

APPLYING MARKET SOLUTIONS TO PUBLIC SERVICES

An Assessment of Efficiency, Equity, and Voice

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

MARKETS OR REGIONALISM?

Metropolitan regions are under considerable pressure to integrate public service delivery to achieve economies of scale, to promote efficiency, and to secure intraregional equity. These regions are composed of many competitive and overlapping local governments, whose political boundaries reflect historical settlement patterns but no longer coincide with the social, economic, and ecological boundaries of the metropolitan area (Bennett 1997). Advocates for consolidation argue that problems of suburban sprawl, environmental management, uneven fiscal capacity, and concentrated urban poverty require regional solutions (Altshuler et al. 1999; Downs 1994). Academic

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planners see a clear need for new forms of regional government (Rusk 1993; Orfield 1997), but effective movement toward governmental consolidation remains weak, whereas support for local political autonomy is strong, reinforcing a politically fragmented metropolitan landscape.

Public choice theorists offer an alternative to regionalism, arguing that within a politically fragmented metropolitan region, markets can be used to gain scale and efficiency (Bish and Ostrom 1973; Parks and Oakerson 1993). Although many urbanists prefer regionalism for the provision of public goods in metropolitan areas, the reality is that market solutions are more common. Public choice approaches have dominated the debate, but concerns about the inequities caused by such fragmentation (Massey and Denton 1993) have led to calls for new analyses that look closely at the impact of political boundaries on citizen and government behavior (Lowery 2000).

There are two major forms of market-based public service delivery: privatization, where local governments contract with private market suppliers to deliver public services, and intermunicipal cooperation, where local governments contract with each other, creating a public market, to gain scale in service delivery. Although there have been many studies of privatization (Miranda 1994; Hirsch 1995; Greene 1996) and of cooperation (Lowery and Lyons 1989; Morgan and Hirlinger 1991), comparisons of the two market approaches are rare (Stein 1990b; Warner and Hebdon 2001). In this study, we assess the way local government decision makers interact with both market alternatives.

Although efficiency is important, public service provision is also about equity, democracy, and community building (Frug 1999). Ensuring citizens equitable access and voice in public decision making is an important part of the public service. Market solutions to metropolitan service delivery—private or public—must be assessed for their performance with respect to all three governance goals: efficiency, equity, and voice. Using national data on public service delivery by suburban and core metropolitan municipalities from 1992 and 1997, we present an empirical test of how local government managers balance these multiple objectives under privatization or intermunicipal cooperation. Results show that efficiency gains are associated with both market alternatives, but voice and equity goals are not.

THEORETICAL CONCERNS

Public choice theory argues that competition brings market discipline to public service delivery while preserving the benefits of public sector engagement (Boyne 1998; Oakerson 1987). However, the competition and choice present under privatization and intermunicipal cooperation primarily rest

with city managers, not the citizen consumer. Although efficiency gains deriving from competition and economies of scale may occur under government contracting, cross-jurisdictional equity and citizen voice may not be enhanced. Tiebout's (1956) original model assumed citizen mobility and no externalities from political fragmentation, but in reality, these conditions are rarely met. Thus, an assessment of market solutions must address efficiency, equity, and voice concerns.

EFFICIENCY

Competitive markets may enhance efficiency, but research supporting savings from contracting (Savas 2000) is countered by research suggesting the benefits of contracting may be overstated (Boyne 1998; Stein 1990a; Ferris 1986). Lack of competition, high costs of contracting and monitoring, and erosion in service quality are common complaints (Sclar 2000; Prager 1994; Lowery 1998). Although cooperation has been shown to lower costs by allowing cooperating governments to achieve scale economies (Morgan and Hirlinger 1991), in many cases, specialization and lack of direct citizen oversight have led to higher costs (Alsthuler et al. 1999). With the emergence of a few large-scale providers in waste management and water systems, local communities are becoming price takers, and the potential for savings in service delivery may be reduced (Pinch and Patterson 2000).

EQUITY

Public choice models have been criticized for the inequitable results of fragmentation within a metropolitan region (Frug 1999). Public choice theory supports a privatized city in which political boundaries and property rights are used to justify exclusion (via zoning and service delivery) and revenue control (via unshared tax base) (Frug 2000; Briffault 2000). Although interjurisdictional competition does exist, it often reflects competition for the upper-income taxpayer, and exclusionary zoning allows successful municipalities to keep out lower-income residents (Burns 1994; Poindexter 1996; Alsthuler et al. 1999; Frug 1998). Troutt (2000) calls this the antimarket of isolation and racism that leads to stagnant cities. Such conditions undermine equity.

Intermunicipal cooperation allows the expression of regional interests in specific service delivery areas, but it does not address equity at the regional level. Governments generally cooperate when it is in their self-interest and are inclined to exclude governments with higher costs or hard-to-serve

populations from cooperative agreements (Lowery 1998). By addressing the service areas where a regional approach is most needed (e.g., transportation), cooperation may reduce interest in more comprehensive regional government cooperation and, effectively, rationalize fragmentation (Foster 1996).

Privatization may have even less potential to enhance equity. Markets create uneven landscapes, and private suppliers will prefer some municipalities over others. Inner cities, where the costs of service delivery are higher, may have an especially hard time attracting private suppliers (Hirsch 1995). Local governments can promote equity by employing local residents in service delivery. Indeed, public service employment has been a major entry point to formal labor markets for women and minorities (Hebdon 1995; Doogan 1997). When private service providers are regional or national firms, however, both profits and employment may flow out of the community (Starr 1987; Pinch and Patterson 2000).

VOICE AND DEMOCRACY

Political theorists argue that the potential for direct democracy at the local level is higher because citizens are closer to their representatives, the barriers to direct political participation are lower, and the opportunity to see results from one's input are higher (Briffault 1990a, 1990b, 2000). Civic engagement via participation in decisions about service delivery may increase democracy and enhance community well-being (Crocker, Potapchuck, and Schechter 1998; Warner 1999).

Private markets may enhance citizen voice by promoting consumer sovereignty (Savas 2000). However, contract markets that lack the elements of public debate, protection of whistle-blowers, and reassertion of citizen rights may undermine democratic voice (Starr 1987; Moe 1987; Sullivan 1987; Hirsch and Osborne 2000). Civil society proponents argue that to equate citizenship with consumption is to diminish the notion of citizenship (Barber 1998). Citizens should have the freedom to stay; choice should not be based merely on exit and consumption (Frug 1999).

Under cooperation, both the policy and delivery decisions about services remain under public control, but the effect on citizen voice is less clear. In many cases, cooperation involves informal coalitions of elected officials or technical managers from several localities. In others, cooperation is formalized in new regional authorities that assume independent power without clear accountability lines back to citizens. The proliferation of special purpose regional governments has raised concern about this lack of direct democratic accountability (Foster 1997).

EMPIRICAL EVIDENCE

To determine the association between market-based forms of public service provision and efficiency, equity, and democracy, we used International City/County Management Association (ICMA) data on alternative service delivery arrangements of local governments. Every five years since 1982, ICMA has surveyed all counties with a population of more than 25,000 (roughly 1,600 out of 3,100 total) and cities with a population of more than 10,000 (roughly 3,300). Almost one-third of all governments contacted responded (31% for 1992 and 32% for 1997).

Our analysis focuses on responses from municipalities in metropolitan areas (just more than 1,000 governments in each survey year). We differentiate core metropolitan municipalities from outlying suburbs using Office of Management and Budget criteria.¹ Among the metropolitan government respondents, there are 306 core governments and 750 outlying suburban governments in the 1992 survey and 303 core governments and 722 outlying suburban governments in the 1997 sample. Of all responding municipalities, 46% were the same in both years. The two samples are similar by population, poverty, and income.²

The ICMA surveys provide a very comprehensive view of the complex mix of services offered by local governments and the array of delivery alternatives employed. The surveys also ask about management strategies to ensure efficiency and respond to citizen concerns. The surveys measure the form of service delivery for 64 different services in seven broad areas: public works and transportation, public utilities, public safety, health and human services, parks and recreation, culture and art, and support functions. Direct public provision by public employees remains the most common form of service delivery (accounting for 57% of all services). Privatization to for-profit firms and intermunicipal cooperation are the primary market alternatives. Across all services in 1997, privatization to for-profit firms accounted for 20% of provision and was more common than cooperation, which accounted for 15% of service provision (Warner and Hefetz 2001).

For-profit privatization is most common in support functions, public works, and public safety. These services are easily specified, more likely to have competitive supplier markets, and in the case of support functions and public safety, include indirect services (dispatching, back-office processes) not directly visible to the citizen.

Cooperation often is high in the same services where privatization is high because it offers an alternative route to achieving economies of scale. However, cooperative provision is also common in health and human services. These are complex services where the social benefit extends beyond the

direct service recipient, so governments often keep delivery in the public sector where community control is greater.

MODEL AND DATA TRENDS

We used probit regression to determine if there were significant differences in efficiency, equity, and citizen voice by level of cooperation or level of privatization. The probit model takes the level of privatization or cooperation and controls by level of service provision to determine the probability for each place.³ We also controlled for government structure, population size, and location within the metropolitan region (core or outlying).

DIFFERENCES IN RESTRUCTURING PATTERNS

According to public choice theory, suburban places should be most favored in the market for public goods and services. Service demands will be more homogeneous (reflecting a more homogeneous population) and residential choice (mobility) higher. We expected both privatization to for-profit firms and intermunicipal cooperation to be highest among suburban governments.

For-profit privatization was highest among suburbs in 1992, but by 1997, it had risen among all governments and was no longer significantly lower among core governments. However, core governments continued to exhibit significantly lower levels of intermunicipal cooperation. See Table 1. This may be due to limited gains from economies of scale for governments whose service areas are already large. It also may be a partial reflection of the forces driving suburbanization in the first place. The desire to escape the high costs of providing public services to core areas encourages suburbs to isolate themselves from high-need, high-cost inner-city populations (Frug 1998; Trout 2000). As a result, when core and suburban interests are different, regional cooperation is less likely (Lowery 1998).

MODEL VARIABLES

Efficiency

We used two measures of efficiency. The first measure was an index of technical efficiency created from five questions from the ICMA survey.⁴ These questions asked local government managers if they were attempting to decrease costs and if they evaluated cost and quality compliance of their

TABLE 1: Means by Metro Status for U.S. Metropolitan Cities and Counties

<i>Variable</i>	<i>Description</i>	<i>All</i>	<i>Suburb</i>	<i>Core</i>	<i>Significance</i>
Restructuring pattern					
Cooperation 92 ^a	% Cooperation over service provision level, 92	18	19	15	**
Cooperation 97 ^a	% Cooperation over service provision level, 97	15	16	12	**
Privatization 92 ^a	% For-profit privatization over service provision level, 92	16	16	14	**
Privatization 97 ^a	% For-profit privatization over service provision level, 97	20	20	18	<i>ns</i>
Provision level 92 ^a	Number of services provided, 1992	42	41	45	**
Provision level 97 ^a	Number of services provided, 1997	35	33	40	**
Indexes					
Efficiency 92 ^a	Index of Technical Efficiency (5 questions) 1992	.36	.34	.41	**
Efficiency 97 ^a	Index of Technical Efficiency (5 questions) 1997	.37	.33	.48	**
Citizen Voice 92 ^a	Index of Voice (10 questions) 1992	.15	.15	.16	<i>ns</i>
Citizen Voice 97 ^a	Index of Voice (10 questions) 1997	.15	.14	.18	**
Internal Opposition 92 ^a	Index of Opposition (4 questions) 1992	.20	.17	.26	**
Internal Opposition 97 ^a	Index of Opposition (4 questions) 1997	.21	.17	.29	**
State Rules 92 ^a	Index of State Rules (3 questions) 1992	.23	.20	.28	**
State Rules 97 ^a	Index of State Rules (3 questions) 1997	.19	.17	.26	**
Government characteristics					
Population 90 ^b	1990 census population, 1992 sample	77,648	29,875	195,301	**
Population 90 ^b	1990 census population, 1997 sample	83,341	31,229	209,534	**
Per capita income 89 ^b	1989 per capita income, 1992 sample	16,487	17,543	13,886	**
Per capita income 89 ^b	1989 per capita income, 1997 sample	16,275	17,314	13,760	**
Poverty 89 ^b	% Below poverty, 1989, 1992 sample	9.70	7.79	14.34	**
Poverty 89 ^b	% Below poverty, 1989, 1997 sample	9.70	7.69	14.50	**
Government expenditure 92 ^c	Per capital local government expenditure 1992	.86	.81	.98	**
Government expenditure 97 ^c	Per capital local government expenditure 1997	.91	.87	1.00	**

County 92 ^a	County; 1 = county, 0 = city	.14	.07	.33	**
County 97 ^a	County; 1 = county, 0 = city	.15	.06	.37	**
Council-manager 92 ^a	Council-manager = 1, not = 0	.67	.67	.67	<i>ns</i>
Council-manager 97 ^a	Council-manager = 1, not = 0	.68	.69	.65	<i>ns</i>
<i>N</i> 1992	Sample size—survey 1992	1,056	750	306	
<i>N</i> 1997	Sample size—survey 1997	1,025	722	303	

a. International City/County Management Association (1992, 1997).

b. U.S. Bureau of the Census (1990).

c. U.S. Bureau of the Census (1992, 1997).

** Significantly different at $p < .01$; *ns* = not significant.

contractors. Table 2 shows that the majority of governments say they attempt to decrease costs, but less than half monitor their contracts. The index also included questions relating to competition: implementation of market alternatives on a trial basis and allowing in-house workers to compete in the bidding process. Cost assessment, monitoring, and competition are key factors associated with technical efficiency. The efficiency index is the percentage positive response to these five questions. The second measure was total per capita local government expenditure (for all services) drawn from the *Census of Governments* for 1992 and 1997 (U.S. Bureau of the Census 1992, 1997). This provides an objective cost measure to compare with the attitudes and behaviors captured in the technical efficiency index. Both of these measures are from the same time period as our measures of cooperation and privatization because we are concerned with ongoing efficiency concerns.

Equity

We used per capita income and percentage poverty as our measures of equity because wealth and poverty vary dramatically across the metropolitan region. Public choice theory predicts that suburbs will attract more wealthy residents as they combine services and tax rates to meet the interests of higher-income taxpayers. Data on per capita income and poverty clearly show a suburban advantage. See Table 1.

Democracy and Voice

One of the assumptions behind public choice theory is that market-based service delivery will enhance consumer choice (Buchanan and Tullock 1974). To test for this, we created a citizen voice index from the questions on the ICMA survey about involvement of citizens in the service delivery decision-making process. Six of the questions reflect involvement of citizens in the discussion and design stage of privatization or cooperation. These questions address both opposition and support. The other four questions evaluate citizen satisfaction after implementation. One-third of responding governments measured citizen satisfaction and monitored citizen complaints, but only half that number involved citizen advisory committees in the discussion process. Across all governments, the average score for the voice index was half the efficiency index score, suggesting that government managers consider efficiency to be a higher priority than voice when assessing market alternatives. See Table 2.

Public choice theory suggests that the internal voice of government managers, organized labor, and elected officials may overwhelm citizen interests

TABLE 2: Index Components and Means for U.S. Metropolitan Cities and Counties

<i>Index</i>	<i>Mean</i> <i>1992</i>	<i>Mean</i> <i>1997</i>
Efficiency Index	.36	.37
Internal attempts to decrease costs of service delivery	.67	.64
Evaluating cost	.47	.44
Monitoring compliance with delivery standards specified in contract	.37	.43
Allowed government to compete in the bidding process	.12	.19
Proposed implementation of private alternatives on a trial basis	.18	.16
Citizen Voice Index	.15	.15
Active citizen group favoring privatization	.05	.05
Opposition from citizens	.15	.14
Evaluation of feasibility by service recipients/consumers	.08	.10
Evaluation of feasibility by citizens' advisory committees	.17	.15
Established a citizens' advisory committee on private alternatives	.07	.06
Surveyed citizens during implementation	.06	.09
Kept the service complaint mechanism in-house	.15	.13
Monitoring citizen satisfaction after implementation	.32	.31
Conducting citizen surveys after implementation	.11	.14
Monitoring citizen complaints	.35	.34
Internal Opposition Index	.20	.21
Opposition from elected officials	.19	.20
Opposition from local government line employees	.29	.30
Opposition from department heads	.15	.16
Restrictive labor contracts/agreements	.15	.16
State Rules Index	.23	.19
External fiscal pressures, including restrictions on raising taxes	.42	.34
State or federal mandates tied to intergovernmental financing	.11	.07
Change in political climate—decreased role for government	.14	.18

N 1992 = 1,056

N 1997 = 1,025

SOURCE: International City/County Management Association (1992, 1997).

NOTE: These indexes were created by summing positive responses to component questions and dividing by the total number of questions in the index.

$$\frac{1}{N} \sum_{i=1}^n f_i,$$

where $f = 1$ if checked yes to question and 0 if not, and $i = 1, 2, \dots$, questions.

in the service delivery process (Niskanen 1971). Budget-maximizing bureaucrats and restrictive labor contracts may prevent exploration of privatization and cooperation (Savas 2000). We included a variable for internal opposition constructed from four survey questions measuring opposition from elected

officials, line employees, department heads, and restrictive labor agreements. Employee opposition was the highest ranking component of this index. Overall, the opposition index value was only slightly higher than the citizen voice index.

Control Variables

Use of privatization and cooperation may also be affected by population size, governmental structure, state policies, and metro status. Larger municipalities may have greater scope for privatization and cooperation but feel less need to explore these alternatives because they enjoy internal economies of scale. We used population from the *Census of Population and Housing* (U.S. Bureau of the Census 1990) but present it as the natural log of population (to reduce the range of variation) in the probit model. We also controlled for metro status. In the full sample model, we included a dummy variable for suburbs. We also ran subsample regressions on core and outlying suburban municipalities separately.

We used three variables to control for government structure. The first indicates whether the municipality has a council-manager form of government. Such governments have a more professional management structure and may be more likely to consider market alternatives for service delivery. We also included a dummy variable to differentiate county from city governments, because the wider service area of counties provides a framework to promote intermunicipal cooperation.

Our final measure of governmental structure, state rules, used three questions from the ICMA survey to create an index of the importance of state policies on local service delivery. These include local fiscal pressures caused by state restrictions on raising taxes (such as Proposition 13 in California), state mandates tied to intergovernmental financing, and a change in political climate emphasizing a decreased role for government. Fiscal pressures ranked the highest among the questions in this index. Although the percentage of governments indicating political climate as a factor in their decision to explore market alternatives increased from 1992 to 1997, that number never exceeded 18%. See Table 2.

A note on time period. We are interested in whether governments that use high levels of contracting continue to address efficiency, equity, and voice as ongoing concerns. Rather than viewing these factors as motivators of restructuring, we explore how local government managers balance concerns with efficiency, equity, and voice in their restructuring choices. Thus, all measures are taken from the same time period. Due to data limitations, the measures for

income and poverty are from a prior time period (1990 Census). We do not expect government contracting to affect poverty or income, but the level of contracting may be affected by the poverty status of a place.

EFFICIENCY GAINS: VOICE AND EQUITY UNCLEAR

1992 MODEL RESULTS

Probit regression models were run on the full sample and on core and suburban subsamples for 1992 and 1997. In the 1992 models, we see that market alternatives appear to offer efficiency gains. Governments using higher levels of cooperation and privatization show lower average per capita expenditures. The efficiency effect is greatest for suburbs. Greater use of market alternatives does not produce lower expenditures for core governments. Either savings from markets are not present for core governments, or other factors dwarf the impact of market-based savings on government expenditures in core municipalities. See Table 3.

Our other measure of efficiency—the technical efforts of government to structure and monitor contracts—is only significant in explaining higher levels of privatization. The relationship between efficiency concerns and privatization is primarily found among the suburban governments. These results appear to support public choice arguments that suburban governments face greater competition and, in turn, seek greater efficiency.

Both cooperation and privatization are higher among higher-income municipalities. Whereas cooperation is favored by higher-poverty municipalities as well, privatization is not. Thus, on equity grounds, public markets appear to perform better.

Our citizen voice index is only significant for privatization among core governments. Although citizen voice is associated with more privatization among core governments, this is counterbalanced by internal opposition that has a significant negative effect. This may reflect internal rigidity toward change among more unionized core governments. Internal opposition has a negative effect on cooperation among suburbs. This may be because cooperation undermines the local autonomy that is a primary motivator for suburbanization in the first place.

Our control variables confirm the importance of professional management. Municipalities with council-manager forms of government are more likely to pursue higher levels of privatization. Professional management is not significantly related to cooperation. Overall, suburbs are more likely to pursue both cooperation and privatization, but suburban counties are less

TABLE 3: Probit Results—1992 and 1997 for U.S. Metropolitan Cities and Counties

	<i>Cooperation</i>			<i>Privatization</i>		
	<i>All Coefficient</i>	<i>Core Coefficient</i>	<i>Suburb Coefficient</i>	<i>All Coefficient</i>	<i>Core Coefficient</i>	<i>Suburb Coefficient</i>
Survey 1992						
ln (population 90)	-.031*	-.090*	.007	.012	.036*	-.008
Government expenditure per capita 92	-.133*	-.030	-.180*	-.062*	-.010	-.081*
ln (per capita income 89)	.115*	-.004	.145*	.175*	.317*	.141*
% Poverty 89	.008*	.006*	.009*	-.002	.004	-.003
Efficiency Index 92	.028	.024	.026	.184*	.012	.249*
Voice Index 92	.044	.173	-.042	.075	.246*	-.016
Opposition Index 92	-.130*	-.080	-.154*	-.045	-.105*	.002
State Rules Index 92	-.001	.073	-.021	.065*	.210*	-.014
Council-Manager 92	.029	.001	.024	.051*	.075*	.046*
Suburb 92	.127*			.044*		
County 92	-.037	.062	-.086*	-.170*	-.073	-.301*
Intercept	-1.694*	-.039	-2.177*	-2.822*	-4.637*	-2.218*
Survey 1997						
ln (population 90)	-.076*	-.145*	-.045*	.036*	.035*	.030*
Government expenditure per capita 97	-.101*	-.091*	-.103*	-.039*	-.025	-.045*
ln (per capita income 89)	-.027	-.036	-.017	.064	.307*	.013
% Poverty 89	.003	-.000	.006*	-.006*	.004	-.009*
Efficiency Index 97	-.028	-.017	-.056	.344*	.376*	.320*
Voice Index 97	.419*	.460*	.326*	.090	.122	.093
Opposition Index 97	-.173*	-.217*	-.143*	-.027	.041	-.067
State Rules Index 97	.096*	.211*	-.028	.051	.027	.073
Council-Manager 97	.102*	-.022	.133*	-.060*	-.053	-.064*
Suburb 97	.092*			.041		
County 97	.012	.058	-.058	-.228*	-.162*	-.307*
Intercept	.098	.868	-.452	-1.864*	-4.380*	-1.219*

SOURCE: International City/County Management Association (1992, 1997); Bureau of the Census (1990, 1992, 1997).

* $p < .05$.

likely to pursue either. Given that market solutions help address diseconomies of scale in a fragmented political landscape, county governments may have the least to gain from these solutions because they already enjoy larger internal economies of scale. Similarly, larger metropolitan places are less

likely to engage in cooperation. They have the least to gain from economies of scale. By contrast, the largest core governments show higher levels of privatization.

Our state rules index provides an incentive for privatization among core governments in 1992, but its impact on cooperation is not significant.

1997 MODEL RESULTS

The 1997 models show that efficiency gains from market alternatives are still strong—governments that use higher levels of privatization and cooperation exhibit lower overall levels of government expenditure. Although lower expenditures were only significant for suburbs in 1992, by 1997, core municipalities also showed lower expenditures with higher levels of cooperation. Differences in expenditure by level of privatization were not significant for core governments. This may be due to higher costs of serving congested, inner-city markets. We expect profits to be higher for firms serving suburban governments, so private contracts to core cities may not offer significant savings. Our technical efficiency index is correlated with higher levels of privatization, for both core and suburban governments in 1997. A strong emphasis on technical efficiency—monitoring cost and service quality and competitive bidding—may be required to ensure that efficiency gains from privatization do not erode after the initial contract. Curiously, efficiency gains for cooperation appear to be secured without the extra managerial oversight found under privatization.

With respect to equity, cooperation becomes more income neutral by 1997. Although higher-poverty suburbs still cooperate more, no significant differences in cooperation level are found by income. Levels of privatization, by contrast, are still higher in higher-income places and significantly lower in municipalities with higher poverty. Interestingly, the wealthier core governments use more privatization, and the poorer suburbs use less.

The citizen voice index provides the most interesting change between 1992 and 1997. Voice is clearly higher in places with higher levels of cooperation, whether they are core or suburban. Privatization, by contrast, no longer shows responsiveness to citizen voice. Theoretically, one might expect stronger responsiveness to citizen voice under privatization. However, most privatized local government services do not involve vouchers given directly to a consumer citizen. Rather, they are contracts between government and private providers. Avenues for citizen voice in contract negotiation and oversight are limited. Opportunities for voice may be greatest in the initial contract negotiation stage. Prior contracts may be renewed without oversight by citizen advisory committees. Only 13% of governments reported keeping the complaint

mechanism in house. Cooperative forms of service provision, by contrast, keep the service in the public sector and thus may maintain more regular lines of citizen involvement and accountability.

The opposition index also shows that intermunicipal cooperation is responsive to internal opposition but privatization is not. Internal government managers and employees play a critical role in ensuring quality service delivery (U.S. Department of Labor 1996). By keeping the conversation public, cooperation is more responsive to both citizen voice and internal opposition. Although internal opposition led to lower privatization among core places in 1992, there was no effect in 1997. This suggests labor opposition is not a factor explaining lower privatization levels.

An interesting shift occurs in the control variables as well. Although professional council-manager governments were more likely to pursue privatization in 1992, managers were less likely to pursue privatization in 1997 and more likely to pursue cooperation. Similarly, our state rules index was associated with higher levels of privatization in 1992, but not in 1997. In the later data, it was associated with increases in cooperation. Why the switch? Government officials are aware of the need to balance efficiency, equity, and democracy. Although privatization offers efficiency benefits, cooperation is more responsive to equity concerns, citizen voice, and internal opposition. The tension created by these concerns may provide additional pressure to ensure that efficiency gains are maintained. These results support the service orientation of government bureaucrats (DiIulio 1994; Moon and deLeon 2001) and suggest an alternative to the budget-maximizing view of government bureaucratic behavior (Niskanen 1971).

Although market forms of service delivery may increase efficiency, equity, and voice, only cooperation delivers on all three. Private markets may sacrifice both equity and voice to efficiency—a bargain professional municipal managers prefer not to make. Governments pursuing public markets are more able to maximize all three goals.

Whereas richer suburban governments showed higher levels of cooperation in 1992, by 1997, there were no significant differences by income level. The income-neutral effects of cooperation, in contrast to privatization's bias toward higher-income and lower-poverty places, suggests cooperation is less likely to exacerbate inequities in the metropolitan landscape.

MARKETS DO NOT BUILD COMMUNITY

Can service delivery restructuring via public or private markets provide an alternative means of addressing the problems of regional service delivery?

This article has demonstrated both theoretically and empirically that market solutions, whether public or private, can address efficiency. But efficiency is not the only goal.

Frug (1998, 1999) challenges the very notion that cities should be conceived of merely as service delivery units. The ability of city governments to bring together the vast heterogeneity that comprises urban life is what builds community. To do this, equity and voice are crucial. Public choice theorists contend that fragmentation and the exit option allow consumer citizens to exercise choice and freedom (Savas 2000). Under political fragmentation, service boundaries more closely correspond to the diverse preferences in the metropolitan landscape and thus can build community (Briffault 2000). Frug's (1999) call for community building offers an important alternative to the public choice basis for service delivery restructuring. He argues that the freedom to stay and exercise voice should be part of a heterogeneous, democratic community.

Under privatization, governments give priority to efficiency concerns and diminish their attention to voice. However, consumer citizens do not act as though efficiency is the only currency running through their markets. Preferences based on race, income, and other factors that undermine diversity also have strong currency. For providers in private markets, profit considerations can outweigh social values. Thus, privatization may provide an avenue to increase efficiency, but the limitations of markets prevent it from adequately addressing the full range of community and regional needs.

For metropolitan areas, the market structure created by a high density of local governments and political fragmentation should favor higher levels of cooperation than are presently shown. In public markets, competition can undermine the potential for cross-jurisdictional collective welfare. Local autonomy supports the uniqueness and diversity of community, but it also can contribute to segregation, which limits intraregional equity. Indeed, the 1992 model shows a preference for cooperation among higher-income communities. However, by 1997, cooperation becomes income neutral in its impact, suggesting it may provide a mechanism to ameliorate intraregional inequity.

We, however, caution against overreliance on markets to address regional service delivery and governance. Markets are politically attractive because they support localism, which is the preferred political option (Briffault 2000), and both localism and markets are equated with choice and freedom. But consumer voice and citizen voice are not the same. Market solutions rest on the logic of individual community self-interest, and this constrains their ability to address the broader collective well-being of the region. Consumers are price takers in the marketplace, but citizens, through their governments, need to *create* the choices that build community.

To address the community-building challenges laid out by Frug (1999), we must elaborate new theories of local government that give attention not only to efficiency, equity, and democracy but also to community. Markets cannot address the divisions that now fracture American society. City governments provide a space for public deliberation and day-to-day personal contact via public service provision, which helps bridge the divides that characterize urban life (Potapchuck, Crocker, and Schechter 1998). Debate about the nature and terms of service provision as well as the actual delivery of public services are important ways in which local governments play this role. Local government provides an important source of stability, equity, and voice. Concerns with democracy, community, and equity should not be smothered by a singular focus on efficiency.

NOTES

1. The Office of Management and Budget defines core cities based on size, whether they have 40% of their residents working in the central city of the metropolitan statistical area, and have employment residence ratios of at least 0.75. All other cities are classified as outlying-suburban (U.S. Bureau of the Census 1999).

2. ANOVA analysis shows no significant differences between groups by income, poverty, or population.

3. The dependent variable, level of cooperation or privatization, is a proportion of total service provision. In a simple linear regression, a proportion variable loses the full range of distribution. The probit model transforms the proportion as the area below the standard normal distribution curve and gives it the relative Z value. The probit transformation responds in a more sensitive way to this distribution. The maximum likelihood technique is used to fit the best coefficients to the model (Norusis 1994).

4. This index and the other indexes used in this article were created by summing positive responses to component questions and dividing by the total number of questions in the index.

$$\frac{1}{N} \sum_{i=1}^n f_i,$$

where $f = 1$ if checked yes to a question and 0 if not, and $i = 1, 2, \dots$, questions.

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