Re-municipalization of public services: trend or hype?

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Abstract

Re-municipalization is part of a broader set of reverse privatization reforms. We argue the term re-municipalization lacks conceptual clarity and often confuses municipal level reversals from national ones, new service delivery from reversals, and mixed market positions (such as corporatization) from full public control. This conceptual confusion makes measurement of re-municipalization difficult. While more case studies are being discovered, studies based on quantitative time series do not show re-municipalization as an increasing trend. Much case study based research argues re-municipalization is politically transformative, but quantitative research generally finds re-municipalization to be part of a pragmatic market management process, a position confirmed by the papers in this special issue.

Since the 1980s, the scholarship analysing the ongoing reform of public services has overwhelmingly focused on the shift of these services to the private sector, that is, on their privatization. Attention, above all, has been paid - in this by now vast body of literature - to the determinants (Clifton et al., 2006; Bel and Fageda, 2007, 2009, 2017; Hefetz et al. 2012), the varieties (Son and Zohlnhöfer, 2019; Wollmann and Marcou, 2010) and the consequences of privatization (Warner and Hefetz, 2002; Bel and Warner, 2008; Bel, Fageda and Warner, 2010; Clifton et al., 2010; Dijkgraaf and Gradus, 2013; Clifton et al., 2018). Methodologically speaking, the shift towards public service privatization has been studied from a multitude of perspectives, from case studies to econometric analysis, and
from within a broad range of disciplines, including Public Administration, Economics, Political Science, Public Policy and International Business.

Despite this overwhelming focus on privatization, a small group of scholars observed that the reform of public services in the direction of privatization was neither inevitable or lineal. Privatization is a challenge because local government markets may lack competitive alternative providers and contracts have large transaction costs (Girth et al. 2012; Bel, Fageda and Warner 2010; Dijkgraaf and Gradus 2007). Thus, in parallel to the literature on privatization, these scholars started to produce another body of work, which focused on the reform of public services away from privatization. This literature, like that on privatization, was also international, rigorous, and written from a similar range of disciplinary approaches.

This body of literature capturing the move away from the private sector was as diverse as the experiences of public service reform it observed around the world; scholars used old concepts, as well as new ones, to capture these developments. In most countries, privatization was understood as meaning the selling off of public assets to the private sector. Hence, working on the reversal of this process, scholars in Europe and Latin America pointed to cases of the renationalization of assets, whereby previously privatized state-owned assets were brought back into public ownership (Hall, Lobina and Terhost, 2013; UNCTAD, 2008).

In the United States, privatization was usually understood as contracting out, in part, due to the historically small state sector in that country. Here, scholars studied instances where
the government decided to reverse privatize and produce services in-house once more (Warner and Hebdon, 2001). These reversals were seen as a means to manage transaction costs of contract management and ensure public control over service quality (Hefetz and Warner, 2004; Hefetz and Warner, 2007). The market management nature of this “insourcing” shared similar motivations to private sector contract management, e.g. as a mechanism to ensure competition, retain control over quality, and internal knowledge of the production process (Warner and Hefetz, 2012). In short, reverse privatization is an integral part of pragmatic public management (Warner and Hefetz 2019; Warner and Aldag, this issue).

The first international conference looking at this reassertion of the role of the public in public service delivery was held in Singapore in 2006 (Ramesh, Arawal and Wu, 2008). This conference looked beyond the individual and service level to also consider changes in national level government policy, such as ending compulsory competitive tendering in the UK in 1998 and the effort to rebuild local government capacity in New Zealand under Helen Clark in 2002 (Warner 2008). By the 2010s, the shift of public services away from the private sector and back into public ownership and management at the local (municipal) level had been labelled “re-municipalization” by civil society groups such as the Transnational Institute and the Public Service International Research Group (Hall, Lobina and Terhost 2013; Pigeon, et al., 2012). Renationalization, insourcing and re-municipalization, are all important sub-strands of reform which move public services back from the private sector toward more public control. These terms have been well captured overall as being a sub-set of “reverse privatization” reform (Warner and Hebdon, 2001).
But how can “reverse privatization”, embodying a diverse, multifaceted and uneven set of policies affecting the public sector, be contextualised and understood? To what extent is reverse privatization just a minor force, acting as a kind of mechanism to rescue failed privatizations, in the end, bolstering the privatization framework itself? Or, should reverse privatization reform be interpreted as a more significant kind of counterforce to the privatization model itself? Is it politically transformative (Lobina, 2017; McDonald, 2018), a form of “pushback” against neoliberal reforms (Warner and Clifton, 2014)? Or is it primarily a market management response which enables privatization to continue to work (Warner and Aldag, this issue; Voorn, this issue; Warner and Hefetz, 2019)?

These are essential questions, both theoretically and empirically: no consensus has yet been reached on this point. Whilst some scholars still generally ignore the reverse privatization shift and continue to assume reform in the direction of privatization is inevitable, we argue reverse privatization needs contextualising, understanding and explaining.

To do so, here, we focus on the process of re-municipalization, understood as a sub-set of policy reform associated with reverse privatization. First, we turn our attention to understanding what is meant when scholars and policymakers use the term re-municipalization and explain how this is sometimes used in different, confusing and contradictory ways. Second, we explore spatial and temporal dimensions of the use of the term re-municipalization, as well as motivations and the kinds of data used to test propositions. Next, we present the papers in this special issue as an empirical contribution
to the literature and conclude with a discussion of the implications for theory and future research on this topic.

**Re-municipalization: unpacking the concept**

What is actually meant when scholars use the term re-municipalization? An examination of the literature shows that the term is used in different, and sometimes, contradictory, ways, leading to conceptual confusion, in turn, affecting attempts to quantify this development. There are four main ways in which the use of the term is confusing.

First, there is confusion about the spatial dimension of re-municipalization. Strictly speaking, the scale of re-municipalization should be at the level of the municipality as the unit of local government. However, it is common in both theoretical and empirical studies of re-municipalization to include cases of bringing public services back into public ownership and management at the regional and national level. These would certainly be instances of “reverse privatization” but not, strictly speaking, of “re-municipalization”. This conceptual confusion affects, in turn, the accuracy of production of data trying to quantify the extent of re-municipalization across the world. For example, the online database of the “Water re-municipalization tracker”, managed by Corporate Europe Observatory, includes instances of re-municipalization, but also, cases of reverse privatization at the *national* level.¹

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¹ Corporate Europe Observatory’s “water re-municipalisation tracker” is at [http://www.remunicipalisation.org/front/page/remunicipalisation_wave](http://www.remunicipalisation.org/front/page/remunicipalisation_wave)
The second area of confusion about the term re-municipalization is connected to the sequence of events. The prefix “re” clearly assumes that public action was originally performed at the municipal level, after which it moved to another (non-municipal) arena, presumably in the private sector, before moving back to public ownership and management within the municipality. However, in many studies, the establishment of a new public service at the municipal level is merged into the literature on re-municipalization, when it is actually a case of “municipalization” (see, for example, Mann and Warner 2019). In this case, the service may have never belonged to the private sector, thus, it is not part of the reverse privatization shift. In other cases, the services come back from inter-municipal contracts, and others from services that were originally private. Does the source of the reversal matter? For example, are reversals of intermunicipal contracts motivated by different criteria than reversals from private contracts? Warner (2016) has found intermunicipal contracts are more stable than private contracts, with half the level of reversals found in for profit contracts. Gradus and Budding (2018) found similar results for intermunicipal contracts for waste management in the Netherlands.

Third, and related to this last point, public service delivery is a dynamic process. Local government often responds to new needs with new services. While the service may start with a contract, it may later come in-house as the service becomes core to the government enterprise. A good example of this is the experience with information technology, which showed high levels of contract provision in the 1990s, but shifted to in-house provision later, once municipalities gained internal capacity. Similarly, re-municipalization can take a mixed position between market and public delivery. We can think of public service delivery along a continuum from totally in house, to mixed public and private, to purely
private. While in the United State this mixed market position takes the form of concurrent sourcing with both in house and contracted delivery at the same time (Hefetz et al., 2014; Warner and Hefetz, 2008), in Europe, we are more likely to find mixed management at the organizational level (Warner and Bel, 2008, Gradus et al., 2014). Mixed public/private firms, or municipal corporations, maintain majority public ownership but put the service on an enterprise basis which operates in part under private law, especially as regards labor and finance. This “corporatization” wave has raised much debate in the literature as to its influence on the public character or behaviour of the entity (Andrews et al., 2019). So, for example, the World Bank has specified that corporatization is a means to prepare an entity for privatization (Clifton and Díaz-Fuentes, 2018), whilst other scholars stress there are different ways to corporatize, and that this can follow either a “progressive” or “neoliberal” model (McDonald, 2016; Cruz et al., 2014). Hence, the creation of a municipal corporation could be part of reverse privatization, as a partial step back toward more public control, or it could be a step towards privatization: it depends on the case under study. Using the term “(re)municipalization”, to capture both directions may confuse the issue, especially if corporate forms of municipalization merely serve to prepare the public service for later privatization.

The fourth area of difference as regards the use of re-municipalization is associated with the ways in which scholars evaluate the drivers of re-municipalization. To simplify, there are two broad approaches here: first, much of the quantitative literature finds re-municipalization is driven by pragmatic reasons, and second, much of the case study literature argues re-municipalization is a political and transformative process.
As regards “pragmatic re-municipalization”, local governments are taking back control of public service production and delivery of a public service that had previously been contracted out to a private operator for pragmatic reasons. This would be the case when a local government does not renew a contract, terminates a contract, or expropriates a public service in an effort to manage the market, reduce transaction costs, or ensure service quality and cost savings (Warner and Aldag, this issue; Warner and Hefetz, 2019; Voorn et al., this issue; Gradus et al., this issue; Albalate and Bel, this issue).

Such an understanding does not go far enough for other scholars who see in re-municipalization a political project. For these authors (Lobina, 2017; Hall, Lobina and Terhost, 2013; MacDonald, 2018), re-municipalization is more than returning a privatized service to public ownership and control, or, more than a mere market management process. Re-municipalization goes beyond ownership change; representing a new form of public service provision that incorporates “collective aspirations for social and environmental justice” and offers new possibilities of establishing “progressive” public service policies (Lobina, 2015; McDonald, 2018). From this perspective, re-municipalization is associated with progressive change and an improvement in the democratic management of public services (Cumbers and Beck, 2018).

These two visions do not necessarily need to lead to confusion if they are used to develop hypotheses in studies on the drivers of re-municipalization. However, they can lead to confusion if the number of re-municipalizations is being used towards a claim that public ownership and management are on the rise. They also lead to confusion where scholars are not clear whether they are being normative or descriptive of their position, in other
words, whether scholars expect normatively re-municipalization to be transformative, or whether in reality they have evidence re-municipalization is in fact transformative (Lobina, 2017, Terhorst, 2014). In other words, some of the literature on progressive re-municipalization flips between descriptive and normative approaches – mixing expressions of a desire for change with observations about real, observed change on the ground.

Re-municipalization Trends

It is hard to quantify trends of a phenomenon that has confusion in its very definition. The conceptual slippages around the concept affect attempts to quantify the extent of re-municipalization. For example, in a major report published by the Transnational Institute and edited by Kishimoto and Petitjean (2017), the term “(re)municipalization” is used to include i) cases of a return to municipal control after privatization as well as ii) new contracting out to other municipalities or nongovernmental entities, such as community cooperatives and iii) the creation of new municipal entities to provide public services. But this mixes distinct processes, making the data hard to decipher. That study finds 835 re(municipalizations) occurred; however, within this data, there were 692 re-municipalizations and 143 municipalizations between the period 2000 to 2017 (Kishimoto and Petijean, 2017). In many cases, municipalizations include founding new energy companies, often in Germany: being new, these and could well exhibit private sector criteria when compared with public alternatives, and may not exhibit similar behaviour to those re-municipalized entities. In other words, celebratory claims that this is evidence of a “global wave” of re-municipalization need to be made with caution.
While some scholars claim the re-municipalization trend is increasing, these are based almost completely on case study approaches to research. As more attention is focused on re-municipalization, more cases are sought and found (by groups such as Transnational Institute, Public Services International Research Unit and Corporate Europe Observatory). However, is this increase in case studies an actual increase? Large scale quantitative survey data gives a better view on actual trends. However, only the US has quantitative data on the level of reversals over time. Warner and Hefetz (2019) use national survey data across 65 common local government services and find reversals peaked at 18% of local public service delivery in 1997 (Hefetz and Warner 2004), declined to 12% by 2002 (Hefetz and Warner 2007) and have been in the 10-11 % range ever since (Warner and Hefetz 2012; Warner and Hefetz 2019). The level of reversals is similar to the level of new contracting out in the US. Thus, in this context, we can think of reversals and new contracting as market adjustments to contract failure and new market opportunities. In the European context, data is often lacking, though three countries have good quality quantitative data: Germany, the Netherlands and Spain. Based on an administrative dataset for 1999-2014, Gradus and Budding (2018) have looked at waste collection in the Netherlands and found reverse privatization is larger than new privatization. Moreover, after 2010, the number of shifts between different modes of collection dropped remarkably. Demuth et al., (2018) also investigated shifts in garbage collection in Germany between 2003, 2009 and 2015. They found that switching occurred more often between 2003 and 2009 than between 2009 and 2015, namely 10% versus 5%. Zafr et al. (this issue) find higher rates of reversals in 2014 than in 2015 and 2016. Until more data from more countries is made available, we cannot make international claims about trends of increasing re-municipalization.
Contribution of this Special Issue

The contribution of this special issue is the focus on studies with large-scale quantitative data from the US and several European nations. This is the first collection of quantitative papers on re-municipalization. What the papers show is that re-municipalization is primarily a pragmatic process motivated by traditional concerns with contract management. These include the standard concerns of transaction cost economics, but also address political factors and market management. None of the papers suggest re-municipalization is a transformative political project. This could be because the use of quantitative data limits the ability to study more nuanced political elements – beyond political interests of party control and private providers. It could also be that the majority of cases of reversals are not motivated by the political transformations presented in the most widely studied case studies, such as Paris and Berlin (Hall, et al. 2013). While most large-scale quantitative studies are cross-sectional, some now have comparative data over time and are able to model the exact year when the reversal occurred and find both efficiency and political drivers of the process (See Zafra this issue). Gradus et al. (this issue) use a transition matrix (similar to Hefetz and Warner 2004) that measures the continuum of shifts from more public to more private forms of delivery between 2010 and 2018. In about 41% of the observations, shifts took place, with 54% toward outside production and 46% toward inside production.

The literature overview by Voorn et al. (this issue) applies “systematic review” methodology to analyze the literature, which finally includes 20 articles published prior
to 2019 that use the term re-municipalization. The authors find that, in most of these cases, the service returns to public delivery in a corporatized form. They argue that these corporatized forms of delivery still exhibit many private values (competitive pricing, market management) and thus do not represent an intellectual break from prior New Public Management reforms, but rather a continuation of them. A challenge with this so-called “systematic review” methodology is that it privileges some publications over others and, in this case, leaves out all of the more popular literature and online databases on re-municipalization, such as those produced by Transnational Institute and Corporate Europe Observatory, and thus misses the more expressly political case studies. It also leaves out the wider body of literature on privatization reversals, which do not use the re-municipalization term and are more quantitative in scope. The term re-municipalization was coined to suggest the reassertion of public control and management. To the extent that this is not achieved, and re-municipalization merely represents a halfway point on the continuum between public and private, it fails to acknowledge the pragmatic, not political nature of the process.

The paper by Warner and Aldag, addresses the question of pragmatism or political transformation head on. They use the most recent 2017 national survey of 2296 US local governments and explore what differentiates those that contract back in from those that do not. They find that re-municipalization is part of a pragmatic process of market management, and is found in governments that also study privatization and engage in activities to ensure its success. Neither political interests, unionization nor fiscal stress differentiate those governments that contract back in from those that do not. However, professional capacity does matter, as larger, urban and professionally managed governments are more likely to report contract reversals.
The paper by Gradus et al. (this issue), analyzes shifts in the delivery mode of twelve services in twenty Dutch municipalities and also finds that transaction costs are the most important explanation for explaining shifts. In the physical domain (e.g. roads and waste collection), most shifts were to cooperation, whereas in the operational domain (e.g. ICT, finance and catering) reverse privatization and cooperative forms of delivery are dominant trends. For services with high asset specificity, they find a lower likelihood of change, whereas for services with high measurement difficulty, they find a higher likelihood of shifts to external production and away from in-house, and a lower likelihood of shifts to internal production.

Two papers directly measure political partisanship and find more left leaning parties are more likely to re-municipalize. This provides partial support to the political transformation thesis, but the authors in this special issue present this more as a management of political interests, rather than a broader transformative process.

Zafra et al. study 141 Spanish municipalities from 2011-2016 and find authorities that contracted back public services were mainly influenced by the wish to achieve higher levels of efficiency, but also by the existence of opportunistic political behavior in a pre-electoral year, by the change from a conservative to a progressive government, and by political corruption detected in the previous year. Their paper is able to directly link the timing of the re-municipalization to measures of efficiency and politics and corruption.

Albalate and Bel, this issue, while also paying attention to potential differences between left wing and right-wing politicians regarding re-municipalization, place the main focus of their analysis on the differences between local elected politicians and municipal
bureaucrats (i.e. technical staff) with respect to privatization and re-municipalization. Albalate and Bel use a sample of 97 Spanish municipalities and 17 services from a survey conducted for this specific research. They treat the data with different estimation techniques and find that technical staff express a stronger preference than politicians for private management in local public services delivery, regardless of whether politicians are conservative or progressive. Furthermore, they find that technical staff show a higher preference for reform (either to privatize or re-municipalize) than politicians do. Overall, results in this paper are consistent with the view that pressures for re-municipalization (as well as for privatization) are pragmatic rather than ideological.

Elements of a more political transformative process are found in the case study of Alborg, Denmark’s re-municipalization of energy in the paper by Lindholst, this issue. While there is extensive literature suggesting that the private sector is a better fit for innovation than the public sector (i.e. Shleifer and Vishny, 1994; Hart, Shleifer and Vishny, 1997), Lindholst's contribution emphasizes the case for public entrepreneurship to produce innovation in public services. He studies the case of the restructuring of local energy supply, where re-municipalization was the consequence of failure with service innovation under private management. Northern Jutland's Utility (NJU), a public company providing energy for the City of Aalborg, had undergone a privatization process that finished in 2006 with the full takeover by private investors. Lindholst shows how the Danish policy of making strong and quick progress on green energy was not welcome by the private ownership of NJU. Requirements to introduce environmentally friendly techniques would jeopardize private profits for NJU, as it was mainly coal-based. Therefore, private ownership was interested in giving up the plant, and it was taken over by the municipality in 2016. Once under public ownership, large
investments in green technologies were made, so that green policy requirements could be satisfied. Hence, this paper illustrates both a pragmatic and political approach to re-municipalization, which in this case was done to undertake innovation under substantial uncertainties about technology and regulations, with relevant financial consequences.

Conclusion

This special issue points to a broadening of the debate in the Economic and Public policy literature, as well as in the Public Administration field – beyond the notion of private sector superiority and dominance toward a more balanced position that recognizes the dynamics of service delivery decisions – to contract out, or to contract back in, to shift the locus of service production. While some of the factors that drive privatization also drive its reverse (desire for cost savings, challenges of market management, political interests), others are more salient in the reversals (concern with service quality, public control) and arise in part due to failures in private contracting. Is this transformative or pragmatic? The articles in this special issue point to pragmatic market management as the primary response.

This pragmatic position makes an important contribution to the literature. While neoclassical economic theory, underlying the New Public Management approach, argued for the superiority of private market-type delivery, the empirical analyses provided in this special issue show the challenges with market management and the ways in which public managers seek to achieve the service goals of quality, cost efficiency and public values through a dynamic market management process. Rather
than viewing privatization and its reverse as a dichotomous choice, these papers show local public managers view these options as two ends of a continuum - with an array of mixed positions in the middle. Concurrent sourcing and corporatization are two of these mixed positions, and inter-governmental contracting is a third. Contract reversals enable governments to move back to these middle positions. While in some cases, re-municipalization goes all the way back to direct public service delivery, in others it involves a more subtle and complex reinsertion of public interests.

Together, the data sets represented in this set of papers account for a similar number of cases to the number reported in the re-municipalization data base maintained by the Transnational Institute. We conclude that, while political transformation can be possible under re-municipalization, in many cases, it is a pragmatic process of contract and market management to ensure quality and efficient public service delivery.

Local public services are iterating toward a New Public Service (Denhardt and Denhardt, 2000) model that includes markets but attempts to insert more public control and secure public values. Future research should give more attention to large-scale data analysis and measures of market management and political concerns. Re-municipalization is an emerging and important trend, but care must be taken to explain and interpret what this development actually means. The papers in this special issue suggest that reversals reflect a more social choice framing (Hefetz and Warner 2007). In this pragmatic response, there is a challenge to market and New Public Management-style dominance, but it is context specific, complex, and subtle.
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