

Between privatization and intermunicipal cooperation: Small municipalities, scale economies and transaction costs¹

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In this paper, we analyze the use of intermunicipal cooperation as a possible mechanism for small municipalities to deliver efficiently local services. The main hypothesis to be analyzed is that small municipalities may use intermunicipal cooperation to exploit scale economies as an alternative to privatization. In this way, lower transaction costs might be a cost advantage that intermunicipal cooperation provides in relation to privatization. In order to test our hypothesis, we first review theories that provide useful insights on cost advantages of different production forms. Then, we analyze extensive data for Spain concerning solid waste collection and water distribution services, which are the local services more commonly studied for their major economic relevance. From such data analysis, we conclude that cooperation is more frequent when production is public, while private production is more frequent when the service is provided by the municipality. Additionally, we show that production costs are lower when intermunicipal cooperation takes place.

En este artículo, se analiza el uso que los municipios pequeños pueden hacer de la cooperación intermunicipal para producir de forma eficiente servicios locales. La principal hipótesis que se analiza es que los pequeños municipios pueden utilizar la cooperación

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intermunicipal como alternativa a la privatización para explotar economías de escala. En este sentido, la cooperación intermunicipal puede implicar menores costes de transacción que la privatización. Con el propósito de contrastar esta hipótesis, se revisan en primer lugar las teorías que ofrecen perspectivas útiles respecto a las ventajas de costes de las diferentes formas de producción. A continuación, se analiza la información que proporciona una base rica de datos respecto al servicio de recogida de basuras y el suministro de agua en España, los cuales constituyen los servicios locales más comúnmente estudiados por su relevancia económica. De este análisis, puede concluirse que la cooperación es más frecuente cuando el servicio es producido por el sector público, mientras que la producción privada es más frecuente cuando el servicio es suministrado a nivel municipal. Además, se muestra evidencia de que los costes de producción son menores cuando tiene lugar la cooperación intermunicipal.

Key words: privatization, contracting-out, local governments, intergovernmental relations

JEL classification: L33, R51, H70

O. INTRODUCTION

Privatization of local services has been a relevant policy widely implemented all over the world during the last two decades. Indeed, privatization of some public services is one of the strategic choices that local governments have to its disposal. Hence, several empirical studies have been devoted to examine the motivations, characteristics and results associated to local privatization.

One of the aspects that have been more commonly analyzed as a major motivation for privatizing local services is that related to the reduction in costs. Indeed, privatization may allow a more powerful structure of incentives for managers (Shleifer, 1998; Hart, Schleifer and Vishny, 1997). Furthermore, it may provide more opportunities for competition for the market (Niskanen 1971, Savas 1987). And more importantly, private firms may exploit scale economies through the aggregation of production of several territorial jurisdictions (Donahue, 1989). However, all these cost advantages of privatization must be put in relation to the higher transaction costs that are always associated to not produce internally the service.