

## CHAPTER 14

# The politics of privatisation: A panel data analysis of the local political situation and share of private kindergartens in Norwegian municipalities

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## ABSTRACT

*Following the kindergarten reform of 2003 and the later Childcare Law of 2005, access to kindergarten was made universal in Norway. The municipalities were given the responsibility for providing an adequate coverage for kindergarten places, and they largely depended on private providers to provide a sufficient coverage. This study investigates whether the share of private kindergartens in Norwegian municipalities is a result of the local political situation or rather a result of “pragmatic considerations”. Using longitudinal data from Norwegian municipalities in the period 2001–2016, the findings indicate that the pragmatic aspects outperform the political and ideological aspects both across and within the municipalities. We find that on average over the entire study period, municipalities with higher incomes and larger populations had lower shares of private kindergartens. As this study only find weak effects of the local political situation on the share of private kindergartens, it adds to a growing body of literature documenting only limited effects of the local political situation on local privatisation.*

*Keywords: privatisation, local government, local politics, kindergarten, municipal childcare, public services, welfare, public choice, Norway, panel data.*

## INTRODUCTION

The privatisation of public welfare services has become an important political issue in many countries. An increasing financial burden of governments, combined with a desire to deliver services more efficiently, has put pressure on the public sector. Since the 1980s, public choice theory has argued that public monopoly of services will lead to overproduction, waste and inefficiency (Niskanen, 1971; Boyne, 1998). Public sector reforms have therefore typically promoted market competition and privatisation, often under the heading of New Public Management (NPM), leading to the contracting out of public services, particularly at the local level (Common, 1994; Lorrain & Stoker, 1997; Köthenbürger et al., 2006). Although the desires for increased efficiency and reduced costs are often reported as the biggest motivational factors for local governments in choosing to privatise public services, the literature offers little on the role of political factors. A review of empirical studies of local privatisation found that the ideological attitudes of policy makers did not influence local service delivery choices in any systematic way (Bel & Fageda, 2007). This may seem somewhat surprising, considering how fundamental the privatisation

issue is for political ideology. One possible explanation may lie in the fact that research has almost exclusively dealt with the USA and that the few studies of European countries have mainly investigated technical services such as water and solid waste. Recently, related studies from Sweden and Denmark have emerged, which indicates that ideology is becoming increasingly important in the choice of service provider, especially for the social services (Elinder & Jordahl, 2013; Petersen et al., 2015). Hence, there is great demand for more studies in the European context that focus on local services other than technical services to cast more light on the politics of privatisation.

This study investigated whether the share of private kindergartens in Norwegian municipalities is a result of the local political situation or rather a result of “pragmatic considerations”. Following the kindergarten reform of 2003 and the later Childcare Law of 2005, access to kindergarten was made universal in Norway, with municipalities acting as the local authority for this service (The Childcare Law, 2005). Municipalities were thus made responsible for providing adequate kindergarten coverage. To provide a sufficient number of kindergarten places, the municipalities largely depended on private providers. At present, kindergarten is consequently the social service with the highest feature of private providers: around half of the places are provided by private actors (Haugset, 2019). This was in line with the intentions of the reform: the sector was supposed to be developed by public and private providers in collaboration. However, since this responsibility was given to the municipalities, it was interesting to investigate whether the local political situation played a role in how the sector is shaped today. At the present time, there is limited knowledge about the influence of local politics on this outcome.

The empirical data for this study stemmed from administrative registers, and the scope of the study is all Norwegian municipalities with a population above 2000 in the period 2001–2016. The method applied is panel data analysis, focusing on the variation *between* and *within* the Norwegian municipalities. The political side of the research question is based on ideological and partisan theory, whereas the pragmatic side is based on economic theories such as public choice theory and transaction cost theory. The empirical analysis investigated the relationship between the share of Conservative/Liberal seats in the local council and the share of private kindergartens, controlling for local income, population size, spending and share of population aged 0–6 years and above 72 years.

The chapter is structured as follows. The next section presents the theoretical context of the privatisation of municipal services, distinguishing between economic and political perspectives. Then there is an overview of the previous research on local privatisation building on two reviews by Bel and Fageda

(2007; 2017). The section thereafter elaborates on the data and methods used in this study, with a brief outline of the four different estimation techniques used for time-series cross-section (TSCS) analysis: pooled ordinary least squares regression (OLS), between effects, fixed effects and random effects. The results are then presented and discussed, followed by the final section containing the concluding remarks and some considerations about policy implications and future research.

### THE THEORY OF LOCAL PRIVATISATION

The study of local privatisation builds on several theoretical perspectives typically related to two groups of explanatory factors: economic and political (Bel & Fageda, 2007). Starting with the *economic* factors, the well-known argument from public choice theory is that public monopolisation of services will lead to overproduction, waste and inefficiency. This is because public providers lack incentives to provide services as efficiently as private providers operating in a market. The standard remedy of public choice theory is therefore to outsource public services to private providers, which should lead to increased quality and efficiency as well as lower prices through competition. This applies not only to privately provided services; the publicly provided services will also be forced to be more efficient under competition. Accordingly, it is generally expected that municipalities may save money owing to the increased privatisation of local services and that the quality of services will increase as a result (Boyne, 1998). The theory therefore assumes that municipalities in fiscal stress will be more likely to employ private providers to save money.

Public choice theory's positive view on contracting out has naturally attracted several critical concerns, with the most important one being transaction cost theory. Transaction cost theory considers the potential problems that may arise from privatisation and how this in some cases may make services less efficient and lead to increased costs. Whereas public choice theory only sees the advantages of privatisation, transaction cost theory also considers its possible disadvantages; if the costs from privatisation exceed the potential savings, it will not pay off to use private providers (Schoute et al., 2017). Such costs may be administrative costs and costs that arise from incomplete contracts, both resulting from monitoring and control activities (Williamson, 1997). The transaction costs are assumed to be higher in social than in technical services owing to the service measurability: obviously, the quality and outcomes of waste removal can be quite easily measured through logistical indicators related to the number of waste bins emptied, collection costs, timeliness, etc., whereas it is far more challenging to capture the qual-

ity of kindergartens through quantitative measures. The concept of “hidden action” may also enter the picture in the case of kindergartens: some parts of the service are more visible to the parents than others, which may give kindergartens an incentive to improve those parts of the experience more than – or even at the expense of – the parts that the parents cannot as easily see, (and therefore do not demand) if this practice lowers cost. Examples of the former could be the building or the parent greeting, whereas teacher-child interactions throughout the day would be an example of the latter (Morris, 1999).

The influence of *political* factors on local service privatisation is one of the most researched but also most inconclusive issues in this area (Schoute et al., 2017). The classic assumption is that left-wing parties prefer a large state with higher public expenditures and policies that lead to increased equality and economic redistribution, whereas parties of conservative or liberal ideologies favour less public involvement and economic redistribution. The common theoretical expectation is therefore that conservative parties are more in favour of privately provided services than socialist or social democratic parties (Petersen et al., 2015).

So how, then, is political ideology converted into decisions to privatise public services? Following earlier studies, three models are generally differentiated based on why local politicians act as they do: the citizen-candidate model, the Downsian model and the patronage model (Elinder & Jordahl, 2013; Schoute et al., 2017). These models build on the assumption that politicians on the one hand are motivated by the desire to implement a policy reflecting their preferences and on the other hand are motivated by the spoils of political power. Politicians in the first category will act according to their own political preferences, whereas the behaviour of politicians in the second category will be that which maximises their probability of re-election. The citizen-candidate model belongs to the former, presuming that politicians first and foremost run for office out of ideological concerns and that policy choices will therefore reflect the preferences of the ruling parties – that is, that right-wing local councils will make decisions to privatise services (Elinder & Jordahl, 2013).

The last two models – the Downsian model and the patronage model – depart from the assumption that the politicians’ primary goal is to stay in power. The former assumes that policy outcomes are decided by the preferences of the median voter in cases of close elections between two parties. As a result, the decision to outsource to private providers will depend on the median voter’s preferences and not the politicians’ because politicians will implement a policy that attracts the median voter. This model thus predicts that there

are no differences between right-wing and left-wing municipalities when it comes to privatisation (Schoute et al., 2018). The patronage model rests on the assumption that politicians may receive increased support from a large group of public employees by not privatising public services. However, a decision not to privatise may lead to increased taxes, which could be poorly received by other voters. According to the patronage model, politicians will therefore choose lower levels of outsourcing than voters prefer, but in competitive elections this difference will be smaller because politicians must accommodate voter preferences to be re-elected (Elinder & Jordahl, 2013). Obviously, the citizen-candidate model is the one most relevant in our context: it is the only one assuming that the political leaning of the local council influences the decision to privatise.

### RESEARCH ON LOCAL PRIVATISATION

The literature on the drivers of privatisation is summed up in two reviews by Bel and Fageda (2007; 2017). One of the most common patterns observed in the first review was that the ideological attitudes of the municipality had no apparent influence on the privatisation decision. Later studies have continued to use the traditional variable based on the percentage of votes cast for left-wing (right-wing) parties and have reported findings consistent with those in the earlier studies (e.g., Bel et al., 2010; Hefetz et al., 2012; Wassenaar et al., 2013; Petersen et al., 2015; Boggio, 2016). As observed by Bel and Fageda in their later review, however, the finding that ideological attitudes have no influence on the contracting out of services has been challenged in more recent research based on data from European countries (e.g., Bhatti et al., 2009; Plantinga et al., 2011; Plata-Diaz et al., 2014; Zafra-Gómez et al., 2014; 2016). Bel and Fageda (2017) also emphasised the usefulness of differentiating between technical services (e.g., waste management and roads) and social services (e.g., care of the elderly, primary schools and other public welfare services). Two recent Swedish studies documented that right-wing strength was positively associated with the outsourcing of preschools and primary schools (Elinder & Jordahl, 2013) and the preferences for privatisation of elderly care (Guo & Wilner, 2017).

The positive influence of fiscal stress on privatisation was generally confirmed in the studies reviewed by Bel and Fageda (2007), which mainly drew on data from US municipalities. In their follow-up review (Bel & Fageda, 2017), they also verified the relationship between fiscal constraints and privatisation in studies from European countries (e.g., Bel & Fageda, 2010; Bel et al., 2010; Plata-Diaz et al., 2014; Zafra-Gómez, 2016; Boggio, 2016; Geys & Sørensen,

2016). However, the fact that a few European studies documented a negative relationship between fiscal stress and contracting out may suggest that privatisation could also be considered as the “politics of good times” (Bhatti et al., 2009; Foged & Aaskoven, 2017; Rodrigues et al., 2012). Regarding economic efficiency, several of the early studies found that the decision to outsource was negatively related to the population size of the municipality, which was considered by Bel and Fageda (2007) as evidence that privatisation was used to exploit scale economies. In contrast, Bel and Fageda (2017) showed that the most common finding in recent studies is the opposite relationship – that is, privatisation is more likely in larger municipalities (e.g., Petersen et al., 2015; Boggio, 2016; Zafra-Gómez et al., 2014; 2016). A possible explanation may be that larger municipalities have higher contracting capabilities and are thereby better able to handle the transaction costs associated with external production. In addition, inter-municipal cooperation is an alternative for many small municipalities, which allows for exploiting scale economics without contracting out (Bel & Fageda, 2017).

## DATA AND METHODS

### DATA

The data for this study is a panel dataset on Norwegian municipalities for the period 2001–2016 mainly based on the *Local Government Dataset*<sup>2</sup> (Fiva et al., 2017). The dependent variable, percentage share of private kindergartens, is obtained from Statistics Norway (Statistics Norway, 2020), whereas the variable measuring municipal income is derived from the Norwegian Centre for Research Data’s Municipality Data Base.<sup>3</sup> The dataset is unbalanced, which implies that it does not include the same number of observations for all municipalities. This is mainly attributable to the municipal amalgamations during the period under study, which saw the number of municipalities reduced from 435 to 428. However, an unbalanced dataset is rather unproblematic, since it still allows for the same statistical operations (Longhi & Nandi, 2015; Mehmetoglu & Jakobsen, 2017).

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2 Available at [www.jon.fiva.no/data.htm](http://www.jon.fiva.no/data.htm)

3 NSD is not in any way responsible for the way the data are used here.

## METHODS

The statistical method utilised for this study was panel data analysis. Panel data comprise repeated observations of the same units across time (Skog, 2004). A major shortcoming of the existing literature on privatisation is that almost all studies have employed cross-section data that were subsequent to the time when the privatisation decision was taken, which may cause a potential problem of reverse causality (Bel & Fageda, 2007; 2017). Inferring causal relations from modest cross-sectional correlations is problematic, and the time-wise variations in contracting out should be taken into account to explain the causes of privatisation (Sundell & Lapuente, 2012). With only one measuring point, it is difficult to know for sure when the privatisation actually took place. Another advantage with panel data is the ability to control for unobserved explanatory variables (Petersen, 2004). This may relate to changes between municipalities that do not change over time and that are not reflected in the data, such as cultural or institutional differences that are difficult to measure. Panel data includes measuring points from municipalities over time and thus allows for the control for unobserved heterogeneity (Longhi & Nandi, 2015).

Panel data analysis based on register data is typically referred to as a time-series cross-section (TSCS) analysis (Beck, 2008). We used four different estimation techniques for our analyses: pooled OLS, between effects (BE), fixed effects (FE) and random effects (RE). Pooled OLS implies estimating a regular OLS model on panel data. Although using OLS on a panel data set runs a high risk of not meeting the assumptions about homoscedasticity and no autocorrelation, it is still a common approach to use a pooled OLS model as a starting point to observe the differences between estimation techniques (Longhi & Nandi, 2015). A BE model allows us to analyse differences across municipalities using the average value of each variable in the time period 2001–2016 in every municipality in a simple OLS regression (Mehmetoglu & Jakobsen, 2017). The advantage of this model is that it can include the variables that do not change over time, whereas the disadvantage is the loss of information and nuances from only employing the average values for each municipality in the period. The FE model considers the group structure in the data by including a dummy variable for each municipality and shows how the independent variables affect the share of private kindergartens *within* the municipalities. The benefit of the FE model is that it allows for the control for unobserved variables through the inclusion of dummy variables for municipalities, thus taking unobserved heterogeneity into account. The RE model is a combination of a BE model and an FE model and is estimated using a weighted average of the two models (Petersen, 2004). Given that the RE model



simultaneously estimates the effect of the independent variables both within and between municipalities, the challenge is that we may not be sure of exactly *what* we are measuring (Mehmetoglu & Jakobsen, 2017).

Finally, a potential problem that may arise from TSCS analysis is non-stationary data. This might be a problem because two non-related time series with the same trend can cause false significant relationships, which may again lead to misleading results following from spurious relationships. One possible remedy is to include a lagged version of the dependent variable as an independent variable. Although this may cause bias in both FE and RE models, the problem decreases with increase in the number of years included in the models (Mehmetoglu & Jakobsen, 2017). Given that our analysis is based on data across 16 years, we have elected not to include a lagged dependent variable. Furthermore, the independent variables should always be lagged when the theory assumes that it will take time before they may affect the dependent variable. This certainly applies to our case because it is reasonable to assume that the kindergarten situation is a result of previous events. The regression equation can thus be written as follows.

$$Y_{it} = \beta_0 + \beta X_{i,t-1} + \varepsilon_{it}$$

## VARIABLES

The descriptive statistics for the variables included in the analysis are presented in table 14.1. The dependent variable is *the share of private kindergartens* in the municipalities. Unfortunately, the present statistics on private kindergartens do not distinguish between commercial and non-commercial kindergartens. Whereas the goal of commercial kindergartens is to make profit, the non-commercial actors have no such objective, and a potential surplus is mainly used to develop the services into the best possible for the users (Jensen, 2018). The political controversy has first and foremost involved the kindergartens run on a commercial basis, and it would therefore be preferable to be able to make this distinction in our analysis. Nevertheless, the commercial kindergartens make up an increasingly larger share of private kindergartens (Lunder, 2019). Statistics Norway reports the total number of municipal and private kindergartens in every municipality each year, and we used this information to calculate a variable reflecting the percentage share of private kindergartens in all municipalities.

TABLE 14.1: Descriptive statistics.

	N	Min	Max	Mean	Std. deviation
Share of private kindergarten	5266	0	100	38.83	27.08
Political situation	5266	0	86.95	42.75	17.08
Fiscal restriction	5266	26.74	152.60	62.03	19.35
Municipality size	5266	2000	658390	13967.43	37676.16
log_Municipality size	5266	7.60	13.39	8.88	0.94
Percentage kindergarten age	5266	3.84	11.01	7.11	1.21
Percentage primary school age	5266	6.39	19.27	12.55	2.10
Percentage pension age	5266	6.88	27.25	15.90	3.23

Another problem with our dependent variable is that it contains a large number of cases with the value of zero. These are mainly municipalities that have not had private kindergartens at all; there were in total 144 such municipalities during the study period. A reasonable explanation is that this is mainly attributable to municipality size: many small municipalities are simply not large enough to provide a functioning market or sufficient interest to enable the establishment of private kindergartens. In our view, it is far more interesting to investigate how the political situation has affected the share of private kindergartens in the municipalities that actually had a basis of establishing private kindergartens. Consequently, we excluded the municipalities with a population size below 2000 inhabitants from further analyses (these municipalities had 93.6% public kindergartens in 2017). A total of 89 municipalities were excluded through this procedure, thus leaving 339 municipalities eligible for further analyses.

The main independent variable is the *political situation* of the municipality. This information is usually captured through the percentage of left-wing (or right-wing) votes in municipal elections, with the general assumption being a positive relationship between privatisation and the percentage of right-wing votes (Bel & Fageda, 2007; 2017). An alternative approach is to measure the political situation in the municipality through the mandate or seat distribution between the parties in the local councils. The actual distribution of positions between the parties may better reflect the relative power of the local parties and is a measure also used in other studies of privatisation (e.g., Petersen et al., 2015). The variable employed here reflects the share of seats held by the right-wing bloc in Norwegian politics, which has traditionally consisted of the Conservative Party, the Progressive Party, the Liberal Party, the Chris-

tian Democratic Party and local right-oriented lists. In addition, we tested an alternative measure reflecting only the share of seats held by the Conservative Party and the Progressive Party, as these are the two parties most positive towards outsourcing.

The following control variables were also included in the model: fiscal restriction, municipality size and age composition. The *fiscal restriction* of the municipality was measured by the operational revenues per inhabitant, which are generated from local taxes, central transfers and user fees. *Municipality size* is reflected by the number of inhabitants. Because this variable is strongly skewed, ranging from 200 inhabitants in the smallest municipality to 658,390 in the largest, the variable is log transformed. Finally, three demographic variables capture the relevant age groups of the municipality: *percentage kindergarten age* reflects the share of inhabitants aged 0–5 years, *percentage primary school age* reflects the share of inhabitants aged 6–15 years, and *percentage pension age* reflects the share of inhabitants aged 66 years or above.

## RESULTS

Table 14.2 presents the result from the BE models and shows how the independent variables affect the share of private kindergartens across municipalities. The variables express each municipality's average value in the period 2001–2016, and the models thus represent cross-section analyses with only one observation per municipality. These models therefore lack many of the nuances found in the other models presented below. Because the BE models do not have to account for the time aspect in the data, neither year dummies nor lagged variables were included. As can be observed, the estimated coefficient of 0.56 for right-wing share of seats is insignificant, suggesting that there is no difference in the use of private kindergartens between municipalities run by the right-wing parties and other municipalities. This result did not change when estimating the model with a political variable reflecting the share of council seats of only the Conservative Party and Progressive Party instead of all the right-wing parties (results not reported here).

**TABLE 14.2:** Results from between effects model. Robust standard errors in parentheses

	<b>Model 1</b>
<b>VARIABLES</b>	<b>Between effects</b>
Political situation	0.0551 (0.0766)
Fiscal restriction	-0.851*** (0.120)
log_Municipality size	8.810*** (1.554)
Percentage kindergarten age	0.159 (2.407)
Percentage primary school age	-0.543 (1.540)
Percentage pension age	-0.999 (0.699)
Constant	32.76 (36.76)
R <sup>2</sup>	0.498
Observations (N)	5,266
Number of municipalities (n)	339

\*\*\* p < .01, \*\* p < .05, \* p < .1

Regarding the control variables, high-income municipalities had a lower share of private kindergartens than low-income municipalities: an increase in income of 1000 NOK per person led to a reduction of 0.851 in the percentage share of private kindergartens. The opposite relationship is reported for municipality size: a 1 percentage increase in population size was associated with a 0.09 percentage increase in the share of private kindergartens. The age group variables showed no significant relationships with the share of private kindergartens. The reported R<sup>2</sup> is 0.498, which means our model explains about 50% of the change in the share of private kindergartens when analysing average values for the entire period of 2001–2016.

In Table 14.3, we present the results from the pooled OLS, FE and RE models. All independent variables were lagged with one year, and dummies for years were included (estimates for year dummies are not shown in the table).

The models were estimated using Huber–White robust standard errors with clustering function to obtain more accurate standard errors in the presence of heteroscedasticity. Although this correction will not affect the coefficients, the p-values will necessarily be influenced by the standard errors (Mehmetoglu & Jacobsen, 2017).

**TABLE 14.3:** Results from pooled OLS, fixed effects and random effects models.  
Robust standard errors in parentheses

	Model 2	Model 3	Model 4
VARIABLES	Pooled OLS	Fixed effects	Random effects
Political situation (t – 1)	0.0720 (0.0630)	0.0761 (0.0474)	0.0952** (0.0450)
Fiscal restriction (t – 1)	-0.819*** (0.100)	-0.149* (0.0821)	-0.0914 (0.0630)
log_Municipality size (t – 1)	9.527*** (1.286)	-16.14* (9.482)	11.87*** (1.453)
Percentage kindergarten age (t – 1)	-0.603 (1.364)	0.567 (0.655)	-0.0636 (0.626)
Percentage primary school age (t – 1)	0.624 (0.888)	0.388 (0.527)	0.598 (0.501)
Percentage pension age (t – 1)	-0.941* (0.522)	-0.0905 (0.451)	-0.324 (0.388)
Constant	-8.573 (28.10)	173.6** (86.37)	-72.13*** (20.47)
R <sup>2</sup>	0.459	0.031	0.396
Rho		0.956	0.854
Observations (N)	4,912	4,912	4,912
Number of municipalities (n)		339	339

\*\*\* p < .01, \*\* p < .05, \* p < .1

In the pooled OLS model, the share of right-wing representatives does not have any significant effect on the share of private kindergartens in the municipalities, even if the estimate indicates the expected direction with a positive coefficient of 0.0720. The same is also the case for the FE model: the coefficient for right-wing seats is positive but not significant. Regarding the RE model, it is considered more consistent than the FE model, but the statistical demands to employ it are stricter (Petersen, 2004). A common way to assess whether an RE model is the best option is the Hausman test. In our case, the Hausman test returned a significant result, which means that the RE model did not pass the test and that we should consequently use the FE model. The results from the RE model should therefore be interpreted with caution, but we still chose to present them because they are of interest. The RE model returned a positive and significant estimate of 0.0952 for the right-wing variable, which indicates that an increasing share of seats for these parties leads to a higher share of private kindergartens.

For the control variables, municipal income is negatively associated with the share of private kindergartens but is only significant in the pooled OLS model ( $\beta = -0.819, p < .01$ ). Population size is positively related to the share of private kindergartens in the pooled OLS model ( $\beta = 9.527, p < .01$ ) and RE model ( $\beta = 11.87, p < .01$ ) but not in the FE model. However, the variables reflecting age composition did not affect the share of private kindergartens in any of the models.

In an attempt to improve the models, we also tried estimating them with two-year lagged independent variables. These results are presented in Table 14.4. As can be seen, this only marginally changed the estimates for the pooled OLS and RE models. For the FE model, however, the estimate for the right-wing bloc increased from 0.0761 to 0.0933 and became significant at a 5% level. According to this model, an increase of 1 percentage in right-wing mandates within a municipality thus led to an increase of 0.0933 in the share of private kindergartens.

**TABLE 14.4:** Results from pooled OLS, fixed effects and random effects models with two-year lagged independent variables. Robust standard errors in parentheses

	Model 4	Model 6	Model 7
VARIABLES	Pooled OLS	Fixed effects	Random effects
Political situation (t – 2)	0.0750 (0.0637)	0.0933** (0.0464)	0.111** (0.0438)
Fiscal restriction (t – 2)	-0.855*** (0.104)	-0.152* (0.0776)	-0.0906 (0.0621)
log_Municipality size (t – 2)	9.531*** (1.291)	-19.31** (9.398)	12.00*** (1.399)
Percentage kindergarten age (t – 2)	-0.512 (1.387)	0.568 (0.647)	-0.158 (0.617)
Percentage primary school age (t – 2)	0.593 (0.905)	0.467 (0.533)	0.676 (0.506)
Percentage pension age (t – 2)	-0.892* (0.535)	0.0620 (0.442)	-0.244 (0.387)
Constant	-7.491 (28.53)	198.3** (85.51)	-74.71*** (20.02)
Year dummies	Yes	Yes	Yes
R <sup>2</sup>	0.459	0.026	0.393
Rho		0.964	0.863
Observations (N)	4,580	4,580	4,580
Number of municipalities (n)		339	339

\*\*\* p < .01, \*\* p < .05, \* p < .1

Finally, we estimated a model using only data from the final year of each of the four-year election periods (2003, 2007, 2011 and 2015) based on an assumption that this will allow the maximum of time for the local council to implement its preferred policies. These results are presented in Table 14.5. The drawback of such an analysis is that we are left with only four observations per municipality. Hence, no variables were lagged in this model, as it is not recommended to lag variables in cases of few observations per unit (Beck, 2001).

**TABLE 14.5:** Results from pooled OLS, between effects, fixed effects and random effects models based on data only from the final year of each of the four-year election periods (2003, 2007, 2011 and 2015). Robust standard errors in parentheses

	Model 8	Model 9	Model 9	Model 10
VARIABLES	Pooled OLS	Between effects	Fixed effects	Random effects
Political situation	0.0671 (0.0634)	0.0542 (0.0749)	0.0943** (0.0412)	0.119*** (0.0454)
Fiscal restriction	-0.791*** (0.0976)	-0.845*** (0.117)	-0.179** (0.0753)	-0.254*** (0.0744)
log_Municipality size	9.688*** (1.285)	9.018*** (1.544)	-17.37** (7.646)	12.46*** (1.310)
Percentage kindergarten age	-0.566 (1.379)	0.306 (2.267)	0.715 (0.660)	-0.0440 (0.749)
Percentage primary school age	1.081 (0.888)	-0.188 (1.439)	0.795 (0.503)	1.139** (0.520)
Percentage pension age	-0.720 (0.558)	-0.843 (0.703)	0.244 (0.428)	-0.404 (0.394)
Year dummies				
2007	12.07*** (1.406)		5.542*** (1.205)	6.088*** (1.099)
2011	25.06*** (2.818)		9.113*** (2.485)	10.42*** (2.314)
2015	37.83*** (4.782)		13.49*** (4.089)	16.54*** (3.532)
Constant	-17.31 (28.49)	23.51 (36.95)	174.4** (70.38)	-76.98*** (21.32)
R <sup>2</sup>	0.457	0.500	0.039	0.424
Rho			0.948	0.816
Observations (N)	1,317	1,317	1,317	1,317
Number of municipalities (n)		339	339	339

\*\*\* p < .01, \*\* p < .05, \* p < .1



## DISCUSSION

The study of the relevance of parties is a basic and classic theme in political science. The traditional approach of this research field is represented by the so-called output studies: a term that refers to the numerous studies that investigate the impact of parties on different forms of policy outputs (Dye, 1966; Fried, 1975; Newton & Sharpe, 1977; Sharpe, 1981; Boyne, 1988; Castles & McKinlay, 1997). However, the fact that the effects of parties in general are found to be relatively weak contradicts the assumption in traditional political theory that politics is the major determinant of public decisions. The large body of literature on the role of parties in local government seems to agree that the overall conclusion is rather pessimistic on behalf of political factors: socio-economic variables seem far more important than political variables in shaping policies (for overviews, see e.g., Fried, 1975; Newton & Sharpe, 1977; Sharpe, 1981; Boyne, 1988; Sørensen, 1989; Martinussen & Pettersen, 2001). At the sub-national level, strong central regulations and little financial autonomy often make political factors irrelevant for expenditure decisions.

This aspect is especially relevant in the Norwegian local setting. Norwegian local governments have traditionally been organised according to an Aldermen model that promotes partisan agreement and harmony through the distribution of power and responsibility. This consensus ideal has seen its practical manifestation in the construction of the local government institutions, which encourages broad participation in the decision-making process through a system of proportional representation in the executive committee. The organisation model thus offers no roles for a formal government and an opposition, since the executive represents the entire local council, allowing all parties to influence the decisions. In some municipalities, this has led to some rather “unconventional” coalitions across the traditional political blocs. Hence, the politics of Norwegian local government is commonly assumed to take place in a rather depoliticised and non-partisan environment, with the local councils little dominated by traditional party-political concerns (e.g., Sørensen, 1989; Bukve, 1992; 1996; Hagen & Sørensen, 1997). This understanding received substantial empirical support in the early findings that parties are of little or no relevance at the Norwegian local level of government (e.g., Olsen, 1970; Hansen & Nokken, 1976; Hansen & Kjellberg, 1976; Kuhnle, 1981; Pedersen, 1987; Sørensen, 1989; Fevolden et al., 1992). However, other studies have found significant local party differences in spending preferences (Jacobsen, 2006) and attitudes towards NPM reforms (Jacobsen, 2005), and more recent empirical studies have documented the relevance of parties at the local level in terms of both policy output and fiscal strategies (e.g., Kalseth & Rattsø, 1998; Borge, 2000; Fimreite & Kolsrud, 2001; Martinussen & Pettersen, 2001; Martinussen, 2002; 2004).

Right-wing parties are generally expected to be more willing to privatise public services. Nevertheless, research on ideology and local privatisation is inconclusive and has found little effect of ideological attitudes of policy makers on local service delivery choices (Bel & Fageda, 2007). This study adds to this picture, since we found only weak effects of the local political situation on the share of private kindergartens in Norwegian municipalities. The sign of the estimate for the political variable indicates the expected relationship – that the share of right-wing seats in the local council is associated with a higher share of private kindergartens – but the estimate was only significant in the two-year-lagged models and the models based on data from the final year of the election period. We also tested an additional version of the political variable that reflected only the share of seats of the Conservative Party and Progressive Party because, theoretically, these are the two parties most in favour of privatising public services. However, using this variable did not change the results (estimates from these models are therefore not presented).

The main analysis showed that on average, over the entire study period, municipalities with higher incomes and larger populations had lower shares of private kindergartens. The results also documented that both increased income and increased population within municipalities apparently led to reduced shares of private kindergartens. However, the FE models had low explanatory power compared with the other models, which indicates that changes within the municipalities explain less of the variation in the share of private kindergartens than changes across time do. This may also be an indication that all variables – and not only the political variables – slowly change within the municipalities. FE models are most suitable when there is substantial variation over time in the included variables (Ringdal, 2018). The analysis also suggests that there is no relationship between the demand for kindergartens, measured as age groups, and the share of private kindergartens in the municipalities.

Our study departed from the theoretical framework of the citizen-candidate model. This model assumes that politicians make choices and decisions to realise their preferred policy. According to this model, the political majority will thus implement policies based on their ideological preferences. The empirical results reported here failed to uncover any systematic relationships; this can be interpreted in three possible ways in light of the citizen-candidate model: 1) local politicians have no ideological preferences with regard to private kindergartens, 2) local politicians do not act based on ideological preferences but rather on what increases the probability of re-election, or 3) the empirical models fail to unambiguously capture how party politics affects the share of private kindergartens because the impact of politics and ideology varies from municipality to municipality. The first explanation appears less plausible given

that the attitudes of Norwegian local politicians towards NPM reforms are documented to follow the classic left-right dimension in politics (Jacobsen, 2005). A more likely explanation is instead related to the weakness of the dependent variable employed in the analyses. As noted, the variable only distinguished between private and municipal ownership, whereas the political debate has mainly focused on commercial kindergartens and the possibility of making profits from kindergartens. This may explain why we are unable to find a systematic relationship between political situation and the share of private kindergartens. Clearly, a dependent variable that distinguishes between commercial and non-commercial kindergarten owners would have been more preferable.

The other explanation takes into account the power struggles and re-election ambitions associated with the Downsian and patronage models. To quantitatively test for such effects is rather challenging, and the Downsian model is most suitable in explaining political outcomes in two-party systems. However, one possible way to model this could have been to follow the approach of Sundell and Lapuente (2012), who included a control variable to reflect the competitiveness of elections – that is, local elections where few votes separate the two largest parties and the campaign to win votes is consequently fiercer. This would demand more detailed data on election results, local coalitions and the number of candidates needed to gain a majority in each municipality. Furthermore, the patronage model could have been tested including a variable measuring the share of municipal employees. However, such a variable could lead to endogeneity problems: municipalities with many public kindergartens typically have more employees than municipalities with few public kindergartens because those employed in a public kindergarten are recognised as municipal employees. A fair assumption is that the chain of causality works in the opposite direction: the share of private kindergartens affects the number of municipal employees and not vice versa.

The fact that we did not find significant effects when investigating all municipalities with more than 2000 inhabitants does not necessarily mean that the political situation is without relevance for the share of private kindergartens in individual municipalities. This is the third possible explanation of the results from the analysis. It is reasonable that the effects of the local political situation may vary from municipality to municipality: in some municipalities party politics may have played an important role for the private kindergarten decisions, whereas in other municipalities it could have had less impact on the outcome. Another potential problem is the assumption that a certain political situation will automatically have the same effect in all municipalities. It could be argued that the same party may act quite differently across municipalities (Sørensen, 1995). For instance, a politician from the Labour Party in a large

urban municipality does not necessarily have the same preference for private kindergartens as a Labour Party politician in a small rural municipality. Indeed, in a meta-regression analysis of studies on local privatisation, Bel and Fageda (2009) found that the effect of ideology was stronger in large municipalities than in small municipalities. Similarly, a study of Norwegian municipalities showed that the partisan cooperation was more formalised, binding, and in line with the traditional ideological patterns in large municipalities (Martinussen, 2002). Therefore, this was also tested by estimating supplementary models that included interaction terms for political situation and municipality size (results not reported here). However, the findings from these analyses suggest that there is no interaction between political situation and municipality size in the case of private kindergartens.

A final possible explanation for the weak effects of politics may have to do with the modelling of the local political situation. As discussed by Martinussen and Pettersen (2001), most studies estimating the impact of politics have used various indicators of the numerical strength of parties or ideological blocs as their main political variable, assuming that strength is transformed into governing coalitions. However, these indicators give at best only an indirect measure of the political preferences driving local decisions. Although the assumption is that socialist (or non-socialist) majorities will automatically transform into political leaderships of socialist (or non-socialist) kinds, this is often not the case in Norwegian local government. Having information on the *genuine* political office holders (as opposed to *assumed* political office holders) could possibly have led to the results reflecting a stronger role of parties.

## CONCLUSION

The existing literature on local privatisation suggests that pragmatic considerations seem to be more important than ideological considerations for the choice of service delivery at the local level of government. This study is the first to investigate this matter for kindergarten services in Norway, and the findings seem to corroborate the above suggestion: the pragmatic considerations outperform the political and ideological consideration both across and within municipalities. For the reform makers on the national level, this depoliticised outcome might be considered a success, given that the intention was for the sector to be developed by public and private providers in collaboration, and therefore not be the subject of a political game. This may paint a rather bleak picture of local party politics in the case of privatising social services such as kindergartens. Future research should therefore continue to pursue the role of parties at the local level and test new and refined indicators of party impacts.

The study of local party politics appears even more imperative when considering that the developing understanding of local government mainly tends to take place within an economic perspective that emphasises the productivity and cost efficiency of public services – as manifested for instance in the NPM doctrine. Clearly, such a prevalent economic conception of local government neglects the broader conception of local government as a political unit. The challenge that thereby faces local government and political science was well formulated by Castles and McKinlay (1997): “If politics was not a question of choice, if the votes of voters and the actions of politicians were irrelevant to policy outcomes, what price for democracy and what rationale for a discipline condemned merely to describe a process declared in advance to be a mere charade?” (p. 102).

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