

Municipally owned corporations: few upsides, several downsides?

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Local governments are increasingly relying on municipally owned corporations (MOCs) to provide public services. This report presents results from research regarding various aspects of municipally owned corporations (MOCs) in Sweden.

We demonstrate that the number of MOCs has increased continuously since the 1970s. There are several plausible explanations for this trend, including unintended consequences (privatizations that were never fully implemented) and the fact that, at least in theory, MOCs might help municipalities lower their costs.

Compared to the traditional bureaucratic model, MOCs enjoy more legal and managerial autonomy, while also generally being less constrained by laws regulating the use of public resources, and they are typically able to implement much more flexible HR management practices. On the other hand, the use of MOCs also tends to decrease the level of transparency and undermine the ability to demand accountability in the local democratic process. Other problems related to MOCs include complex ownership structures, difficulties in terms of politically governing their operations, and private entrepreneurs being discouraged in cases where MOCs may distort free competition.

Empirically, municipalities relying heavily on MOCs are associated with a higher perceived level of corruption as well as higher taxes. They do not, however, enjoy higher citizen satisfaction with local services in general, nor do they exhibit a superior local business climate. These empirical patterns support the more skeptical view of MOCs,

implying that the steady increase in the number of MOCs in Sweden might constitute a problem. However, the results suggest that a modest number of MOCs in a municipality is probably not harmful: The association between MOCs and perceived corruption is driven by municipalities with more than 10 MOCs (6 being the mean number of MOCs in Swedish municipalities).

The report also presents results regarding how board members and local politicians view their role and which role they believe that the board members of MOCs should have. These results show that local politicians disagree regarding the role of MOC board members. In particular, there is disagreement regarding tradeoffs between the interests of the MOC and the interests of the municipality. Another disagreement concerns partisanship: Board members from the Left Party, the Green Party, and the Social Democratic party tend to prioritize loyalty vis-à-vis their own party over the interests of the MOC or the municipality, whereas board members from other parties are less inclined to view the MOC as a venue for partisanship.

As a remedy to these problematic patterns, we suggest that a government commission is appointed and given the task of fundamentally overseeing the role of MOCs in Swedish municipalities as well as the role of board members in MOCs. We also stress the importance of the audit function and the role of local media coverage in terms of scrutinizing MOCs and minimizing the risk of corruption.