From Enthusiasm to Disenchantment: An Analysis of Voluntary Closings of Portuguese Municipal Enterprises

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Abstract

This paper explores determinants of continuity and change of municipal organizations designed for service delivery. Focusing on the political and financial costs of termination, it addresses the question of what determines the process of voluntary closing of Portuguese municipal enterprises – a type of mixed firm with municipal control but an independent budget that operates under private labor law – from 1998 until 2012. The results suggest that the survivability of this type of organization relates with financial and economic aspects, as opposed to the structure of the local government that seems to be less important.

1. Introduction

As the decisions over public service delivery became increasingly more complex, the debate on different institutional mechanisms for service delivery expanded to different fields of research. The choice of the governance mechanism that better suits the needs of service delivery can be analyzed by the motivations of the decision-maker. The work of Coase (1936) and Williamson (1996) provides a framework in which rational individuals decide in a way to minimize their transaction costs. The logic is that decision-makers will ultimately opt for the governance structure that provides the best value-for-money at the same time that it controls for uncertainty in transactions. The works of North (1990) and Horn (1997) added the explanatory power of this framework when applied to the political context, taking into account the political transactions costs that affect the utility function of the decision-maker – the politician. What this line of work somewhat neglects are the relevance of reversals in institutional choices. But terminations are not ignored in the public administration literature since the mid-70's when Kaufman (1976) asked about the immortality of public organizations.

A lot of empirical work has done, using the transaction cost approach, to gauge the determinants of the choice over the governance mechanism for service delivery opposing in-house solutions with an alternative of contracting-out (Brown & Potoski 2003, Nelson 1997; Ferris & Graddy 1997; Feiock, Clingermayer, Shrestha, & Dasse 2007). More recently, a trend of the literature focused on reverse contracting (Warner, 2000; Warner & Hebdon, 2001; Hefetz & Warner, 2004; Bel, Fageda, & Warner, 2010) as an opposite movement grounded on the assessment of the performance and outcomes of contracting. In this paper, we explore a specific case of reversal without contracting. Since 1998 local governments were able to create municipal enterprises, a type of mixed firm with municipal control but an independent budget that operates under private labor law. Still facing some issues common with contracting, such as asymmetry of information, the fact is that Municipal Enterprises are closer to a reshaped bureaucracy than a proper autonomous external agent. The municipal control is so evident that the overlap of roles between the Mayor and the CEO of the municipal enterprise makes the formal contract, a seminal element in contracting-out, absent or irrelevant in these cases.

Our aim is to understand the motivation of the decision maker for the change in reset of the institutional agreement for service delivery that lays half way between the agency termination and reversal contracting of municipal service delivery. Until 2012 Portuguese local governments could voluntarily close municipal enterprises. This Anchored on a political and economic transactions costs theoretical framework, we found evidence that that both financial and economic aspects of the enterprise are relevant in the decision to maintain the

externalization option, as opposed to the structure of the local government that seems to be less important.

This paper is organized as follows. The next section describes the development of municipal enterprises in Portugal, with a focus on the closing trend (reverse contracting). Section 3 reviews the literature on contracting out and its reversal as well as the theoretical framework of political transaction costs. Section 4 derives the hypotheses and section 5 empirically tests them using the survival analysis framework. The paper closes with the discussion of findings and its implications.

2. Setting the Scene: Evolution of Portuguese MEs and the Closuring Wave

Portuguese process of contracting-out municipal service delivery with private or public agents – specifically the creation of municipal enterprises – does not differ much from the pattern that we can found across Europe: a massive use in the 1990's followed by a balance with the use of other mechanisms of governance. The law to allow the creation of municipal enterprises was enacted in 1998 to accommodate the option to create municipal enterprises. Within the European understanding (Grossi & Reichard, 2008; Dexia, 2004), these enterprises were built as private-law-based entities, acting in a business-like fashion, however granting oversight powers to the local government. In that sense, they claim to provide the advantages of a private contractor without the risk inherent to its drawbacks identified in a principal-agent relationship. The main driver of this legal initiative was to provide common-ground to local government that wanted explore local entrepreneurship as alternative to in-house and market solution. The evolution of the creation of municipal enterprises from 1998 until 2012 is shown in figure 1.

[insert figure 1]

As we can see, until 2012 local government created a total of 294 municipal enterprises and voluntarily closed 36. The figure shows two clearly distinct periods of evolution. The first, form the late 90s until around 2008, were we witnessed a massive use of this governing arrangement alternative. After 2008, we experienced a strong drop of new creations and arising of the reverse contracting movement.

3. Theoretical Background: Reversal Decisions in the Public Sector

Following the work of North (1990) on transaction cost politics, David Epstein and Sharyn O'Halloran (1999) argue that delegation to bureaucracies is subject to the political equivalent of

hold-up problem and “make” or “buy”. The choice will correspond to the politically most efficient from legislator’s (political decision-makers) point of view, so as to set the boundaries of the administrative state. This concept of political, rather than economic, efficiency, meaning re-election prospects, within the framework of transaction costs was also taken by Horn (1997). He explains the choice of the different types of organizations of which the public sector – executive agencies, independent regulatory commissions, tax-funded agencies and state-owned enterprises – and the regularity of its governance structures as well as finance and employment rules.

Agency Terminations

In the mid-70’s Herbert Kaufman (1976) questioned whether government organizations were immortal. About the same time authors such as Eugene Bardach (1976) as well as Peter DeLeon (1978) and Robert Behn (1978) were discussing public policy termination. Even more interesting, Anthony Downs had already hypothesized that 'the older a bureau is, the less likely it is to die' (1967). That is, reversals and terminations are old interests in the public administration literature.

Lewis (2002) argues that agencies are mortal because they face significant risks of termination, particularly due to political turnover. When an agency's opponents gain power, the hazards of agency mortality increase. According to his findings, 62% of agencies created since 1946 have been terminated and that political turnover is one of the primary causes of termination. In this sense, he noted in a following paper that the US Congress has often sought to limit presidential influence over certain public policies by designing agencies that are insulated from presidential control (Lewis 2004). Whether or not insulated agencies persist over time has important consequences for presidential management. If those agencies that persist over time are also those that are the most immune from presidential direction, this has potentially fatal consequences for the president's ability to manage the executive branch. Modern presidents will preside over a less and less manageable bureaucracy over time.

Carpenter (2004) develops a formal model of termination of bureaucratic agencies and test the Downs’ hypothesis, which according to them was not properly tested. The model provides two predictions. First, politicians terminate agencies only after learning about them, so the hazard of agencies should be nonmonotonic, which contradicts Downs's prediction. Second, if terminating agencies is costly, agencies are least likely to be terminated when politicians are fiscally constrained or when the deficit is high. The results show that the hazard rate of agency termination is strongly nonmonotonic and that agencies are less likely to be terminated under high deficits and divided government.

Adam *et. al* (2007) turn the question and ask whether states are actually able to abolish parts of their administrative structure, a topic they argue remained underestimated. They classify the causal factors of termination into two broad dimensions: 'organizational stickiness' and 'political incentives.' Boin et all (2010) analyze how 'design factors' affected the durability of the so-called New Deal organizations initiated under FDR's first term and found that design factors do matter, but their effects change over time.

Park (2013) focuses on the political costs of termination in Korea and examines external and internal factors that are closely linked to the political incentives to terminate. Quangos are more likely to be terminated during political turnovers and the period when presidential power is maximized. Termination seems easier for politicians when social demands are mature enough to blow away political burdens and cynicism. Although organizations with fewer resources are more vulnerable to external pressures and shocks, none of the quango-specific factors significantly affect the survivability of Korean quangos.

Maccarthaigh (2014) analyze how different ways in which different types of agencies are terminated using a dataset of Irish state agencies over a 90-year period. Studying UK, OLeary (2015) found that advisory Non-Departmental Public Bodies were five times more likely to have been identified for abolition or merger than other agency types. The research also found that agency age was a factor, but that political turnover was not significant.

Greasley and Hanretty (2016) investigated the life span and risk of termination of 723 arm's length agencies in the United Kingdom between 1985 and 2008 and hypothesize that termination risk depends on three groups of factors: (1) factors relating to the rationales for initial delegation of responsibility to the arm's length agency; (2) factors relating to the political and economic position of the government; and (3) factors relating to the institutional form of the agency. They found that agencies intended to generate credible commitments in regulation are less likely than others to be terminated in any given year. Agencies operating under right-wing governments and under heavily indebted governments are more likely to be terminated, although left-wing governments are more sensitive to the effects of debt. Agencies structured as executive non-departmental public bodies and non-ministerial departments are also longer lived than others. Contrary to expectations about arm's length agencies in parliamentary systems with single-party government, partisan change does not affect the risk of termination.

Reversals at Municipal Level

At the municipal level, the classical discussion is the move from in-house to market solutions, a scenario of service delivery that is assumed to increase the degree of complexity. Inherent to the restructuring process of local governments, reverse contracting began to be regarded in the

menu of valid alternatives for service production (Warner & Hebdon, 2001; 2008). Accordingly, reversals are seen as a reflection of the contracting-out process under imperfect information, incomplete contracts and adverse political conditions.

Reverse contracting happens when contracted services are taken back from former providers (Warner, 2000; Warner & Hebdon, 2001; Hefetz & Warner, 2004). It usually results from market failure or preference errors that occur within insufficient information, high transaction costs, and difficulties in specifying contracts, in short, it is the acknowledgement of contract challenges. Hefetz and Warner (2004) define reverse contracting as disappointment with service quality or difficulties with the contract specification and monitorization process that ultimately drove to the decision of bringing service delivery back in-house.

Services that are difficult to describe and measure may be contracted out but are likely to be the object of reverse contracting. Losing the ability to measure service output exposes local governments to problems related to incomplete contracts (Bierbrauer, 2011; Gehlbach, 2006; Hart, 2003; Williamson, 2010). They also tend to face high monitoring costs because they are unable to set the proper specifications in the contract agreement (Hefetz & Warner, 2007; Warner & Hebdon, 2001). Additionally, they face moral hazard problems when contractors retain information on their performance and seek to gain inappropriate advantages (Torres & Pina, 2002). Scholars have reported cases of local governments that contracted services with low measurability, such as cultural and social services, and therefore with high transaction costs. They are now facing adversities and struggling to ensure reserve contracting (Hefetz & Warner, 2004; 2007). Contracting specific assets also increases transaction costs. The contractor is forced to design a specific asset or ability that is difficult to replicate. Hence, the increase in costs is usually compensated by an extension in the duration of the contract to reduce annual fees. Thus, decisions of this nature may result in a dangerous dependence of local government. With the annihilation of competition, contracted agents can seek higher rents from service delivery that it would if in the presence of competitive bidding.

As proposed, market mechanisms are able to provide cost savings and increase efficiency, as a result of a competitive bidding. However, the “market argument” requires a specific market structure of full information, proper regulation and the virtual nonexistence of barriers to enter the market. However, real situations fall short from theoretical construction, and market solutions were used in less reliable situations. Smaller communities with problems of suboptimal dimensions also opt to contract-out service delivery. The inability to aggregate sufficient demand may result in a situation of scarcity of providers, which reduces and the competitive factor of the process (Hefetz & Warner, 2007; Kodrzycki, 1994). The use of quasi-markets has some limitations and fails in regard to important requirements of pure market (Lowery, 1998): they have barriers to enter the market and a limited number of suppliers; and

suffer from preference errors, trying to standardize service requirement to meet the majority of consumers' needs. Hence, lack of information can mislead consumers to make choices that do not truly reflect their preferences.

The use of contracting solutions, in a context of imperfect market structure, may result in a downgrade in public services. The cost saving argument becomes flawed in the absence of competition (Bel, Fageda, & Warner, 2010). Local governments may face a total loss of control over service production since it was entrusted to market competition. As such, serious limitations to the market structure are also related with reverse contracting (Warner & Hefetz, 2008; Hefetz & Warner, 2007).

Some literature bridges reverse contracting with political factors and the lobby of groups. Political issues such as instability, elections, private interest groups, and unions may tip the balance towards more contracting or its opposite. High turnover in local governments jeopardizes the use of contracting as an alternative to service delivery. Political instability reduces trust and credible commitment, at the same time that it encourages agents to include safeguard clauses to protect themselves from non-compliance or breaches of contract (Feiock *et al.*, 2007). As so, political transactions costs also play an important role in the decision to rescind contracts.

Pallesen (2004) presented the argument that contracting is a sort of "politics of good times" meaning that reverse contracting is a sign of fiscal stress. Contracting is a suitable option when local governments have the financial resources to increase the level of public services to their fellow citizens. Thus, when the time comes to cut back management, public servants' jobs will remain untouched. This strategy pleases unions and preserves local government employees as an important electoral base. However, Pallesen (2004) assumes that contracting is only for new services, which is not necessarily true. Contracting is, in many cases, an alternative to municipal services or a competitor in a mixed production scheme. In this respect, unions are struggling to keep services in-house. Many of the public services contracted are labor intensive, and privatization savings come from reduction and wages and benefits. Unions react with strong opposition to contracting (Chandler & Feuille, 1991).

4. Empirical Work

4.1. Econometric model and Estimation Strategy

In political contexts, both political and economic transaction costs need to be considered. While economic transaction costs focus on the economic outcome of the decision (often linked with the nature of the service, market structures, asymmetry of information, opportunism and bounded rationality), political transaction costs assess the net political support of constituents

and bureaus over one decision. Hence, we argue that the decision to terminate municipal enterprises and reshape the way the service is provided relies on a complex assessment that elected officials make over the political pay-offs they might have from that decision.

During these 15 years window (1998-2012), local governments created up to 294 municipal enterprises and opted to close in 36 occasions. In this period, no restrictions are imposed to local governments. Creation and reverse contracting of local enterprises depends on the free will of elected officials at local level. Hence, the main objective is to point out the political motivation that supports the option to contract back-in a service that was previously trusted to a municipal enterprise.

Within a regression analysis setup, our models use the decision to voluntarily close a Municipal Enterprise as the dependent variable – that is, the probability of closing – and two different sets of independent variables: one related to the structure of municipal enterprises and another, related to the local government stance which is able to affect the political assessment over net political support of constituents.

$$\begin{aligned} \boldsymbol{Reversal_i} = \ & \beta_1 + \beta_2 Pop_i + \ \beta_3 DiffParty_i + \beta_4 DiffCentralParty_i \\ & + \beta_5 Exessive\ Indebtness_i + \beta_6\ Indebtness_i \\ & \beta_7 Object_i + \beta_8 Budget\ Maximization_i + \beta_9 Grant_i + \beta_{10} Duration_i \\ & + \varepsilon_i \quad (1) \end{aligned}$$

The coefficient of β_2 represents the effect that the dimension of the population (Pop_i) has on the decision to close Municipal Enterprises. Incumbent politicians are sensible to any decision that can affect the welfare of their constituents because it may have an impact on their political support. Closing a municipal enterprise may be perceived as diminishing the number of public services delivered to citizens. Assuming that citizens are utility maximisers that always prefer more to less services, the decision to close a municipal enterprise can represent a direct political transaction cost.

The estimation of β_3 relates to local turnover ($DiffParty_i$). We argue that the reshape of municipal service delivery bureaucracy is most likely to happen in the case of political turnover, *i.e*, when new incumbents which to express and highlight their difference towards the decisions made by the former municipal executive (Lewis, 2002; Downs, 1967). This variable is computed as a dummy variable which is coded 1 if the there was a turnover in local government executive and 0 otherwise.

The coefficient of β_4 expresses the acknowledgement of a potential tension that may occur when the executive of the local government is from a different party that the one in office at central level ($DiffCentralParty_i$). This variable, as the previous, is computed as a dummy variable which is coded 1 if local and central government are from the same party and 0 otherwise.

The coefficient of β_5 provides the effect of excessive indebtedness ($Exessive\ Indebtness_i$) at the municipal level that can have on the decision to close Municipal Enterprises[1]. This variable, is also a dummy variable taking value 1 if local and central government have excessive debts and 0 otherwise. The coefficient of β_6 provides the effect of the amount of the debt ($Indebtness_i$) recorded at the municipal level in the decision to change the governing structure to the service delivery. In bought cases, we argue that due to the financial crises, the levels of debts can jeopardize the political support since it can increase the reluctance of risk-adverse voters to the option made regarding the service delivery options.

As we already stated, the second set of independent variables relates to the structure of the municipal enterprises. The computation of β_7 focus on the object of the municipal enterprises ($Object_i$). A single-purpose organization allows for better control and accountability of municipal enterprises. Thus, when they are provided multiple objectives, it becomes more difficult to make them responsive, to control and measure their performance. Measurability difficulties are related to higher transactions costs and, therefore more likely to be reshaped in municipal bureaus. This is a dummy variable taking value 1 if the municipal enterprise has one single purpose and 0 otherwise.

The estimation of β_8 represents the ratio of grants allowed by the local government over the total of revenues of the municipal enterprises ($Budget\ Maximization_i$). We argue that municipal enterprises that have higher ratios represent structures that display issues of overproduction of public services and oversized budgets. Hence, they carry the burden of high political transaction costs. Also, regarding the grants given by the local government, the coefficient β_9 provides the effect that the value of grants($Grant_i$) has to the municipal government.

Lastly, we added the estimation of β_{10} that provides intel about the duration of the Municipal Enterprise ($Duration_i$). Following Lewis (2004) argument, the organisations that persist over

[1] According to local financial act, the Local government are considered to have excessive indebtedness if the amount of debts exceeds by 1,5 times the amount of the average of revenues in the last three years.

time are the one more difficult to terminate. The variable is computed by the number of years since the creation to its termination[2].

Since our dependent variable is a dummy representing the choice of the local government to close or not the municipal enterprise, the logistic estimation[3] would be the most appropriate. Hence the dependent variable takes value 1 if the municipal enterprise is terminated and 0 otherwise.

4.2. The results

Given that no restrictions are imposed on local governments during the 15 period under analysis, the creation and reverse contracting of local enterprises depends on the free will of elected officials at local level. Hence, the main objective is to point out the political motivation that supports the option to terminate Municipal Enterprises. We computed three models: one with the variables related with the municipal stance; another with the variables of the municipal Enterprises; and the full model with all variables.

[insert table 1]

Results are presented as odd ratios relative to the probability to terminate Municipal Enterprises. The results are consistent across the different models, with the exception of the variables population that loses statistical significance in the third model. The overall conclusion of the results appears to indicate that the probability to terminate municipal enterprises if affected by the definition of its object, the weight of the grant they received from the municipality as well as the financial situation of the local government (level of debt and situation of excessive indebtedness).

In the case of the financial situation of the local government the results are puzzling. We would expect to notice an option to the closer of municipal enterprise with incumbents responding to the reluctance of risk-adverse voters towards service delivery options alongside with the deterioration of the financial situation of the local government. The results of the level of indebtedness display an odd ratio above 1, hence showing an increase in the probability of the

[2] In the case of no termination the cut-off point was determined to be the year 2012

[3] Taking into account the number of closing municipal enterprises, we should use a statistical technique to implement a penalized maximum likelihood estimation method for reducing bias in the distribution (Coveney, 2015). However, postestimation computation package are not yet available. Nevertheless, results from this method are in Appendix.

termination of municipal enterprises with the increase of debt. However, the results of excessive indebtedness, that account for a local government to already being in a situation of financial distress, display an odd ratio below 1. This result, seems to indicate that local government that in an extreme situation, in financial terms, are less likely to implement changes in their governing structures for service delivery.

Taking into consideration the variables which captures the characteristics of the municipal enterprises, the results are consistent across models. Budget Maximization display an odd ratio superior to 1 meaning that bigger weight of grants in the revenues of municipal enterprises increase the probability of their closer. One of the essences in the creation of municipal enterprises was its natural ability to mange service delivery in a business-like fashion. Hence, it's hardly the case when the services being delivered are either free of charges for citizens or originate revenues so scarce that they cannot reach the break-even point. The fear of the political cost of subsidizing financially infeasible governing structures drives the decision to the termination.

In the same line of thought, municipal enterprises were created to undertake a specific job and explore a business-like fashion to explore it. The odd rations are below 1 indicating a lower probability to the closer of the municipal enterprise. This result seems to indicate that single-purpose organization are more likely to reduce uncertainty about their actions and added value to the community. Following the transactions costs arguments, this kind of governing structures are more easily accountable and responsive to their choices and outputs.

[insert table 2]

We have also computed marginal effects (Table 2) presenting marginal and discrete changes. For the first we opt to compute average marginal effect, while the second we use discrete changes of one and standard deviation. For the dummy variables in the model, we computed the change in range from 0 to 1. Overall, the probability of closer of municipal enterprises is of 12,2%.

Starting with the variables concerning the municipal stance, only the financial aspects achieve statistical significance. On average, an increase in the level of indebtedness will increase the probability to terminate a municipal enterprise. Looking to the figure 2, we also can infer from the results that the probability of closer becomes significance for higher levels of indebtedness.

[insert figure 2]

Concerning the situation of excessive indebtedness, on average the change to this situation reduces the probability of termination of municipal enterprises.

Moving to the variables that address the elements of the municipal enterprises, on average, the increase to the ratio of grants over total of revenues ($Budget\ Maximization_i$) has a positive impact on the probability of termination of municipal enterprises. As we can see from the figure 3, being always statistically significant, the probability increases directly with the increment of the weight of the grants.

[insert figure 3]

Finally, the object of the municipal enterprise is another variable that reach statistical significance. On average, the definition of a clear and singular mission to the municipal enterprises will decrease the probability of closer.

Conclusions

The debate on the choice of different institutional mechanisms for service delivery has accumulated, and it is certainly not ended in the literature. The paper explores the question of explaining local government decisions to close municipal enterprises. Political transaction costs play a determinant role when considering closing municipal enterprise. When faced with voluntary choices and changing circumstances, local politicians are sensible to any decision imposing on the utility function of their constituents. Closing a municipal enterprise can be interpreted as a reduction of public services and could affect the judgment of the population and ultimately their political support to the elected officials. In addition, streamline organizations are easier to hold accountable for their performance. In the end, our results strongly suggest, it is market structure and the characteristics of the enterprise that matter, not merely local politics.

We also should not ignore the effect of the international crisis that affected global economy since 2008 and the consequences it brought to constituencies awareness of the financial dimension of political choices. The public exposition of these issues induced a level of political transactions costs. Being more responsive to their decisions, elected officials weight higher costs to their political support when opting for a more reckless financial strategy. From what we can witness, the elected officials, when the decision of reversing the contract from municipal enterprises, consider the size of the impact on the population. That is, more population is affected the less they are willing to support the option to reduce public services. However, besides that, they aim to keep governing structures with better performances and better levels of financial sustainability. The option to close municipal enterprises is concentrated between the years 2011 and 2012. Before that, none of the Portuguese local government considered this option. The international and national context created a perception that bad political choices can end-up having ruinous financial consequences. Hence, elected official perceived and incentive to endorse a strategy of reverse contracting from unbalanced municipal enterprises. The risk of

losing political support was too high compared to the benefits of supporting financially unstable enterprises. In the end, in line with Pallesen (2004), this paper corroborates that reverse contracting is the politics of bad times.

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Figure 1. Evolution of Municipal Enterprises

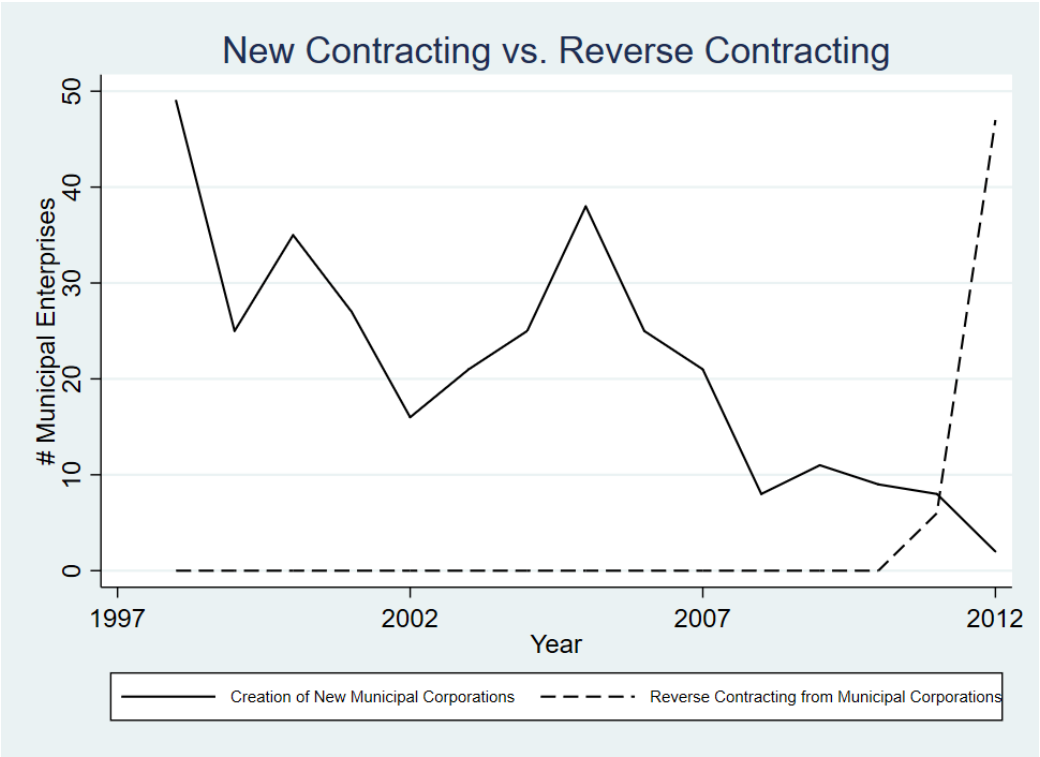


Table 1. Results from logit estimations

	(1)	(2)	(3)
	Municipal Stance	Municipal Enterprise	Full Model
	Odd Ratios		
Pop *(i)* (ln)	0.676***		0.756
	(0.102)		(0.142)
DiffParty *(i)*	1.635		2.022
	(0.653)		(0.927)
DiffCentralParty *(i)*	1.135		1.518
	(0.431)		(0.638)
Indebtness *(i)* (ln)	2.991***		2.533**
	(1.237)		(1.084)
Exessive Indebtness *(i)*	0.064***		0.080***
	(0.059)		(0.077)
Budget Maximization *(i)*		4.576**	5.178**
		(3.247)	(3.823)
Grant *(i)* (ln)		0.994	0.990
		(0.007)	(0.008)
Object *(i)*		0.191***	0.224***
		(0.089)	(0.109)
Duration *(i)*		0.995	0.983
		(0.057)	(0.062)
Constant	10.325	0.181***	3.851
	(16.187)	(0.115)	(7.633)
Observations	310	270	270
Wald Chi2	21.38	26.53	40.64
Prob>Chi2	0.007	0.000	0.000

Sd Errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Source: Own computations

Table 2. Marginal Effects

Continuous Variables	+1	SD	Average Marginal
Pop *(i)* (ln)	-0.023	-0.03*	-0.025
Indebtedness *(i)* (ln)	0.103**	0.088**	0.083**
Budget Maximization *(i)*	0.209**	0.057**	0.146**
Grant *(i)* (ln)	-0.001	-0.027	-0.001
Duration *(i)*	-0.002	-0.006	-0.002
Dummy Variables		1 *vs.* 0	
DiffParty *(i)*		0.067	
DiffCentralParty *(i)*		0.038	
Exessive Indebtness *(i)*		-0.145***	
Object *(i)*		-0.125**	
Average Prediction	0		1
Pr(Y|base)	0.878		0.122

Figure 2. Marginal Effects for the levels of Indebtedness

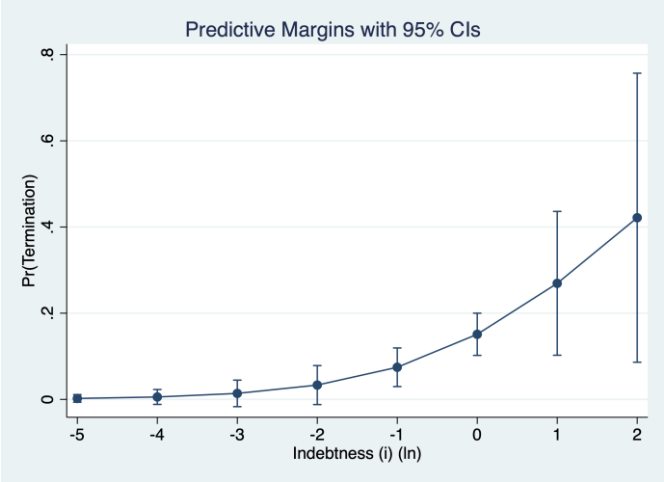
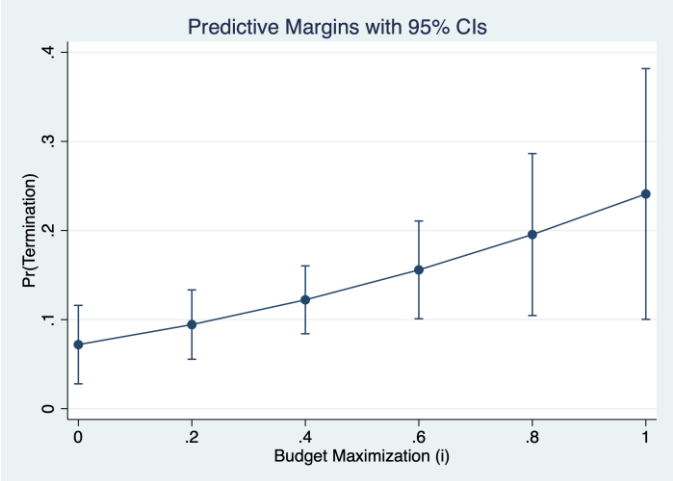


Figure 3. Marginal Effects for the levels of Budget Maximization



APPENDIX

Results from firthlogit estimation for penalized maximum likelihood estimation method to accommodate inflated numbers of zeros in the distribution.

	(1)	(2)	(3)
	Municipal Stance	Municipal Enterprise	Full Model
		Odd Ratios	
Pop *(i,t)* (ln)	0.686**		0.771
	(0.101)		(0.138)
DiffParty *(i,t)*	1.629		1.926
	(0.636)		(0.847)
DiffCentralParty *(i,t)*	1.127		1.492
	(0.419)		(0.603)
Indebtness *(i,t)* (ln)	2.733**		2.244**
	(1.115)		(0.919)
Excessive Indebtness *(i,t)*	0.084***		0.112**
	(0.073)		(0.101)
Budget Maximization *(i,t)*		4.358**	4.595**
		(3.022)	(3.254)
Grant *(i,t)* (ln)		0.995	0.991
		(0.007)	(0.008)
Object *(i,t)*		0.208***	0.251***
		(0.094)	(0.117)
Duration *(i,t)*		0.995	0.986
		(0.056)	(0.060)
Constant	9.276	0.188***	3.309
	(14.227)	(0.117)	(6.297)
Observations	310	270	270
Wald Chi2	15.46	20.97	27.54
Prob>Chi2	0.0086	0.0003	0.0011

Sd Errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Source: Own computations