
Rural–urban differences in privatization: limits to the competitive state

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Abstract. Despite two decades of experience with privatization, US local government use of contracting in public service delivery remains relatively flat. Market approaches to public goods provision emphasize the competitive state, and attribute limited degree of privatization to bureaucratic resistance. Rural development theory emphasizes the uneven impact of market solutions in rural communities. Using national data on US local government service delivery from 1992 and 1997, we analyze differences in local government service-delivery patterns by metropolitan status. Discriminant analysis suggested that structural features of markets are more important than the managerial capacity of government leaders in explaining lower rates of privatization among rural governments. These structural constraints limit the applicability of competitive approaches to local government service delivery. Our results suggest that cooperation, as an alternative to privatization at the local level and as a source of redistributive aid at the state level, may provide a more equitable alternative for disadvantaged rural communities.

Introduction

Decentralization from state to local levels of responsibility, and privatization from government to market forms of service provision, are governance trends which emphasize competition and development over redistribution (Bennett, 1990). For local governments in rural areas, these trends represent an important shift in policy. Traditionally, US rural development policy has focused on the uneven impact of market forces on rural communities and the need for governmental intervention to overcome lagging technology, lack of information, inadequate physical infrastructure, and limits on human capital (Edwards, 1981; Hansen et al, 1990). However, large-scale infrastructure investment programs (such as the Appalachian Regional Commission) are no longer part of the US national policy framework. Instead, rural development policy now focuses less on redistribution (which is viewed as promoting dependency), and more on promoting competitive self-development (Warner, 2003). Increased reliance on the private sector is reflected in national rural development policies, such as the Empowerment Zone/Enterprise Community program and the New Markets Initiative (Reid, 1999).

Increased reliance on market mechanisms also is found in the provision of basic local government services. Local governments are encouraged to be entrepreneurial and use contracting out—to private for-profit firms, to nonprofit organizations, or to other governments—as an alternative to direct public service provision. These contracts create a quasi-market in which government maintains responsibility for funding but contracts with another party for actual service delivery. However, despite growing public support for market approaches, the level of privatization among local governments in the USA has been relatively flat. From 1982 to 1997 US local government contracting to for-profit firms and nonprofits organizations increased only slightly, from 22% to 24% (Warner and Hefetz, 2001).

These new market-oriented policy approaches assume that local government behavior is primarily constrained by management choices, not by broader structural features. Public choice advocates typically argue that limited use of market-based

service delivery primarily reflects governmental reluctance to give up bureaucratic power (Eggers and O'Leary, 1995; Savas, 2000). An alternative explanation suggests that managerial capacity has only a limited effect: low privatization is primarily a result of problems in market structure (Lowery, 1998). Recent urban scholarship emphasizes an interplay of agency and structure—reflecting the effects of social, spatial, and temporal processes on city government (Giddens, 1984; Harvey, 1997). Rural governments represent the lowest rung on the government hierarchy and are the most constrained by environment, history, and social processes (Cloke and Little, 1990). Expansion of competitive market logic into public management requires governments to have some ability to structure market choices—not merely to respond to them (Jessop, 1997, Lorraine and Stoker, 1997). To what extent do differences in rural patterns of privatization reflect market structure or local managerial choice?

Comparative analysis of privatization experience among industrialized nations emphasizes the importance of institutional arrangements, political culture, and power balances in explaining differences in the paths taken in different countries (Boyne, 1998; Hodge, 2000; Lorraine and Stoker, 1997). Some attention has been given to these new public–private arrangements among local governments and their implications for rural governance (Goodwin, 1998; Marsden and Murdoch, 1998). However, there has been little comparative analysis of rural–urban differences in privatization. We present a discriminant analysis of local government service-delivery patterns by metropolitan status. Our national survey data include measures both of managerial and of structural factors. We assess the relative importance of structural factors—community well-being, governmental dependency, scale, and expenditure—and the attitudes and capacity of government managers. These results may help explain why privatization trends have been relatively flat, and may suggest limits to the applicability of market mechanisms for public goods provision in rural communities.

Literature review

New theoretical conceptions of the competitive state (Jessop, 1997) combine an interest in competition with a concern about the importance of market structure and the need for redistribution. With devolution and increased emphasis on the role of markets, support for redistributive funds for disadvantaged communities is declining (Brenner, 1999). To assess differences in service-delivery restructuring patterns of local governments, attention must be given to the managerial capacity and interests of local government officials, the structure of public service markets, and the role of state policy.

Theoretical support for an increased market role in public goods provision is found in public choice theory, which articulates the interests of rational self-interested consumers/voters (Tiebout, 1956) with power-maximizing government bureaucrats (Niskanen, 1971). The lower than expected levels of contracting out have been attributed to managerial problems associated with government failure, not structural problems associated with market failure (Savas, 2000). Public choice scholars and privatization proponents argue that, even where citizens prefer less government and more privatization, their voice can be overshadowed by opposition within government (Eggers and O'Leary, 1995). Principal agent problems (Miranda, 1994), budget-maximizing bureaucrats (Niskanen, 1971), and labor opposition (McGuire et al, 1987) create pressures to keep service delivery public. Following this logic, we hypothesize that both external and internal opposition to privatization will be lower among rural governments. Unionization is less common than in cities and, as part-time politicians, rural elected officials should be less interested in maximizing budgets and more interested in delivering government contracts to local businesses. Many basic services such as garbage

collection, water, and sewerage are not publicly provided in US rural communities. Sparse population limits the externalities (such as negative public health impacts) which require these services to be provided publicly in more congested urban areas. Given the limited scope of service delivery in rural communities, citizen attitudes should be more favorable toward privatization.

Managerial capacity is important: contracting requires care in the specification of terms, to ensure that the full range of public benefits of service delivery are maintained (Nelson, 1997; Sclar, 2000; Starr, 1987), and vigilant monitoring to ensure high quality, cost-efficient, service delivery (Pack, 1989; Prager, 1994). The part-time nature of many rural local government positions suggests that such managerial capacity would be lower in rural areas (Cigler, 1993). Thus, although limited managerial capacity may encourage contracting out, lack of expertise may discourage new contracting of services traditionally provided in-house. The overall effect of managerial capacity on the contracting behavior of rural governments is unclear. In the cases of suburban and urban governments, especially those with professional management, we might expect more willingness to explore new forms of service delivery, but also more opposition—especially from organized labor (Chandler and Feuille, 1994).

Competition can increase efficiency in service provision if private providers are more efficient than public sector monopolies (Eggers and O’Leary, 1995; Savas, 2000). Case studies have produced mixed evidence: some show gains with privatization (Savas, 2000), whereas others show increased costs and decreased service quality (Sclar, 2000). A meta-analysis of quantitative studies shows that efficiency gains from privatization are rarely significant (Boyne, 1998). Although fiscal pressures may motivate local government restructuring (Ferris, 1986; Stein, 1990), privatization may not reduce expenditures. Privatization reflects political agendas and changes in economic organization (Lorraine and Stoker, 1997). Thus, although we might expect fiscal stress to motivate contracting out, there may not be a strong association between the level of contracting and the level of expenditure.

Public choice theory focuses primarily on agency—the role of government and citizen consumers—but rural development theory has given more attention to structure. Early efforts to use public choice theory to understand rural development have not generated a strong following (Russell and Nicholson, 1979). Structurally, rural communities may have less scope for privatization because of their lower levels of public service provision. The costs of serving a sparse population, where unit costs are higher (Reeder and Jansen, 1995), may discourage the formation of a competitive market of alternative providers. Lowery (1998) has identified lack of competition as a form of market failure, and this problem has been found both in inner city (Hirsch, 1995) and in rural (Kodrzycki, 1994) contexts. In contrast, fiscal stress may motivate privatization, and heavy reliance on local property taxes to fund rural services in the USA should encourage rural governments to let contracts to local private providers whenever possible.

What are the limits to competition in rural government service delivery? Private investment seeks those areas offering the greatest profit, and the higher poverty and lower income levels of rural communities may make them less attractive to private providers. Historically US national policy has focused on infrastructure investment to make rural areas more attractive for private investment (Hansen et al, 1990; Weinstein et al, 1985), and state governments have recognized the greater dependence on inter-governmental aid in rural areas (Fox and Reid, 1987; Reeder, 1989; Stein and Hamm, 1987). However, current decentralization policies encourage competition among states, which may undermine their support for disadvantaged rural communities (Henry and Lewis, 2001; Warner, 2001).

Because private providers are likely to find sparse rural markets less attractive, we might expect to see relatively higher rates of intergovernmental contracting. This cooperative form of contracting shows that efficiency gains can be secured in the public sector—making cooperation a viable alternative to privatization (Morgan and Hirlinger, 1991). However, the low density of local governments with which to contract in rural areas would seem to limit cooperation among governments. The density of specialized nonprofit agencies would also be expected to be lower in rural areas. Limited scope for contracting to for-profit firms, nonprofit organizations, and other local governments may require rural communities to rely more on direct public provision, resulting in lower levels of service restructuring overall.

How local governments mix the available alternatives—direct public provision, privatization to for-profit and nonprofit providers, and intermunicipal cooperation—reflects the structure of the local service market and the preferences of internal government actors, citizens, and alternative providers. Whereas some scholars argue that increasing dependence on the market for provision of public goods implies a shrinking role for government (Bennett, 1990; Savas, 2000), others argue that it creates a new dimension for government action—in structuring the market of service providers (Blanchard et al, 1998; Osborne and Gaebler, 1992; Warner and Hefetz, 2001; Warner et al, 2003). If rural local governments are to be competitive and entrepreneurial, then we need to understand the relative importance of managerial and market constraints and the implications for state policy.

Data and restructuring trends

The data for this study were drawn from surveys conducted by the International City/County Management Association (ICMA) for the years 1992 and 1997. The ICMA surveys are conducted every five years and cover all counties with a population of over 25 000 and cities with a population over 10 000. In addition, a sample is drawn from one in eight cities and counties with populations between 2500 and 9999, and from those with populations under 2500 (total sample frame in 1997: 4952). Roughly one third of all governments contacted respond (31% for 1992 and 32% for 1997). Cities (which include villages, towns, and townships) vastly outnumber counties, but counties are more heavily represented among the rural respondents.

Of the roughly 1400 responding governments in any given year, just under 400 are nonmetropolitan. Only 43% of respondents answered in both survey years, but χ^2 tests showed the two surveys to be similar by metro status ($\chi^2 = 5.11$; asymptotic significance = 0.164; df = 3). We use a repeated cross-section analysis to preserve sample size. The ICMA surveys measure direct public provision and six alternative forms of service delivery (for-profit firms, nonprofit organizations, intermunicipal cooperation, franchises, subsidies, and volunteers) for sixty-four 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. The surveys also measure government managers' responses to a range of managerial and structural factors believed to be motivators of or obstacles to alternative service delivery. We supplement these factors with socioeconomic and government expenditure data drawn from the *City/County Data Book* (Regional Economic Information System, 1994), based on the Census of Population and Housing 1990, and *Census of Government* (US Bureau of the Census, 1992; 1997).

Despite all the attention given to restructuring, the ICMA data suggest that public employees remain the dominant providers of services in all areas except for public works, health and human services, and culture and arts (Morley, 1999; Warner and Hefetz, 2001). Private and nonprofit providers have always dominated in health and human services

and culture and arts—a reflection of the evolution of the US social welfare state from nonprofit providers. The drop in public provision has occurred primarily in public works and support functions, where technology and capital investment yield important economies of scale from privatization.

Provision exclusively through public employees is the most common form of service delivery across all governments, and privatization to for-profit firms is the most common alternative, closely followed by intermunicipal cooperation. Privatization to nonprofit organizations is the least common.

The model and descriptive statistics

We performed a discriminant analysis of the ICMA data for 1992 and 1997 to determine differences by metro status in patterns of service delivery; structural factors, such as community well-being and governmental dependence; and managerial issues facing government officials.

We differentiate governments by metro status according to the following criteria. First, we use the rural–urban continuum codes developed by the US Department of Agriculture (1993) to distinguish counties by metropolitan and nonmetropolitan status. Nonmetropolitan counties are further differentiated as adjacent or non-adjacent to a metropolitan county. All municipalities in nonmetropolitan counties are coded according to the metropolitan-adjacency status of their county. For municipalities within metropolitan counties, we differentiate core metropolitan municipalities from outlying suburban municipalities by means of Office of Management and Budget criteria (US Bureau of the Census, 1999). Core cities have 40% of their residents working in the central city of the Metropolitan Statistical Area and employment: residence ratios of at least 0.75. All other metropolitan cities are classified as outlying—suburban.

The service-delivery pattern of local governments was assessed along with differences in managerial and structural factors that may be important in the restructuring decision. Differences in subgroup means for metro core, rural, and suburban governments were compared for both years. Table 1 (see over) shows these subgroup means and their Duncan multiple-range rankings.⁽¹⁾

Service-delivery pattern

Provision entirely by public employees, and the three primary alternatives—intermunicipal cooperation, and privatization to for-profit or nonprofit providers—are measured. All of these variables are controlled for provision level to create a percentage of services provided by each form of delivery.

Direct public provision is used in more than half of all services by all governments, though its use fell from 1992 to 1997. Although rural and metro-core municipalities have the highest reliance on public provision, by 1997 the difference was not statistically different from the suburbs. Suburbs exhibited the highest levels of use of for-profit firms in both periods. Although levels of privatization of service provision increased for all groups between 1992 and 1997, rural municipalities continued to exhibit significantly lower levels than their metro-core and suburban counterparts. Intermunicipal cooperation also is favored by suburbs, but use of cooperation fell between 1992 and 1997 as use of private firms rose. Cooperation fell the least among rural communities, which use it in place of privatization; suburbs, by contrast, appear to use cooperation as a stepping stone toward privatization. Privatization to nonprofits

⁽¹⁾ The Duncan multiple-range method tests the hypothesis that one subgroup mean is significantly larger than that of another subgroup. Group means are clustered and ranked based on a 0.05 significance level.

Table 1. Subgroup means with Duncan rankings—US cities and counties (* = lowest; *** = highest, based on $\alpha = 0.05$).

Variable	Survey 1992			Survey 1997		
	rural	suburb	metro	rural	suburb	metro
<i>Service-delivery pattern^a</i>						
Percentage entirely public	63**	56***	62**	60***	57***	59***
Percentage private for-profit	12***	16**	14***	16***	20**	18**
Percentage cooperation	16**	20**	15***	15**	16**	12***
Percentage private nonprofit	5***	4***	6**	5**	4***	6*
<i>Management^a</i>						
Opposition index	0.13***	0.17**	0.24*	0.16***	0.17***	0.26**
Council manager (1 = manager, 0 = not)	0.53***	0.67**	0.67**	0.46***	0.68**	0.65**
Government attitude index	0.53***	0.67**	0.80*	0.52***	0.62**	0.85*
Monitoring index	0.24***	0.38**	0.41**	0.23***	0.37**	0.46*
<i>Structural</i>						
Per capita income (\$), 1989 ^b	11 228**	17 548*	13 880**	11 256***	17 299*	13 776**
Percentage poverty, 1989 ^b	17.3*	7.8***	14.4**	17.4*	7.6***	14.4**
Provision level (number of services provided) ^a	41***	41***	45**	33***	33***	40**
Percentage labor force in public administration, 1989 (civilian) ^b	4.8**	4.2***	4.9**	5.0**	4.3***	5.0**
State aid (\$ per capita) ^d 1992 = 100 ^c	0.19**	0.13***	0.18**	0.18**	0.15***	0.20**
State-rules index ^a	0.20***	0.25**	0.31*	0.15***	0.18***	0.26**
Local government expenditure (\$ per capita) ^d 1992 = 100 ^c	0.95**	0.81***	0.98**	0.80***/**	0.75***	0.85**
<i>N</i>	358	750	306	390	714	303

Note. *F*-test found all variables significantly different ($P < 0.05$) by metro status, except for 'Percentage entirely public' 1997.

^a Data source: ICMA (1992; 1997)

^b Data source: Regional Economic Information System (1994).

^c Data source: US Bureau of the Census (1992; 1997).

^d Data source: *Economic Report of the President* (1998).

represents an alternative to intergovernmental contracting and to privatization to for-profit contractors. Metropolitan-core authorities use nonprofit contractors the most (reflecting greater specialization). Rural governments are next, using nonprofit suppliers for roughly 5% of services.

Managerial factors

Opposition index

The opposition index was constructed from five ICMA survey questions that ask managers to identify factors important in their decision to restructure. Answers to five questions are combined to form the opposition index: internal opposition from employees, department heads and elected officials, restrictive labor agreements; and external opposition from citizens.⁽²⁾ Opposition was highest for metro-core municipalities and lowest for rural areas, as predicted. Overall, the percentage of governments reporting opposition rose between 1992 and 1997.

⁽²⁾ This index and the other indices used in this paper were created by summing positive responses to component questions and dividing by the total number of questions in the index for each place. $\sum f_i/N$, where $f = 1$ if checked yes to question and 0 if not, and $i = 1, \dots, N$ for questions.

Managerial capacity

Three variables were used to measure this concept. One measures professional capacity—whether there is a council–manager form of government. Roughly two thirds of metro and suburban governments have professional management, whereas only half of the rural municipalities have professional management. The second variable is an index of government attitudes based on two ICMA survey questions: has the government studied the feasibility of alternative service delivery, and is it motivated to decrease costs. This index shows a clear metro–suburban–rural gradient, with rural managers reporting the lowest level of activity. The third measure is of governmental ability to monitor contracts. A monitoring index is constructed from three questions on the ICMA survey asking if the government monitors costs, service quality, and citizen satisfaction. This variable also shows a strong metro–rural gradient.

Metro-core and suburban governments are more likely to have professional managers, to study the feasibility of alternatives, and to monitor contracts. The more formal management processes and higher levels of internal opposition among larger, metro and suburban, governments may create greater rigidities in service production, but they also increase the likelihood of costs and delivery standards being monitored—factors critical to assessing the efficiency of alternative delivery options. Although opposition to privatization is lowest among rural governments, their capacity to address the challenges of contracting is also below that of their metro or suburban counterparts.

Structural variables

Community well-being

Drawing data from the *City/County Data Book* (Regional Economic Information System, 1994) we include percentage poverty and per capita income (based on Census of Population and Housing, 1990) as measures of community well-being. We expect for-profit privatization to be higher in places with higher incomes and lower poverty. We see from table 1 that the suburbs have the highest incomes and lowest poverty. Rural municipalities, by contrast, have the lowest levels of per capita income (64% of suburban income) and the highest levels of poverty. Metro-core communities are in the middle, both in income and in poverty terms. These differences are statistically significant.

Size and scale

There is less scope for privatization when governments provide fewer services. In our discriminant model we control for each government's level of service provision. Metro communities have the highest level of service provision; suburbs and rural communities have similar, lower, levels. The number of services provided dropped significantly for all three groups between 1992 and 1997, as governments shed services altogether. This service shedding should not be construed as privatization, and this analysis includes only services for which governmental responsibility was maintained.

Governmental dependency and fiscal status

Places with higher levels of government dependency may be expected to show lower levels of service-delivery restructuring. Rural economies remain relatively dependent on governmental employment (Singleman and Deseran, 1993). To capture the importance of public sector employment, we include percentage of county employment in public administration from the *City/County Data Book*. This includes federal (nonmilitary), state, and local government employees, and is drawn from the Bureau of Labor Statistics and based on establishment data. We also include the level of state aid per capita from the Census of Governments (US Bureau of the Census, 1992; 1997). State aid comprises the overwhelming majority of all intergovernmental aid to localities and can improve the fiscal capacity of low-income, high-poverty, rural governments. Metro and rural governments received

significantly more state aid than did suburbs in both years. Such aid may offset the higher costs resulting from congestion in urban areas and sparse population in rural areas. However, after accounting for inflation,⁽³⁾ real levels of aid to rural governments dropped between 1992 and 1997, whereas aid to suburbs and metro areas increased. We also created a state-rules index based on local government managers' attitudes about the impact of state limits on taxation and state rules encouraging intergovernmental financing on their restructuring decisions. A lower percentage of rural governments reported state rules to be a factor in their decision to restructure.

Fiscal pressure is often cited as leading to service-delivery restructuring (Ferris, 1986; Stein, 1990). To differentiate between attitudes and actual expenditures, we include total local government expenditure per capita from the Census of Governments (US Bureau of the Census, 1992; 1997). Real expenditures fell for all governments between 1992 and 1997. As expected, expenditures were highest among metro and rural governments and lowest in the suburbs. Higher governmental dependence (in employment, aid, and expenditures) among rural and metro governments may be associated with lower levels of privatization despite the motivation supplied by fiscal stress.

Discriminant analysis and results

We used discriminant analysis to differentiate between rural, metro-core, and suburban governments by service-delivery patterns, and managerial and structural variables. We did not include population and spatial characteristics as these are already captured in metro status. Discriminant analysis determines which variables discriminate maximally among fixed categories (metro status, in our case). The analysis produces functions which are analogous to regression equations, except that only the predictor variables are random.⁽⁴⁾

The discriminant analysis supports our expectation that local government restructuring behavior by metro status may be differentiated both by managerial and by structural factors (see table 2). The first function captures the structural variables and shows a strong correlation between socioeconomic well-being, governmental dependence, and the level of privatization. In the 1992 model this dimension includes high governmental expenditures and high levels of state aid—a reflection of the fiscal stress which rural and metro governments faced at that time. Privatization is associated with higher levels of welfare, whereas poorer places rely more on public provision and show higher expenditures and state aid. In the 1997 model, expenditure and state aid no longer differentiate governments in this function, but economic dependence on governmental employment appears. Most of the variance can be attributed to this function in each model year (86% in 1992, and 83% in 1997). This confirms that structural factors are more important than managerial factors in explaining differing levels of privatization by metro status.

The second function captures the variables that address management capacity. High interest in cost savings and monitoring is correlated with high levels of opposition, high levels of service provision, greater use of nonprofit contractors, more professional management, and more influence from state rules regarding tax limits and intergovernmental financing. This function explains 14% of the variance between the three groups in 1992 and 17% in 1997.

⁽³⁾ State aid and local government expenditures in 1997 are deflated using the GDP Implicit Price Deflator for state and local government expenditures (*Economic Report of the President* 1998, table B7). 1992 = 100 as the base year; the inflation index for 1997 is 117.

⁽⁴⁾ Logistic regression is not appropriate in this case because regression requires the dependent variable to be random and our dependent variable, metro status, is a fixed category.

Table 2. Discriminant function structure, US cities and counties, 1992 and 1997

	1992		1997	
	function 1 structural factors	function 2 managerial factors	function 1 structural factors	function 2 managerial factors
Percentage poverty, 1989	0.871*	-0.044	0.872*	-0.070
Per capita income, 1989	-0.654*	0.196	-0.641*	0.202
Percentage entirely public	0.250*	0.029	0.065*	-0.017
Percentage private for-profit organizations	-0.248*	0.017	-0.140*	0.097
State aid, per capita	0.173*	0.047	0.128	0.158*
Local government expenditure per capita	0.156*	0.154	0.078	0.127*
Government attitude index	-0.083	0.693*	-0.004	0.769*
Opposition index	-0.004	0.544*	0.056	0.450*
Monitoring index	-0.148	0.458*	-0.112	0.541*
Service-provision level	0.081	0.453*	0.070	0.571*
State rules index	-0.040	0.403*	0.016	0.413*
Percentage private nonprofit organizations	0.081	0.334*	0.162	0.282*
Council manager	-0.136	0.272*	-0.223	0.327*
Percentage cooperation	-0.192	-0.223*	-0.058	-0.212*
Percentage in public administration, 1989	0.150	0.152*	0.157*	0.071
Percentage variance explained	86.1	13.9	83.4	16.6

* Largest absolute correlation between each variable and any discriminant function.

From the functions, a score can be calculated for each case and plotted on a scale to show the relative position of governments on each function. We plot the centroid values for each group on each function for each year of analysis. The plots of function 1 show that privatization of service delivery is correlated with high income and low poverty, and that suburbs rank highest on this end of the scale (see figure 1, over). At the other end of the scale we find rural areas with high poverty, low income, and low levels of privatization. Metro-core governments lie on the same end of the scale, though not as far out as rural governments. Privatization is clearly associated with higher income suburbs, whereas direct public provision is associated with lower income metro and rural governments. Structurally, suburbs are favored in the market for public goods: their medium density, higher incomes, and competitive markets make them good candidates for attracting outside providers.

On the second function, core-metro governments rank highest on opposition and monitoring, suburbs are in the middle, and rural governments are lowest; but the reliance of rural governments on intermunicipal cooperation is highest. Suburbs use both nonprofit providers and intergovernmental cooperation. It is surprising that metro-core governments, which are in a dense intergovernmental market, do not cooperate more. This may be explained by the larger internal economies of scale among metro governments. It is also possible that it may not be in the self-interest of richer suburbs to cooperate with their poorer rural or metro-core neighbors. What clearly sets the rural governments apart is a heavy reliance on intermunicipal cooperation. Despite the lower density of governments with which to interact, intermunicipal cooperation is of critical importance for rural governments, which appear to have less access to private for-profit contractors—an indication of market failure.

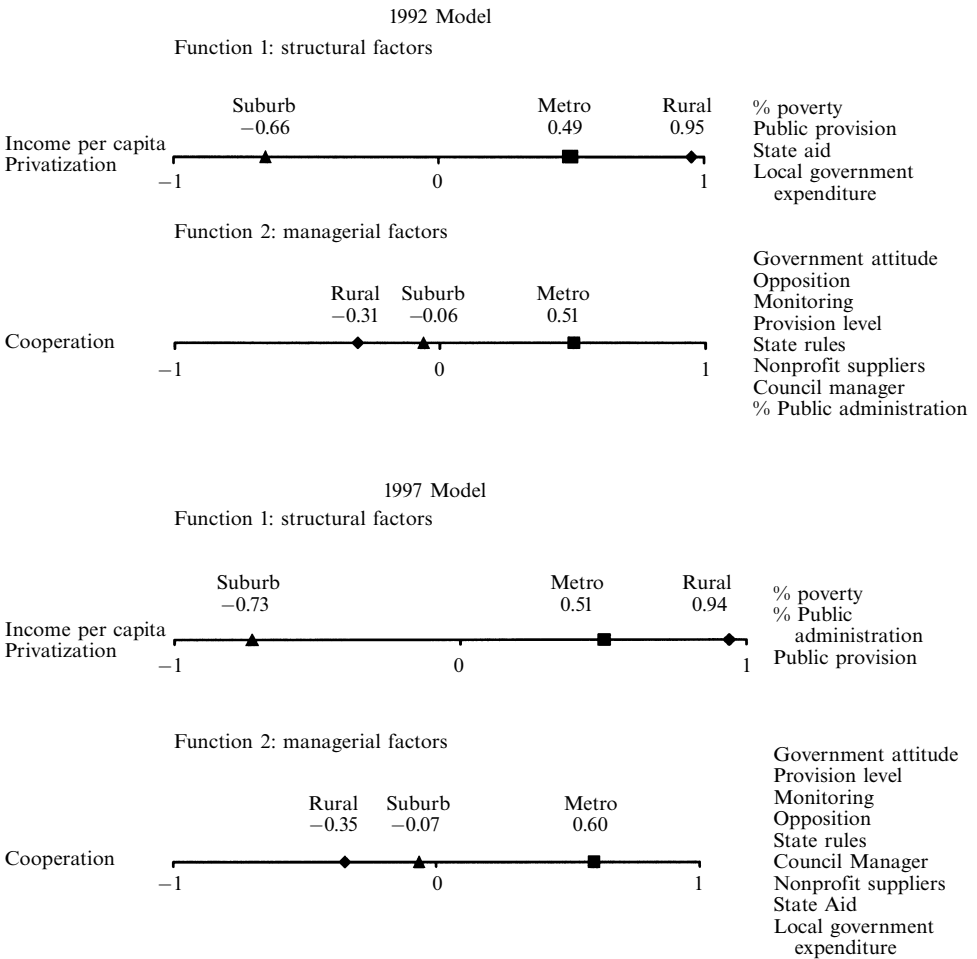


Figure 1. Group centroids by metro status, 1992 and 1997.

These results suggest that managerial choice and capacity are of lesser importance. Metro-core governments face higher levels of opposition, but they also exhibit higher levels of monitoring so their lower levels of privatization could be a result of professional management to ensure gains from contracted services. Rural governments have lower managerial capacity, but report less opposition to restructuring. Suburbs are in the middle, enjoying reasonable managerial capacity with which to address restructuring and facing minimal opposition.

The discriminant models accurately classify 58% of rural and metro-core governments and 74% of suburban governments based on these restructuring patterns and factors. For those places incorrectly classified, rural governments are more likely to be confused with metro-core governments—not suburban ones.

Understanding differences among rural governments

In a competitive local government world, the most marginal governments would be the small rural places not adjacent to metro areas. Such nonadjacent rural governments lack the opportunity for service substitution (there are no nearby adjacent metro services) and may have less political voice to secure their interests in policy debates. To understand differences among rural governments better, we ran a discriminant analysis of rural governments by metropolitan adjacency.

Table 3. Rural subgroup means by metropolitan adjacency; US nonmetropolitan cities and counties.

Variable	1992		1997	
	nonadjacent	adjacent	nonadjacent	adjacent
<i>Service-delivery pattern^a</i>				
Percentage entirely public	64	63	59	61
Percentage private for-profit	12	12	15	16
Percentage cooperation	16	17	17**	13**
Percentage private nonprofit	4	5	4*	5*
<i>Management^a</i>				
Opposition index	0.13	0.12	0.12**	0.18**
Council manager (1 = manager, 0 = not)	0.58*	0.49*	0.49	0.46
Government attitude index	0.52	0.53	0.48**	0.57**
Monitoring index	0.24	0.23	0.21*	0.27*
<i>Structural</i>				
Per capita income (\$), 1989 ^b	11 269	11 180	11 084	11 392
Percentage poverty, 1989 ^b	17	17	18	17
Provision level (number of services provided) ^a	40*	42*	33	32
Percentage labor force in public administration, 1989 (civilian) ^b	5	5	5	5
State aid (\$ per capita) ^d 1992 = 100 ^c	0.19	0.18	0.15**	0.20**
State-rules index ^a	0.21	0.17	0.15	0.15
Local government expenditure (\$ per capita) ^d 1992 = 100 ^c	0.93	1.00	0.75*	0.85*
<i>N</i>	192	166	185	205

* Significantly different at $p < 0.1$, ** significantly different at $p < 0.05$.
^aData source: ICMA (1992; 1997)
^bData source: Regional Economic Information System (1994).
^cData source: US Bureau of the Census (1992; 1997).
^dData source: *Economic Report of the President* (1998).

A comparison of means by adjacency for all variables is shown in table 3. All rural governments increased their use of private for-profit markets between 1992 and 1997. However, much like the suburbs, metro-adjacent places shifted from cooperation to privatization from 1992 to 1997. Nonadjacent rural governments, by contrast, maintained a higher relative use of cooperation. Opposition to restructuring rose (with the rise in privatization) in metro-adjacent areas in 1997. Expenditures for both groups fell between 1992 and 1997, but fell more for nonadjacent places. State aid was equal in 1992, but by 1997 was 25% higher for metro-adjacent governments than their nonadjacent counterparts, for whom state aid fell in real terms. These shifts in state aid may reflect declining support for redistribution and increased emphasis on competitive growth promotion. Metro-adjacent rural places are experiencing rising infrastructure needs as a result of urban in-migration (Brown et al, 1997) and suburban sprawl (Altschuler et al, 1999), but they also have greater opportunities for service substitution with the adjacent metro services.

We use a stepwise method for this secondary discriminant analysis to capture which of these significant differences between metro-adjacent and nonadjacent rural governments are important. Summary results of this discriminant analysis show that

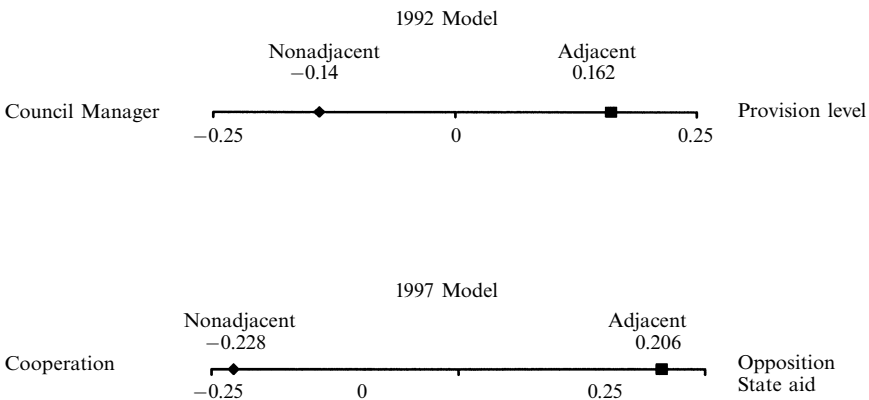


Figure 2. Rural group centroids by metro adjacency, 1992 and 1997.

the centroid distance between metro-adjacent and nonadjacent rural governments widened from 1992 to 1997 (see figure 2). In 1992 the differences were minimal, determined primarily by the higher incidence of the council-manager form of government in nonadjacent rural areas and the higher level of service provision among metro-adjacent governments. In 1997, however, the nonadjacent governments showed a higher dependence on cooperation. Metro-adjacent areas had higher levels of opposition (possibly in response to increases in privatization) and higher state aid. Private for-profit markets appear to be less accessible to nonadjacent governments which, faced with the need to restructure, strengthen their reliance on intergovernmental cooperation. As state aid declines in a marketized public sector, nonadjacent rural places may be left behind.

Discussion

These results raise important questions about limits to the concept of competitive, market-oriented, government. Theoretically, we expect restructuring levels will be highest among wealthier suburban governments: they have the lowest level of structural (market) failure and managerial obstacles to restructuring. In fact, suburbs provided the primary test of Tiebout's (1956) original theory and have been the subject of most of the empirical research on the public choice model (Lowery, 2000; Ostrom, 2000; Parks and Oakerson, 1993; Schneider, 1989; Warner and Hefetz, 2002). Structural factors are the primary obstacles to rural government restructuring. Although managerial factors explain a small portion of the differences in metro restructuring, it is cooperative strategies which distinguish rural from urban local government restructuring patterns. These results confirm findings from other state and national studies (Hirsch, 1995; Johnson and Walzer, 1998; Kodrzycki, 1994).

There may be limits to the competition possibilities for rural governments. Nonadjacent rural governments may be disadvantaged by privatization of public service delivery because of the continuing need for a redistributive role of the state and the lack of access to competitive market alternatives. In an increasingly marketized environment for public services, local governments must play an active role in creating market choices (Warner and Hebdon, 2001). We see this in competitive bidding by urban governments (Martin, 1999), and in the heavier reliance on intermunicipal cooperation by nonadjacent rural governments which have less access to for-profit market alternatives. State aid is especially important in enabling poorer communities to compete in a competitive market for public services. Whereas state aid rose in real terms for metro, suburb, and metro-adjacent rural governments

between 1992 and 1997, it actually fell for nonadjacent rural governments. This further reduces the attractiveness of these areas to private suppliers. Faced with limitations in market choices and state aid, per capita expenditures of nonadjacent rural governments fell by 20% between 1992 and 1997. Per capita expenditures for suburbs, metro, and metro-adjacent rural governments also fell, but not by as much (see table 3).

Conclusion

All governments have increased their use of market alternatives, but the patterns differ significantly by metro status. In the market for public services, use of for-profit firms is clearly favored by suburbs. Metropolitan-core governments, with their greater degree of specialization, show the highest use of nonprofit organizations; but rural governments exhibit higher relative use of intermunicipal cooperation.

Markets create uneven landscapes, and our analysis shows clearly that structural features are most important in explaining these patterns. The lower income and higher poverty levels found in metro-core and rural communities are correlated with more heavy reliance on government provision, even when fiscal stress is relatively low. Managerial factors, although important, explain a smaller portion of the patterns. Although urban governments face greater opposition, they also have greater capacity to develop and manage contracts. Rural governments show lower levels of professional managerial capacity, but also have little opposition to restructuring.

In a world of competitive government, entrepreneurial municipalities must work to create market opportunities (Jessop, 1997). Restructuring is not a simple retreat from public engagement in service provision; rather, it creates interdependence between public, private, and nonprofit sectors (Rhodes, 1996). This is especially true for rural governments not adjacent to metro areas, for whom cooperative strategies assume greater importance because private alternatives are limited. Although nonadjacent rural governments lag behind their metro-core and suburban counterparts in contracting to for-profit organizations, the lower levels of privatization among rural governments are not primarily a reflection of lower management capacity. Nonadjacent rural governments show the highest relative reliance on intermunicipal cooperation—a form of public contracting which requires similar managerial skills to private contracting.

The push to explore market forms of public service delivery must be balanced by the need to ensure market access. Promotion of competition among local governments has its limits; a redistributive role at the regional or national level is needed to help marginal communities compete. Although the equalization of service provision across communities is no longer an explicit goal of US national rural development policy, some attention should be given to the structural constraints of markets which limit the ability of rural communities to compete. The emphasis on market forms of public service provision, coupled with an actual decline in state aid for nonadjacent rural governments, puts these rural governments at a double disadvantage. Cooperation provides an alternative: both horizontal cooperation at the local level where intermunicipal cooperation can substitute for privatization, and vertical cooperation at the national level where redistributive policy is needed to ensure market access for disadvantaged rural communities.

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