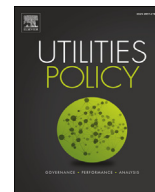


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Political coalitions, local leaders and the internationalization of local public services in Italy

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ABSTRACT

The liberalization of European markets in the provision of public services led some utility companies to expand their domain beyond their national borders. However, the effect of internationalization on the governance of public services at the local level in the host countries remains understudied. The opening of public service markets and their internationalization change the circumstances in which local politicians make their decisions. Through the analysis of the interplay between institutional contexts and the strategies local actors, this article maps the processes underpinning the integration of foreign and domestic companies in the delivery of local services in Italy since the late 1990s, with a particular focus on water and transport.

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1. Introduction

More than two decades of market liberalization and privatization in Europe have led to significant restructuring in the governance of local public services (LPS) (Wollmann and Marcou, 2010; Cremona, 2011). In some major European countries, namely Germany, Italy and the UK (a forerunner in marketization), a key feature of this process is the opening of previously closed markets and the emergence of companies that operate cross-nationally (Finger and Allouche, 2002; Lorrain, 2005). This process of internationalization *a contrario* – the opening up of the provision of local public services to international companies – took place across Europe: in relatively few years, multinational companies and operators initiated or consolidated activities in different national and local contexts.

The pace and scope of this opening, however, vary greatly both across countries and within them. Cross-country studies have often focused on archetypal models based either on full market opening or on the persistence of national champions (Alonso et al., 2013; Colli et al., 2014; Thatcher, 2007). In this context, Italy is interesting for two related reasons. Firstly, Italy has undergone

significant transformations since the nineteen-nineties in terms of liberalization and privatization across different sectors. The reforms and their implementation left local policy-makers ample room to maneuver, and many increased their control over the management of LPS. Secondly, Italy shows high levels of internal diversity; the patterns of opening to international partners vary greatly across the country over time. At certain times in some areas, international companies gained a foothold in the delivery of local public services previously provided directly by municipally owned companies. Elsewhere, municipalities chose to retain local public services under direct control, transferred the responsibility to local private companies, or encouraged mergers among local companies to avoid losing control to foreign companies.

This article examines how differing local political configurations help to explain the above variations, with a focus on water supply and local public transport (LPT) in Italy. Until now, limited consideration has been given to what happens in the localities where such market transformations actually take place and how they affect (and are affected by) local governance (Brenner, 2004; Högselius, 2009). The entry of international companies serves to alter not only the constellation of actors in a given policy area, but also the nature of the interactions among these actors and their environment (Kantor and Savitch, 2002). More broadly, while the market for local services is open to private actors, it remains deeply conditioned by factors in local politics (Citroni et al., 2015; Asquer, 2011, 2014; Da Cruz and Marques, 2012; Marra, 2007).

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We argue that opening LPS markets to international partners depends on political continuity (the same people or parties retaining power) and the position of local leaders within their political coalitions (at the regional and municipal level). When political discontinuity (or a change in power) occurs, the need for mayors to build new coalitions favors the entry of international actors. Conversely, when political continuity holds and mayors can rely on existing networks, they will tend to stick with the status quo, preferring “domestic” solutions, such as partnerships and mergers with national companies or the maintenance of existing relationships. To provide a more fine-grained view of these processes, and the local dynamics that underpin them, we rely on extensive interviews with local politicians and business representatives (both of local and multinational companies) and local and national newspapers.

The article proceeds as follows. The next section introduces the theoretical framework. Sections 3 and 4 describe the major transformations that have occurred in the governance of LPS in Italy. These include local government reforms that increased the power of executives and a changing business environment, whereby municipal utilities being corporatized and new foreign players entered the market. Section 5 provides empirical support for the idea that political leadership matters.

2. Local politics and the opening of LPS to international companies

Although internationalization is mainly understood as the expansion of a given firm beyond its domestic domain (Alonso et al., 2013; Di Giulio and Moro, 2016), this article explores its reverse. We look at the internationalization of Italian local public utilities in water and transport through the entrance of international actors into domestic LPS markets. This can happen through the acquisition of shares in existing companies, the creation of joint ventures, or the allocation of tenders for public service delivery to foreign utility companies.

The article contributes to the existing literature on the political economy of LPS reforms, which is understood to be the result of the interplay of actors within specific governance arrangements. More so than in purely commercial services, the internationalization of local water and transport utilities is influenced by political preferences and dynamics (Alonso et al., 2013; Colli et al., 2014). In fact, since these sectors are only moderately regulated by EU directives (Cremona, 2011; Wollmann and Marcou, 2010), national and local governments remain directly involved, not only in the regulation of LPS, but in their ownership and operation.

In the existing literature, the politics of LPS reforms has been explored mostly with reference to different types of political ideologies affecting the parties in office. Most such studies find that the activities of right-wing parties tend to underpin market-oriented policies (Boix, 1997; Doyle, 2010). Nonetheless, this clear-cut interpretation of the political drivers of economic policy and institutional change has been challenged by many authors. Belloc and Nicita (2011), for instance, noted that left-wing parties, once in office, pursued comprehensive privatization and liberalization policies in many cases. In their view, the opening of LPS markets relates more to diffusion and imitation, and although politically motivated, may have little to do with a-priori ideological commitments. In line with this reasoning, Lora and Olivera (2004) advanced the idea that governments are more likely to approve reforms at the beginning of their mandates. Their findings helped to displacing ideology as the main driver of policy reform, emphasizing instead the importance of the context in which strategic decisions are taken, and thus the role of political processes (Bel and Fageda, 2009).

To reach a more complete understanding of such processes and to account for the extreme diversity in terms of outcomes, we suggest considering the interplay between macro-level political incentives and micro-level strategies (Guérin-Schneider and Lorrain, 2003). In this sense, the internationalization of LPS can be seen as a process that changes the distribution of influence among local decision makers (Aars and Ringkjøb, 2011). Hence, the concrete responses of local actors have been extremely context-specific, so that micro-motivations (Högselius, 2009) and different entrepreneurial leadership styles guide mayors and local executives in their decision-making as shareholders of local utility companies (Sack, 2012; Beal and Pinson, 2014). The opening of markets for LPS gave both local executives, who act as shareholders with multiple goals, and the top management of utilities an unprecedented range of options to reframe their strategies and gain autonomy (Finger and Allouche, 2002).

In fact, in the case analyzed in the following sections, notwithstanding the emergence of several mixed ownership corporations, the public maintained all or the majority of shares in most LPS companies (Massarutto and Ermano, 2013; Antonioli and Massarutto, 2012). Hence, local governments are often caught in a dilemma between the desire to control the provision of services and the need to attract investment and improve services (Lippi et al., 2008, 629; Asquer, 2014). Thus, privatization is not necessarily favored, as political homogeneity and network dynamics matter in the decisions taken with respect to utilities and local regulation (Lippi et al., 2008, 636; Fitch, 2007). In fact, we observed that the responses of municipalities to the opening and potential internationalization of LPS companies was multifaceted. What might push local leaders to adopt protectionist strategies in some cases, while opening to private and foreign partners in others, could be understood by looking at the configuration of interests around political leaders in a specific policy field (Navarro-Yáñez et al., 2008).

Building on an in-depth analysis of decision-making processes in the field of LPS, we look to the politicians' need to create coalitions with actors involved in the implementation of LPS reforms and policies. This may depend on whether the policy makers are incumbents and already have such a coalition or if, conversely, they need to develop it from scratch (Patashnik, 2008; Beal and Pinson, 2014). Consequently, we argue that local leaders may foster, or hinder, the opening of LPS markets towards foreign partners according to their need to restructure or maintain the political coalition supporting them. From this perspective, political leaders in local governments have more incentives to open LPS markets to domestic and foreign private actors in cases where they represent a discontinuity with the previous local elites. Discontinuity within local leadership may happen as a consequence of a change in local government or, conversely, when the dominant coalition within a given political party undergoes a major reshuffling. Instead, political continuity follows the re-election of the incumbent political leader and the confirmation of the existing political coalition. In this paper, we focus primarily on discontinuity within the incumbent coalition. This allows a focus on the overlooked mechanism of the effects of intra-party factionalism, independent of left/right ideology, on policy.

The key mechanism at work here is that the entrance of foreign companies serves to reshuffle political coalitions. When political challengers prevail in elections (discontinuity), they have an incentive to alter the status quo. We contend that political discontinuity may represent a strong driver for altering the status quo by opening LPS markets, for several reasons.

Firstly, political discontinuity reinforces the need for new mayors—the crucial decision makers in LPS in Italy—to build a new coalition to support their actions, especially at the beginning of

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