habitantes para los ejercicios comprendidos entre 1999 y 2007 (ambos inclusive). Al igual que en los capítulos anteriores, la muestra inicial tuvo que ser reducida en cuanto a número de individuos y periodo temporal, debido a la no disponibilidad de datos de determinados servicios.

Nuevamente las características del estudio hacen que se opte por emplear modelos de datos de panel, representados a continuación:

$$\begin{aligned} \text{EFICIENCIA} = & \beta_0 + \beta_1 \text{Descentralización}_{it} + \beta_2 \text{EXTERNALIZACIÓN}_{it} + \beta_3 \text{EMPRESAS_MIXTAS}_{it} \\ & + \beta_7 \text{DERECHA_IDEOLOGIA}_{it} + \beta_8 \text{COMPETENCIA_POLITICA}_{it} + \beta_9 \text{ESTABILIDAD}_{it} + \\ & + \beta_{11} \text{INDICE_TURISMO}_{it} + \beta_{10} \text{PIB_pc}_{it} + \beta_4 \text{DERECHA_Descentralización}_{it} + \\ & + \beta_5 \text{DERECHA_EXTERNALIZACIÓN}_{it} + \beta_6 \text{DERECHA_EMPRESAS_MIXTAS}_{it} + \varepsilon_{1i} + \mu_{1it} \quad [5'] \end{aligned}$$

donde “EFICIENCIA” representa los diferentes tipos de eficiencia: (i) eficiencia anual y (ii) variación inter-anual de la eficiencia medida mediante el índice de Malmquist.

“**Descentralización**” representa las diferentes entidades descentralizadas, concretamente: número de EMPRESAS PÚBLICAS, ORGANISMOS AUTÓNOMOS, ENTES PÚBLICOS EMPRESARIALES y FUNDACIONES, y todas ellos conjuntamente (DESCENTRALIZACIÓN TOTAL); “**EXTERNALIZACIÓN**” representa el número de contratos con empresas privadas firmados para la prestación de servicios públicos y “**EMPRESAS MIXTAS**” que mide el número de entidades de este tipo creadas en cada municipio.

“**DERECHA_IDEOLOGÍA**” representa la ideología política del partido en el poder a través de una dummy que toma el valor 1 cuando el partido que gobierna es de ideología de derechas; “**COMPETENCIA_POLÍTICA**” medida a través de la diferencia de votos entre el primer y segundo partido; “**ESTABILIDAD**” representada mediante el porcentaje de votos obtenidos por el partido que gana las elecciones.

“**INDICE_TURISMO**” se trata del índice que mide la intensidad de la actividad turística en relación al resto de actividades económicas de cada municipio; “**PIB_pc**” representa el PIB en términos per cápita.

“**DERECHA_Descentralización**”, “**DERECHA_EXTERNALIZACIÓN**” y “**DERECHA_EMPRESAS MIXTAS**” son el producto de las variables “Descentralización”, “EXTERNALIZACIÓN” y “EMPRESAS MIXTAS” por la variable que representa la ideología política del partido en el poder (“**DERECHA_IDEOLOGÍA**”), por lo tanto representan el número de cada una de las agencias de provisión de servicios creadas por los partidos de derechas.

i indica el municipio y **t** representa el año analizado,

β son los parámetros estimados,

ε_i representa la heterogeneidad inobservable,

μ_{it} representa el término de error clásico.

No obstante, en este caso se considera que la metodología más adecuada es la regresión truncada en lugar de la metodología Tobit, tal como proponen Simar y Wilson (2007), puesto que proporciona una mejor y más consistente inferencia estadística.

Los resultados conseguidos muestran que, en general, la descentralización funcional para la prestación de servicios públicos en España afecta negativamente a la eficiencia de los gobiernos locales, tanto en términos anuales como variación interanual. Este impacto negativo puede ocurrir porque las agencias descentralizadas dificultan la coordinación y podrían dar lugar al solapamiento de funciones y recursos (Rhodes, 1994). Tal resultado sugiere que las grandes burocracias presentan costes menores (Talbot y Johnson, 2007; Andrews y Boyne, 2009), por lo que podría ser necesario reestructurar el sistema administrativo local en España.

Las únicas agencias descentralizadas que mejoran la eficiencia anual son los entes públicos empresariales creados por los partidos de derechas para la prestación de

servicios públicos locales. Principalmente, se han creado para servicios culturales y de gestión y planificación urbanística.

Asimismo, la evidencia empírica obtenida indica que el “outsourcing” afecta también negativamente a la eficiencia anual de los gobiernos locales españoles. Este resultado se encuentra de acuerdo con la idea general defendida por autores previos, relativa a que el uso del sector privado en la provisión de servicios públicos locales en España no garantiza una mayor eficiencia (Bel y Warner, 2008; Bel et al., 2009; García-Sánchez, 2006; García-Rubio et al., 2009; Ordóñez de Haro y Bru-Martínez, 2003; Bosch et al., 2000). Pero este resultado también ha sido evidenciado para servicios concretos en países como Estados Unidos (Bhattacharyya et al., 1994 y 1995; Wallsten y Kosec, 2005), Inglaterra y Gales (Saal y Parker, 2001; Bottasso y Conti, 2003; Saal et al., 2007), Brasil (Faria et al., 2005; Seroa da Motta y Moreira, 2006; Sabbioni, 2008) y algunos africanos (Kirkpatrick et al., 2006).

Sin embargo, aunque el uso del sector privado (externalización) y de la descentralización funcional no mejoran el nivel de eficiencia de los gobiernos locales españoles, parece que el uso de empresas mixtas creadas por partidos de derechas incrementan la variación interanual de la eficiencia. Parece ser que este tipo de entidades son capaces de aprovechar las ventajas de ambos sectores (público y privado).

Cabe destacar que los impactos positivos aparecen cuando los partidos de derechas crean determinadas entidades, lo que significaría que existe cierto grado de relación entre la ideología política del gobierno local y el nivel de eficiencia. Esta idea se encuentra en línea con las afirmaciones de De Borger y Kerstens (1996) y De Grauwe (1985), si bien de signo opuesto, ya que los resultados obtenidos por estos autores constatan una relación directa entre los partidos progresistas y la eficiencia de los gobiernos locales, no coincidente con el caso español.

Finalmente, los resultados relacionados con los factores socioeconómicos incluidos como variables de control, muestran que la eficiencia anual es menor en los municipios caracterizados por una gran competencia política, puesto que dicha situación dificulta que los políticos consigan beneficios electorales a cambio de servicios para los ciudadanos (Fisman y Gatti, 2002). Como consecuencia, los gobernantes se ven más obligados a centrarse en la provisión eficiente de servicios (Roubini y Sachs, 1989;

Volkerink y de Haan, 2001; Ashworth et al., 2005 y 2006; Coffé y Geys, 2005; Goeminne et al., 2007).

7. CAPÍTULO 5. Efecto de los procesos de descentralización funcional y externalización sobre la transparencia de los gobiernos locales

La Organización para la Cooperación y el Desarrollo Económicos (2001) define la transparencia como la “franqueza sobre las intenciones, formulación e implementación de las políticas”. Los ciudadanos, como aportantes de recursos, cada vez requieren una mayor cantidad de información en relación al uso que se hace de los mismos. Por ello, la transparencia favorece el entendimiento de la implementación de políticas públicas a partir de los recursos aportados por los ciudadanos, de manera que éstos forman parte de las decisiones tomadas por el gobierno (Guillamón et al, 2011b).

La difícil situación económica que muchos países y gobiernos locales están sufriendo han llevado a las más altas autoridades políticas y económicas, como el Banco Mundial o a la Comisión Europea, a analizar en el comportamiento del sector público. A ello han contribuido poderosamente los numerosos escándalos financieros ocurrido recientemente, lo cual ha centrado la atención sobre los conceptos de transparencia y corrupción de los gobiernos. Ambos conceptos se encuentran muy ligados, puesto que la transparencia es esencial para prevenir la corrupción (Hood, 2001; Fozzard y Foster, 2001), y suelen utilizarse como antónimos.

Muchos autores han analizado los determinantes socioeconómicos y políticos del nivel de transparencia pública (Alesina y Perotti, 1996; Ferejohn, 1999; Alesina et al., 1999; Traunmuller, 2001; Fisman y Gatti, 2002; Alt et al., 2006; Alt y Lassen, 2006; Piotrowski y Van Ryzin, 2007; Guillamón et al, 2011a y 2011b), pero son muy escasos o prácticamente nulos los estudios específicos acerca del impacto de la descentralización funcional y externalización sobre la transparencia de los gobiernos locales. Probablemente, esto se deba a que se trata de un concepto difícil de medir, especialmente a nivel local, y enormemente complicado es encontrar datos reales disponibles para el estudio (Guillamón et al., 2011a).

El principal objetivo de este capítulo es precisamente tratar de observar el efecto que los procesos de descentralización funcional y externalización tienen sobre la transparencia de los gobiernos locales en España. Para ello se consideran los diferentes

tipos de entidades descentralizadas que podrían ser creadas (organismos autónomos, entes públicos empresariales, empresas públicas y fundaciones) y se elige un periodo de tiempo lo suficientemente amplio como para poder aplicar modelos de datos de panel. De esta forma, los resultados son más robustos y se puede controlar la heterogeneidad inobservable y la endogeneidad, como se ha puesto de manifiesto en los capítulos precedentes.

En general, la escasa evidencia empírica existente sugiere que la descentralización (aunque territorial y/o administrativa) podría contribuir a evitar los casos de corrupción (Huther y Shah, 1998; Vergara, 2000; Fisman y Gatti, 2002; Vernon et al., 2006). La razón es que con este mecanismo se pueden corregir los desequilibrios en las relaciones verticales de los gobiernos y con ello los políticos tendrían responsabilidad directa sobre sus acciones, por lo que se verían obligados a aumentar su compromiso ético y se limitaría el comportamiento depredador de los gobiernos (Tabellini, 2000). Estos argumentos permiten enunciar la siguiente hipótesis:

H11: Los procesos de descentralización funcional presentan un impacto positivo (negativo) sobre el nivel de transparencia (corrupción) de los gobiernos locales.

Por el contrario, las investigaciones realizadas hasta ahora sugieren que la introducción del sector privado (“outsourcing”) ha motivado casos de fraude y corrupción cuando los políticos han intervenido demasiado en la selección de proveedores privados para los servicios públicos (Fernández, 2007; González et al., 2011a). Estas situaciones ocurren sobre todo cuando el grado de control sobre la gestión pública es escaso (Kettl, 1993; Frederickson, 1999; Jolley, 2008; Pessoa, 2009). Sin embargo, en el caso de las empresas mixtas, al tratarse de un híbrido entre el sector público y privado, cabe esperar que el efecto negativo sobre la calidad de vida sea menor que en el caso del “outsourcing”. Esto fundamentaría el enunciado de las siguientes hipótesis:

H12: Los procesos de externalización presentan un impacto negativo (positivo) sobre el nivel de transparencia (corrupción) de los gobiernos locales.

H12.1: Este efecto negativo de la externalización sobre la transparencia es menos significativo en el caso de las empresas mixtas.

Para testear empíricamente estas hipótesis, se ha seleccionado una muestra de 110 municipios españoles para los cuales la organización “Transparencia Internacional España” ha publicado información sobre sus niveles de transparencia para los años 2008, 2009 y 2010. Debido a las limitaciones en la información disponible sobre transparencia, ha sido necesario reducir la muestra inicial en cuanto a individuos y periodo temporal.

Para la estimación de los modelos de dependencia propuestos a continuación se ha empleado de nuevo la metodología Tobit, debido a que la variable dependiente, nivel de transparencia, toma valores entre 0 y 100. Tales modelos son los siguientes:

$$\mathbf{TI_indice} = \beta_0 + \beta_1 \mathbf{Descentralización}_{it} + \beta_2 \mathbf{EXTERNALIZACIÓN}_{it} + \beta_3 \mathbf{EMPRESAS_MIXTAS}_{it} + \beta_4 \mathbf{DEUDA_pc}_{it} + \beta_5 \mathbf{DERECHA_IDEOLOGIA}_{it} + \beta_6 \mathbf{COMPETENCIA_POLITICA}_{it} + \varepsilon_{1i} + \mu_{1it} \quad [6']$$

$$\mathbf{TI_subindice} = \alpha_0 + \beta_1 \mathbf{Descentralización}_{it} + \alpha_2 \mathbf{EXTERNALIZACIÓN}_{it} + \alpha_3 \mathbf{EMPRESAS_MIXTAS}_{it} + \alpha_4 \mathbf{DEUDA_pc}_{it} + \alpha_5 \mathbf{DERECHA_IDEOLOGIA}_{it} + \alpha_6 \mathbf{COMPETENCIA_POLITICA}_{it} + \varepsilon_{2i} + \mu_{2it} \quad [7']$$

donde “**TI_indice**” representa el nivel de transparencia del gobierno local; “**TI_subindice**” representa cada uno de los aspectos que componen el índice global anterior: (a) información sobre la corporación municipal; (b) relaciones con los ciudadanos y la sociedad; (c) transparencia económico-financiera; (d) transparencia en las contrataciones de servicios; (e) transparencia en materia de urbanismo y obras públicas.

“**Descentralización**” representa las diferentes entidades descentralizadas, concretamente: número de EMPRESAS PÚBLICAS, ORGANISMOS AUTÓNOMOS, ENTES PÚBLICOS EMPRESARIALES y FUNDACIONES, y todas ellos conjuntamente (**DESCENTRALIZACIÓN TOTAL**); “**EXTERNALIZACIÓN**” representa el número de contratos con empresas privadas firmados para la prestación de servicios públicos y “**EMPRESAS_MIXTAS**” que mide el número de entidades de este tipo creadas en cada municipio.

“**DEUDA_pc**” refleja el nivel de deuda pública municipal en términos per cápita; “**DERECHA_IDEOLOGÍA**” representa la ideología política del partido en el poder a través de una dummy que toma el valor 1 cuando el partido que gobierna es de ideología de derechas; “**COMPETENCIA_POLÍTICA**” medida a través de la diferencia de votos entre el primer y segundo partido.

i indica el municipio y **t** representa el año analizado,

β y **α** son los parámetros estimados,

ε_{1i} y **ε_{2i}** representan la heterogeneidad inobservable,

μ_{1it} y **μ_{2it}** representan el término de error clásico.

Los resultados obtenidos muestran, por una parte, que los municipios que utilizan la descentralización funcional para la provisión de servicios públicos son más transparentes que los que no lo hacen, especialmente cuando la descentralización se concreta a través de empresas públicas y fundaciones. Los procesos de descentralización mejoran la transparencia en los gobiernos locales españoles, debido a que se trata de agencias más pequeñas y cercanas a los ciudadanos, de manera que las acciones de los políticos son más visibles, lo que les hace ser más responsables directamente de sus acciones (Tabellini, 2000). Esto desencadena en un comportamiento más ético por parte de los gobiernos locales (Bjedov et al., 2010).

En el caso español, las conclusiones se ven reforzadas, ya que las entidades descentralizadas se encuentran controladas: las fundaciones son entidades no lucrativas que dependen de las administraciones públicas y perciben fondos monetarios de ellas. Por lo tanto, estas entidades son periódicamente auditadas para garantizar el uso adecuado de los fondos. Asimismo, las empresas públicas se encuentran vinculadas con ayuntamientos o departamentos concretos de las administraciones públicas que controlan sus acciones.

Finalmente, no se encuentra evidencia empírica suficiente para afirmar que la introducción del sector privado a través del “outsourcing” y empresas mixtas contribuye a un mayor grado de corrupción en los municipios españoles. Aunque algunos autores defienden que podrían existir casos de favoritismo y corrupción en la selección de los proveedores privados por parte de los gobiernos locales (Fernández, 2007; González et al., 2011a), la evidencia no es suficiente para concluirlo en este caso, probablemente debido a la existencia de mecanismos de control por parte del sector público local (Kettl, 1993; Frederickson, 1999; Jolley, 2008; Pessoa, 2009) que garantiza la transparencia (Kettl, 1993; Frederickson, 1999) en la selección del proveedor.

8. CONCLUSIONES

A lo largo de la historia se han ido entremezclando diferentes formas de provisión que tienden más hacia uno u otro extremo, en función de la ideología dominante y de las circunstancias económicas y políticas de cada momento. Sin embargo, no es hasta la década de los 90 cuando verdaderamente se combinan ambas formas de provisión, gracias a las ideas expuestas por la teoría de la Nueva Gestión

Pública. Su fundamento es la defensa de la aplicación de ciertos principios del sector privado a la gestión del sector público, para dotarlo de una mayor eficiencia en la prestación de servicios. Es a partir del nacimiento de esta corriente de pensamiento cuando dos procesos comienzan a tener especial relevancia: la descentralización funcional y la externalización u *outsourcing*.

Tales procesos permiten a las administraciones públicas aproximarse a los ciudadanos, lo cual les proporciona un mayor conocimiento de sus necesidades y preferencias. Esto mejora la eficiencia de las actividades del sector público y le permite adaptarse mejor a los cambios en su entorno gracias a la utilización de entidades más flexibles. Además, esta propuesta facilita que el sector público pueda centrarse en cuestiones más estratégicas, dejando aquellas más operativas en manos de proveedores especializados, lo que mejoraría la calidad de los servicios prestados.

En España, las ideas defendidas por la Nueva Gestión Pública contribuyeron a que las pesadas burocracias de antes de los 90 comenzaran a ser modernizadas y se mejorara la calidad y cantidad de servicios públicos. De hecho, en las dos últimas décadas, se ha producido un importante desarrollo de la descentralización funcional y la externalización, especialmente en la prestación de servicios por los gobiernos locales a sus ciudadanos. El efecto ha sido tan intenso que el número de empresas públicas, organismos autónomos, entes públicos empresariales, fundaciones, empresas de externalización de servicios y empresas mixtas ha crecido de forma amplia y continua.

La aplicación de las propuestas de la Nueva Gestión Pública ha conseguido muchos de los objetivos de eficiencia y calidad que se proponían, pero han producido un daño colateral, derivado de las perversiones en la aplicación de sus propuestas. Esto es precisamente lo que el nuevo gobierno de España ha detectado y que ha conducido a poner en marcha el proceso denominado “simplificación” del sector público empresarial y fundacional. Las razones para ponerlo en marcha son la ineficiencia y la ingente cantidad de deuda que dicho sector ha generado, llegando a suponer el 6% del PIB español.

Tratando de identificar las razones reales que subyacen en el proceso de creación y liquidación de tales entidades, el presente trabajo ha analizado, tanto los determinantes como los efectos (en términos de calidad de vida, eficiencia y transparencia) de los

procesos de descentralización funcional y externalización en los gobiernos locales españoles.

Para ello, se han llevado a cabo distintos análisis, mediante metodologías econométricas y estadísticas, sobre una muestra formada por todos los municipios españoles de más de 50,000 habitantes y las capitales de provincia, para el período de doce años comprendido entre 1999 y 2010.

Los trabajos se han agrupado en dos partes: la primera recoge un análisis descriptivo como aproximación inicial a los datos y los determinantes de los procesos de descentralización funcional y externalización en los gobiernos locales de España. La segunda parte, evidencia los efectos de dichos procesos en términos de calidad de vida de los ciudadanos, así como en eficiencia y transparencia de los gobiernos locales.

El análisis descriptivo de la información pone de manifiesto la tendencia hacia la descentralización funcional de todos los municipios estudiados, aunque este cambio ha sido en unos más radical que en otros. En general, esta tendencia es mayor en las ciudades de gran tamaño, mientras que los municipios de tamaño medio (entre 100,000 y 500,000 habitantes) han tendido ligeramente también hacia la externalización de servicios. Por su parte, los municipios más pequeños presentan la misma evolución y han utilizado en menor medida la descentralización funcional, aunque, en este caso, la principal razón ha sido la escasez de recursos disponibles. Esta escasez les obliga a utilizar otras formas de prestación de servicios, como las “mancomunidades”, mediante las que varios municipios pequeños unen recursos y fuerzas para prestar servicios básicos a sus ciudadanos.

Para llevar a cabo la descentralización funcional, existen diversos tipos de entidades: empresas públicas, fundaciones, organismos autónomos y entes públicos empresariales. Los municipios más descentralizados funcionalmente, es decir los de mayor tamaño poblacional, han utilizado básicamente empresas públicas y organismos autónomos, creando por término medio unos tres entes de cada tipo en el periodo considerado (1999-2010). Sin embargo, a partir de 2001 los gobiernos locales comenzaron a utilizar también fundaciones.

Por el contrario, las empresas mixtas han tenido poco éxito. Los gobiernos locales han preferido acudir a la descentralización funcional o al outsourcing, antes que

a esta figura híbrida para la prestación de servicios públicos. Concretamente, los ayuntamientos han creado por término medio unas siete entidades descentralizadas durante el periodo analizado (1999-2010) y han establecido aproximadamente unos dos contratos con empresas privadas, mientras que la creación de empresas mixtas ha sido prácticamente nula.

Para determinar los factores que han propiciado la creación de las entidades de descentralización y externalización, se analiza la influencia de las características presupuestarias y factores políticos sobre dichos procesos. Los datos disponibles en este caso permitieron considerar los 153 municipios, pero el periodo temporal tuvo que acortarse hasta 2007. Los resultados empíricos evidencian que son los gobiernos de derechas los que utilizan en mayor medida la descentralización funcional para la prestación de servicios públicos, especialmente en entornos con escasa competencia política y cuando han sido elegidos con mayorías significativas.

En general, existe una relación entre el tipo de entidad de descentralización y externalización creada y la fase del mandato del gobierno en el poder. Los gobiernos locales tienden a utilizar fundaciones al comienzo de su primer mandato, pasan a crear empresas públicas cuando consiguen ser reelegidos y tienden más a la creación de organismos autónomos al final de su mandato.

Aunque son los gobiernos de derechas los que más propugnan el uso de la descentralización, sin embargo, son los gobiernos de izquierdas los que presentan una mayor tendencia hacia el uso de entidades descentralizadas como forma de generar recursos vía endeudamiento.

Hasta que fueron promulgadas las normas que establecieron las restricciones legales al endeudamiento de 2001, los gobiernos de izquierdas utilizaron las empresas públicas para este fin; no obstante, al establecer dichas normas la obligación de incluirlas en la consolidación de cuentas, pasaron a sustituirlas por fundaciones, que eran las entidades que quedaron excluidas de la consolidación. En este sentido, parece razonable que las administraciones debieran incluir todas las agencias descentralizadas en sus cuentas consolidadas, puesto que de otro modo seguirán utilizando aquellas que queden fuera de la consolidación con objetivos presupuestarios poco éticos.

Una vez evidenciados los factores que influyen en la creación de este tipo de entes, el objetivo fue comprobar los efectos que los mismos tienen sobre aspectos como la calidad de vida de los ciudadanos y la eficiencia y transparencia de los gobiernos locales. En relación a la calidad de vida, las condiciones de vida en un municipio vienen determinadas por los servicios públicos que en él se ofrecen y, posiblemente más importante aún, por la forma y la calidad con las que se prestan.

Para la realización del análisis, la muestra ha tenido que ser reducida a las 78 ciudades españolas de más de 100,000 habitantes, puesto que los datos ofrecidos sobre calidad de vida por la empresa Spanish Corporate Reputation Monitor (MERCOR) únicamente se encuentran disponibles para estos municipios y para los años 2007, 2008 y 2009. Los resultados obtenidos muestran que la descentralización funcional, sea cual sea el tipo de entidad creada, afecta positivamente a la calidad de vida de los ciudadanos, por lo que su uso se plantea como más beneficioso que la externalización o la creación de empresas mixtas. Adicionalmente, se ha podido comprobar que la calidad de vida es mayor en los municipios gobernados por partidos de derechas, con un entorno político muy estable y escasamente competitivo, y donde el nivel de desempleo es menor.

En el caso de la eficiencia del gobierno local, aunque ha sido necesario reducir la muestra utilizada a 129 municipios de los 153 iniciales debido a las limitaciones en los datos disponibles para los años 1999 a 2007, los resultados se consideran plenamente representativos. Una de las razones de mayor peso para la introducción de las ideas del sector privado en la prestación de servicios públicos es la eficiencia tradicionalmente asociada a sus actividades. Sin embargo, los resultados muestran que, en el caso de los municipios españoles, esta introducción (outsourcing) no mejora la eficiencia anual de los gobiernos locales, ni tampoco el uso de los entes descentralizados. Tales resultados sugieren que las grandes burocracias son menos costosas, por lo que podría ser necesaria la reestructuración del sistema administrativo local en España.

El único mecanismo adecuado a este respecto es la creación de entes públicos empresariales en relación a la eficiencia anual y de empresas mixtas para el caso de la variación inter-anual de la eficiencia, siempre que sean implementados por partidos de derechas.

Finalmente, los numerosos casos de corrupción encontrados en municipios españoles han abierto el debate sobre el uso indebido del poder y los recursos por parte de los gobiernos locales. A este respecto, se ha analizado el efecto que podría tener el uso de entidades descentralizadas y externalizadas sobre la transparencia de los municipios.

El concepto de transparencia es utilizado como antónimo de “corrupción” y para su estudio se ha empleado una muestra de 110 ciudades españolas sobre las cuales, Transparencia Internacional España ha publicado información de su nivel de transparencia para los años 2008, 2009 y 2010.

En base a los resultados, no se encuentra evidencia para concluir que la introducción del sector privado a través de la externalización o empresas mixtas esté contribuyendo a fomentar los casos de corrupción en los gobiernos locales españoles. Sin embargo, sí hay evidencia sobre los entes descentralizados, los cuales permitirían mejorar los niveles de transparencia. Esto se debe a que las agencias descentralizadas se encuentran más cercanas a los ciudadanos, por lo que las acciones de los políticos son más visibles, desencadenando un comportamiento más ético por su parte.

En definitiva, los resultados obtenidos evidencian que los procesos de descentralización funcional tienen más efectos positivos que negativos sobre los ciudadanos y el comportamiento de los gobiernos locales españoles. Por una parte, la existencia de entes descentralizados se traduce en un incremento de la calidad de vida de los ciudadanos y una disminución de posibles casos de corrupción administrativa. Si bien, no conllevan mejoras de eficiencia en la gestión de los servicios públicos, quizás debido al uso perverso que los políticos hacen de estas entidades para saltarse los límites legales al endeudamiento.

No obstante, se ha observado que existen determinados mecanismos de monitorización que frenan este tipo de comportamientos oportunistas, tales como la exigencia contable de realizar procesos de consolidación de la información económico-financiera presupuestaria. Asimismo, la introducción de determinados criterios de gestión propios de las empresas mixtas (privado-públicas) podría favorecer la variación interanual de la eficiencia de la gestión local.

Los resultados obtenidos permiten proporcionar unos criterios básicos de actuación para los gobiernos locales a la hora de tomar decisiones sobre la creación o liquidación de entidades descentralizadas y/o el establecimiento de contratos con empresas privadas para la prestación de servicios públicos.

“La mayor perfección del hombre es cumplir el deber por el deber”

Emmanuel Kant

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ANNEX 1

Municipalities in the Sample

Annex 1. Municipalities in the sample

Province code	Municipality code	iden	MUNICIPALITY	PROVINCE
01	059	1	Vitoria-Gasteiz	Álava
02	003	2	Albacete	Albacete
03	009	3	Alcoy/Alcoi	Alicante
03	014	4	Alicante/Alacant	Alicante
03	031	5	Benidorm	Alicante
03	065	6	Elche/Elx	Alicante
03	066	7	Elda	Alicante
03	099	8	Orihuela	Alicante
03	122	9	San Vicente del Raspeig/Sant Vicent del Raspeig	Alicante
03	133	10	Torreveija	Alicante
04	013	11	Almería	Almería
04	079	12	Roquetas de Mar	Almería
04	902	13	Ejido (El)	Almería
05	019	14	Ávila	Ávila
06	015	15	Badajoz	Badajoz
06	083	16	Mérida	Badajoz
07	011	17	Calvià	Baleares (Islas)
07	040	18	Palma de Mallorca	Baleares (Islas)
08	015	19	Badalona	Barcelona
08	019	20	Barcelona	Barcelona
08	056	21	Castelldefels	Barcelona
08	073	22	Cornellà de Llobregat	Barcelona
08	096	23	Granollers	Barcelona
08	101	24	Hospitalet de Llobregat (L')	Barcelona
08	113	25	Manresa	Barcelona
08	121	26	Mataró	Barcelona
08	124	27	Mollet del Vallès	Barcelona
08	169	28	Prat de Llobregat (El)	Barcelona
08	184	29	Rubí	Barcelona
08	187	30	Sabadell	Barcelona
08	200	31	Sant Boi de Llobregat	Barcelona
08	205	32	Sant Cugat del Vallès	Barcelona
08	245	33	Santa Coloma de Gramenet	Barcelona
08	266	34	Cerdanyola del Vallès	Barcelona
08	279	35	Terrassa	Barcelona
08	301	36	Viladecans	Barcelona
08	307	37	Vilanova i la Geltrú	Barcelona
09	059	38	Burgos	Burgos
10	037	39	Cáceres	Cáceres
11	004	40	Algeciras	Cádiz
11	012	41	Cádiz	Cádiz
11	015	42	Chiclana de la Frontera	Cádiz
11	020	43	Jerez de la Frontera	Cádiz
11	022	44	Línea de la Concepción (La)	Cádiz
11	027	45	Puerto de Santa María (El)	Cádiz

11	031	46	San Fernando	Cádiz
11	032	47	Sanlúcar de Barrameda	Cádiz
12	040	48	Castellón de la Plana/Castelló de la Plana	Castellón
12	135	49	Villarreal/Vila-real	Castellón
13	034	50	Ciudad Real	Ciudad Real
13	071	51	Puertollano	Ciudad Real
14	021	52	Córdoba	Córdoba
15	030	53	Coruña (A)	Coruña (A)
15	036	54	Ferrol	Coruña (A)
15	078	55	Santiago de Compostela	Coruña (A)
16	078	56	Cuenca	Cuenca
17	079	57	Girona	Girona
18	087	58	Granada	Granada
18	140	59	Motril	Granada
19	130	60	Guadalajara	Guadalajara
20	045	61	Irun	Guipúzcoa
20	069	62	Donostia-San Sebastián	Guipúzcoa
21	041	63	Huelva	Huelva
22	125	64	Huesca	Huesca
23	050	65	Jaén	Jaén
23	055	66	Linares	Jaén
24	089	67	León	León
24	115	68	Ponferrada	León
25	120	69	Lleida	Lleida
26	089	70	Logroño	Rioja (La)
27	028	71	Lugo	Lugo
28	005	72	Alcalá de Henares	Madrid (Com. de)
28	006	73	Alcobendas	Madrid (Com. de)
28	007	74	Alcorcón	Madrid (Com. de)
28	013	75	Aranjuez	Madrid (Com. de)
28	014	76	Arganda del Rey	Madrid (Com. de)
28	047	77	Collado Villalba	Madrid (Com. de)
28	049	78	Coslada	Madrid (Com. de)
28	058	79	Fuenlabrada	Madrid (Com. de)
28	065	80	Getafe	Madrid (Com. de)
28	074	81	Leganés	Madrid (Com. de)
28	079	82	Madrid	Madrid (Com. de)
28	080	83	Majadahonda	Madrid (Com. de)
28	092	84	Móstoles	Madrid (Com. de)
28	106	85	Parla	Madrid (Com. de)
28	115	86	Pozuelo de Alarcón	Madrid (Com. de)
28	123	87	Rivas-Vaciamadrid	Madrid (Com. de)
28	127	88	Rozas de Madrid (Las)	Madrid (Com. de)
28	134	89	San Sebastián de los Reyes	Madrid (Com. de)
28	148	90	Torrejón de Ardoz	Madrid (Com. de)
28	161	91	Valdemoro	Madrid (Com. de)
29	025	92	Benalmádena	Málaga
29	051	93	Estepona	Málaga

29	067	94	Málaga	Málaga
29	069	95	Marbella	Málaga
29	070	96	Mijas	Málaga
29	094	97	Vélez-Málaga	Málaga
29	901	98	Torremolinos	Málaga
29	054	153	Fuengirola	Málaga
30	016	99	Cartagena	Murcia (Región de)
30	024	100	Lorca	Murcia (Región de)
30	027	101	Molina de Segura	Murcia (Región de)
30	030	102	Murcia	Murcia (Región de)
31	201	103	Pamplona/Iruña	Navarra (C. Foral de)
32	054	104	Ourense	Ourense
33	004	105	Avilés	Asturias (Ppdo. de)
33	024	106	Gijón	Asturias (Ppdo. de)
33	044	107	Oviedo	Asturias (Ppdo. de)
33	066	108	Siero	Asturias (Ppdo. de)
33	031	109	Langreo	Asturias (Ppdo. de)
33	037	110	Mieres	Asturias (Ppdo. de)
34	120	111	Palencia	Palencia
35	004	112	Arrecife	Palmas (Las)
35	016	113	Palmas de Gran Canaria (Las)	Palmas (Las)
35	017	114	Puerto del Rosario	Palmas (Las)
35	019	115	San Bartolomé de Tirajana	Palmas (Las)
35	022	116	Santa Lucía de Tirajana	Palmas (Las)
35	026	117	Telde	Palmas (Las)
36	038	118	Pontevedra	Pontevedra
36	057	119	Vigo	Pontevedra
37	274	120	Salamanca	Salamanca
38	006	121	Arona	Sta. Cruz de Tenerife
38	023	122	San Cristóbal de La Laguna	Sta. Cruz de Tenerife
38	038	123	Santa Cruz de Tenerife	Sta. Cruz de Tenerife
39	075	124	Santander	Cantabria
39	087	125	Torrelavega	Cantabria
40	194	126	Segovia	Segovia
41	004	127	Alcalá de Guadaíra	Sevilla
41	038	128	Dos Hermanas	Sevilla
41	091	129	Sevilla	Sevilla
41	095	130	Utrera	Sevilla
42	173	131	Soria	Soria
43	123	132	Reus	Tarragona
43	148	133	Tarragona	Tarragona
44	216	134	Teruel	Teruel
45	165	135	Talavera de la Reina	Toledo
45	168	136	Toledo	Toledo
46	131	137	Gandia	Valencia
46	190	138	Paterna	Valencia
46	220	139	Sagunto/Sagunt	Valencia
46	244	140	Torrent	Valencia

46	250	141	Valencia (municipio)	Valencia
47	186	142	Valladolid	Valladolid
48	013	143	Barakaldo	Vizcaya
48	020	144	Bilbao	Vizcaya
48	044	145	Getxo	Vizcaya
48	078	146	Portugalete	Vizcaya
48	015	147	Basauri	Vizcaya
48	082	148	Santurtzi	Vizcaya
49	275	149	Zamora	Zamora
50	297	150	Zaragoza (municipio)	Zaragoza
51	001	151	Ceuta	Ceuta
52	001	152	Melilla	Melilla

ANNEX 2

Research Hypotheses

Annex 2. Hypotheses by chapter

CHAPTER 2. Determinants of functional decentralisation and externalisation: political factors and public debt

H1: Conservative local governments tend to use decentralisation/externalisation to a greater extent than do parties of other ideologies. ACCEPTED (for decentralisation)

H2: In environments characterised by a low degree of political competition, local governments tend to implement decentralisation/externalisation to a greater extent. ACCEPTED (for decentralisation)

H3: More stable local governments tend to use decentralisation/externalisation to a greater extent than do less stable ones. ACCEPTED (for decentralisation)

H4: Local governments tend to use decentralisation/externalisation to a greater extent in the years immediately following their election victory. PARTIALLY ACCEPTED

H5: Local governments with higher debt levels will implement significant functional decentralisation. ACCEPTED

H6: Right-wing local governments tend to use functional decentralisation to a greater extent than do other governments; however, the use of these agencies as a means of raising the level of debt is more common among left-wing governments, due to the effect of the partisan budget cycle. ACCEPTED

H7: In local governments with higher debt levels, functional decentralisation by means of public companies, in order to increase municipal debt, is less commonly used than the creation of foundations, as a result of specific accounting regulations (the obligation to consolidate accounts). ACCEPTED

CHAPTER 3. The impact of functional decentralisation and externalisation on quality of life

H8: Functional decentralisation processes have a positive impact on the QoL of the population. ACCEPTED

H9: Externalisation processes negatively affect the QoL of the population. NO SUFFICIENT EVIDENCE

H9.1: This negative effect of externalisation on QoL is less significant in the case of mixed companies.

CHAPTER 4. The impact of functional decentralisation and externalisation on local governments efficiency

H10: Functional decentralisation and externalisation have a positive effect on local government efficiency.	ACCEPTED (for public business entities and mixed companies)
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CHAPTER 5. The impact of functional decentralisation and externalisation on the transparency of local governments

H11: Functional decentralisation has a positive (negative) effect on transparency (corruption).	ACCEPTED
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H12: Externalisation has a negative (positive) effect on transparency (corruption).	NO SUFFICIENT EVIDENCE
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H12.1: This negative effect of externalisation on QoL is less significant in the case of mixed companies.	NO SUFFICIENT EVIDENCE
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ANNEX 3

Used Variables for the Empirical Analyses

Annex 3. Used variables for the empirical analyses

<p style="text-align: center;">DECENTRALISATION AND EXTERNALISATION PROCESSES</p>	<ul style="list-style-type: none"> • TOTAL_DECENTRALISATION: numerical variable that represent the number of decentralised agencies created in each municipality. Concretely, this process may be carried out by: <ul style="list-style-type: none"> ○ COMPANIES: number of Government owned corporations created by each municipality. ○ AUTONOMOUS ORGANIZATIONS (AAOO): number of autonomous bodies created in each municipality. ○ PUBLIC BUSINESS ENTITIES (PBE): number of municipal business entities created by each municipality. ○ FOUNDATIONS: number of municipal foundations created in each municipality. • EXTERNALISATION: numerical variable that represents the number of private agencies that have acquired the right to provide public services in each municipality. • MIXED_COMPANIES: numerical variable that represents the number of mixed companies that are created in each municipality. Both public and private sectors are owners of these companies.
<p style="text-align: center;">POLITICAL FACTORS</p>	<ul style="list-style-type: none"> • RIGHT_IDEOLOGY: dummy variable that takes a value of 1 if the governing party is classified as conservative in ideology, and 0, otherwise. • POLITICAL_COMPETITION: numerical variable representing political rivalry, and measured following Solé (2006), as the difference between the percentages of votes obtained by the parties coming in first and second place. • STABILITY: numerical variable used to identify the electoral support obtained by the party presently controlling local government, and represented by the percentage of seats obtained in the most recent election. • ELECTION_YEARS: numerical variable that represent the number of years remaining until the next election is due. Following Ashworth et al. (2005) and Bastida and Benito (2009), this variable takes the value of 0 in the election year, 1 in the first year before an election, 2 in the second year prior to an election and 3 in the year after an election or the third year prior to an election. • YEARSinGOVERNMENT: numerical variable that identifies the number of years the local government has been in power.
<p style="text-align: center;">BUDGETARY CHARACTERISTICS</p>	<ul style="list-style-type: none"> • DEBT_pc: numerical variable that represents the level of public debt per capita. • LIMIT_DEBT: dummy variable given the value of 1 in the years the Budgetary Stability Act was in effect (from year 2001) and 0, otherwise. • DIRECT_FISCALPRESS_pc: numerical variable that represents the direct fiscal pressure, calculated by the ratio of income through direct taxes to the local GDP, measured in per capita terms. • INDIRECT_FISCALPRESS_pc: numerical variable that represents the indirect fiscal pressure, calculated by the ratio of income through indirect taxes to the municipal GDP, measured in per capita terms.

<p style="text-align: center;">SOCI-ECONOMIC CHARACTERISTICS</p>	<ul style="list-style-type: none"> • POPULATION: numerical variable reflecting the number of inhabitants in each municipality. • GDP_pc: numerical variable that represent the gross domestic product per capita. • UNEMPLOYMENT: numerical variable that represent the level of municipal unemployment. • DENSITY: numerical variable that reflects the population density of each municipality. • TOURISM_INDEX: numerical variable that represent the tourism level of each municipality.
<p style="text-align: center;">QOL, EFFICIENCY AND TRANSPARENCY</p>	<ul style="list-style-type: none"> • QoL: numerical variable that represent the level of quality of life of inhabitants in Spanish municipalities. This variable is measured using the score obtained by each of the Spanish cities in the mercoCity analysis. • Annual efficiency index: variable that represents de annual efficiency of Spanish local governments and it was obtained by the DEA methodology. • Malmquist index: variable that represents the inter-annual evolution of efficiency of Spanish local governments. • IT_index: <i>Transparency index</i>: index published by “Transparency International Spain”, which recompiled information about the economic and financial transparency of the largest cities in Spain. It takes values between 0 and 100. • A, B, C, D, E_subindex: <i>Transparency sub-indexes</i>: which are related with different topics: (a) information about the municipal corporation; (b) relationships with citizens and society; (c) economic and financial transparency; (d) transparency about municipal services contracts bidding; (e) transparency about urban and public works.
<p style="text-align: center;">INTERACTIONS</p>	<ul style="list-style-type: none"> • LIMIT_DEBT_pc: numerical variable resulting from the product of the variables $DEBT_pc * LIMIT_DEBT$. This represents the public debt created from the limit to indebtedness was established. • RIGHT_DEBT_pc: numerical variable resulting from the product of the variables $DEBT_pc * RIGHT_IDEOLOGY$. This represents the public debt using by right-wing parties. • RIGHT_TOTAL_DECENTRALISATION, RIGHT_COMPANIES, RIGHT_AAOO, RIGHT_PBE, RIGHT_FOUNDATIONS, RIGHT_EXTERNALISATION, RIGHT_MIXED_COMPANIES: variables that were calculated as the product of “RIGHT_IDEOLOGY” and the variables that represent the different modes of public services delivery. So, they show the decentralised and externalised entities that have been created by right-wing parties.