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Political Ideology, Regulatory Framework and Contracting-out

Abstract

The influence of political ideology on make-or-buy choices for public provision has been a subject of intense debate from various theoretical perspectives, but the empirical evidence so far has been mixed. This paper delves into this issue by using a regression discontinuity (RD) design to examine the effect of mayoral ideology on contracting-out and public-sector outsourcing in Brazil, a country with broad constitutional guarantees and intergovernmental transfers for local public service provision. We estimate no ideological effect on contracting-out healthcare facilities, early-childhood schools or in outsourcing of the public workforce. Constraints on local regulatory and fiscal autonomy in local public services, coupled with a lack of strong ideological alignment between parties and candidates, curtail partisan differences in decisions whether to procure or provide services in-house.

Keywords: contracting out, local administration, discontinuity design, ideology

Evidence for Practice

- The institutional framework and financial incentives in the municipal public sector have important roles in transmitting mayoral preferences into policy
- Mayoral ideology in Brazil does not impact the likelihood of establishing charter schools, contracting out healthcare provision or outsourcing the public workforce in healthcare or social services.
- Limitations in regulatory and fiscal discretion in municipal public service provision and weak ideological alignment between parties and local candidates limits partisan divergence in make-or-buy decisions

In the realm of public administration, the make-or-buy decision is a critical factor influencing resource allocation and service delivery (Preker et al. 2000). This strategic choice, typically informed by economic considerations, may also be susceptible to potential influences from political ideology (Brown et al. 2006). Theoretical models indicate left-wing leaders may exhibit a preference for direct government involvement, ostensibly emphasizing equity and control, while their right-wing counterparts may seem inclined toward privatization as a means to enhance efficiency and reduce government intervention.

Existing evidence about the interplay of political ideology in make-or-buy decisions, however, is mixed. Petersen et al. (2015) find contracting-out decisions in local preschools to be subject to ideological influence, noting that ideology has no effect on any other areas of the public sector. Other research has found evidence that contracting

out is preferred by right-wing local governments in solid waste management and social services (Plata-Díaz et al. 2014, 2019). Nevertheless, other studies report no ideological effect on public service contracting as a whole (Wassenaar et al. 2016), with some indicating fiscal pressure to be a far more relevant factor than ideology (Pallesen 2004).

Despite the breadth of this existing literature, there has been very limited use of quasi-experimental research designs to examine contracting out decisions, which allow for a more rigorous causal inference and mitigate endogeneity concerns (Alonso, 2020). In order to examine the effects of political characteristics on outcomes of interest in social sciences, a popular approach in recent year has been through regression discontinuity (RD) (Cook 2008). This methodology is based on analyzing the difference between narrow victories rather than the entire sample of election-outcome pairs (Imbens and Lemieux 2008). Considering small election-day fluctuations in vote margins behave as if effectively random, the measured effect is not correlated to other confounding variables.

Alonso and Andrews (2020) is, to our knowledge, the only work to apply RD for this research question, finding that there is a significant ideological effect on contracting out of looked-after children in England. There have been no studies using this methodology examining a broader scope of the public sector, nor in the case of multi-party democracies. Additionally, there are no studies estimating the effect of partisanship on contracting out in developing countries. Brazilian municipalities face significant fiscal rigidity, due to binding constitutional minimum spending in some areas of public service (Sakurai and Menezes-Filho 2008). This setting makes it possible to examine how ideology impacts contracting-out decisions among different areas within the public sector, in which there are varying degrees of mayoral financial and regulatory discretion.

This article examines two key public services that could be subjected to contracting-out arrangements and outsourcing under municipal discretion in Brazil: early childhood education and healthcare. Specifically, we examine the effect of ideology on contracting-out of non-government establishments to provide public services in health services and education. Additionally, to explore outsourcing of the public workforce, data on contracts of the municipal social services and public healthcare workforce was used.

Our findings indicate that left-wing mayors are not less likely to outsource the management of healthcare facilities or education services. Likewise, no effect is found for outsourcing the municipal public workforce, either in healthcare or social services. This lack of discernible effects on outsourcing decisions by left-wing candidates contrasts with the broader ideological divergence on the role of the private sector in public service provision at the national level, which has been a central issue in Brazilian partisan discourse since democratization in 1988.

By analyzing the institutional framework in the public sphere, we argue that the ideological influence in make-or-buy decisions is limited by mayoral discretion and weak ideological alignment between candidates and parties. Municipal contracting-out is constrained by limited financial and regulatory mayoral autonomy in contracting out decisions, due to the conditionalities of federal transfers to cities. Moreover, parties often select candidates based on their ability to garner support in future legislative elections, reducing robust ideological alignment and hindering the party's national political stances from being translated into local policy.

Political Ideology and Contracting Out

There are several channels through which political preferences could influence contracting out choices. Citizen-candidate models of public choice state that a candidate is motivated by a desire to implement their ideological policy preferences (Besley and Coate 1997, Osborne and Slivinski 1996). The case for non-government provision of public good through Public Partner Partnerships (PPPs) has been borne out of theories of New Public Management, which emphasize the possible benefits arising from the competition between contracting entities and the incentive structures in the contract itself (Lane 2002). These include increased efficiency, more flexibility in hiring and discharging of personnel, greater quality of public services and a lower burden to the taxpayer (Iossa and Martimort 2015, Kwak et al. 2009).

Another channel, indicated by Partisan Theory, lies in the political pressure of stakeholders in the contracting out process (Hirsch and Osborne 2000). Groups who stand most to gain from contracting out decisions may offer political or financial support to parties, contingent on obtaining favorable outcomes once the elected mayor takes office (Bel and Fageda 2009, Häusermann et al. 2013). These include public sector unions and local civil servants for public services, as well as private companies and NGOs involved in non-public provision.

Patronage models of political economy often hold that ideological alignment has little bearing on policy choices, especially in newly democratized developing countries . Instead, candidacies and partisanship more generally develop around populist and

charismatic appeals to voters, rather than reflecting genuine ideological cleavages within an electorate (Camp 2017).

One mechanism that may limit partisan ideological convergence, specifically in Brazil, results from the use of mayors as local brokers for political support. Given the country's general lack of strong party identification, incumbent mayors are commonly enlisted by political parties to secure votes in legislative elections. This is because mayors possess superior knowledge of and closer influence over their constituencies (Larreguy et al., 2016; Novaes, 2018). In this setting, assuming that parties aim to field mayoral candidates who can garner the maximum number of votes in the future, the optimal broker — often the incumbent mayor — may not align ideologically with the party's overall policy preferences.

Institutional Details

Brazilian mayoral elections take place every four years. In cities with over 200 thousand inhabitants, should none of the candidates achieve over 50% of the vote count, there is a second round. To arrive at a database of mayors for the over 5500 cities from 2008 to 2016, the first-round results were removed from cities where there was a runoff. Mayoral characteristics were collected and matched with city-level variables, as shown in Table 1.

Mayoral turnover in Brazil has a significant effect in the appointment of municipal civil servants, with impacts on metrics of local service quality (Akhtari et al., 2022). Moreover, it is the mayor - rather than council members, as in other democracies - that

has the authority on contracting out municipal services. This, in turn, means that make-or-buy decisions are potentially susceptible to mayoral ideological preferences.

Cities play a leading role in delivering public services like primary education, basic healthcare, and social services in the Brazilian political system. Due to limited income from local taxes, these are funded in large part through federal transfers, Cities receive 2.7% of the country's GDP to assist in providing healthcare services and 4.1% for basic education (Benevides 2018, Ferraz et al. 2012). The allocation and utilization of these federal or state transfers are regulated nationally, often through constitutional amendments that also establish the minimum contribution required from each city's own resources for these services.

In the case of basic education, schooling broadly structured into three levels: early childhood, elementary schooling and high school education. Of these, the provision of first two levels is mostly the responsibility of the city governments. However, only in early childhood, composed of kindergartens (0-3) and preschools (4-5), is there any significant private presence (INEP 2018). Contracted-out facilities accept students free of charge and receive funding from the local government in accordance with the number of pupils enrolled, functioning similarly to charter schools (Fávero et al. 2020).

In regards to health services, the *Sistema Unico de Saúde* (Unified Healthcare System, hereafter *SUS*) is the universal healthcare system of Brazil. It operates as a single-payer model, with nationwide integration between all levels of government and areas of care, from primary health services and public health to more specialized procedures. The majority of Brazilians receive health services through *SUS*, which has nationwide coverage. A minority of mostly wealthier patients utilize private services, which are on

average of higher quality, usually through a health insurance plan (Monteiro et al. 2017, Menicucci, 2009).

Despite being a single-payer model, not all SUS facilities are operated by the state. Health authorities at the local, state and federal level have the discretion to contract out facilities managed by private or non-profit organizations. In these arrangements, patients are admitted free of charge to these contracted-out facilities, after which the contracted entity is compensated with public funds. Since the 1988 constitution, the responsibility for healthcare provision has shifted increasingly to the local sphere, specially in the areas of primary care and ambulatorial services (Arretche and Marques, 2002).

Modelled after the aforementioned decentralized healthcare arrangement, social services in Brazil are structured as the *Sistema Único de Assistência Social* (Unified Social Services System, hereafter SUAS). This system coordinates actions at different spheres of government and implement directives set out at the national level. SUAS operates through different facilities tailored to different levels of socioeconomic vulnerability, which may offer a variety of services (ie. shelters, foster care, victim assistance). At the local level, municipalities are typically responsible for managing day-to-day operation and hiring arrangements of these centers, and may partner and transfer funds to non-government organizations to assist in these roles. (Bichir et al. 2020).

Besides the possibility of contracting out public services to non-government entities, local administrators of public-sector activities also have the ability to outsource some of their workforce. This is done when the municipal authority enters into contract with a third party to realize part of its operations, with the workers responsible for these outsourced services not being considered employees of the state.

In the Brazilian labor market, whether in the public or private sphere, this process has historically been regulated in terms of concept of “core activities” of a given organization. Outsourcing was only permissible to non-core services (ie. cleaning, security, human resources), whereas workers directly involved in the company’s main activities were considered employees and subject to standard labor market regulations (Oliveira and Verás, 2018). In the public sector, even in facilities fully operated by the state, the government could outsource its non-core services to third parties, most commonly for the lower costs and greater flexibility compared with formal employment contracts (Carneiro, 2016) . Conversely, even in public facilities wholly managed by non-governmental organizations, all core-activity workers were required to be employed in regular contracts. In 2017, a law was passed in congress that abolished the core-activity distinction (Brazil, 2017), but for most of our observations this rule was still in effect.

Data and Methods

The Superior Electoral Court (*TSE*) is the legal entity responsible for implementing and overseeing the electoral procedures in Brazil. From the *TSE* we obtained the data for every local mayoral candidate in the 2008 cycle onward, which included the candidate’s name, party, vote count and personal characteristics.

For every election, the first-round results were removed from cities where there was a run- off. The winners were then selected, along with their personal characteristics and party affiliation. Then, in the cities with left-wing and right-wing front-runners, the total vote count of all candidates was used to calculate the running variable of the margin

of victory for the left-wing. Mayoral Traits were collected and matched with city-level variables (Table 1).

[TABLE 1 HERE]

Our data for contracting-out of education services comes from the School Census of institutions, which is conducted annually by the *Instituto Nacional de Estudos e Pesquisas Educacionais Anísio Teixeira* (INEP) agency of the Brazilian Ministry of Education and covers all basic education institutions. Our sample covers three election cycles, from 2008 to 2016, using data for the mayor's last year in office to construct our outcome variable. We employ the section of the census on establishments, which details each school's administrative dependency (municipal, state or federal). There is also information on whether the school is contracted-out, and by which level of government. After excluding state and federal establishments, our dependent variable is the proportion of charter schools contracted out by the municipal government in relation to all public schools under municipal authority.

Data for contracting out of healthcare services was gathered from the National Register of Healthcare Establishments, containing data for establishments and professionals employed in every accredited institution. In order to measure contracting out, we first exclude private establishments not affiliated with SUS and public ones administered by the state or federal level. Then, we filtered the legal nature of each municipal healthcare establishment in SUS - identifying those not under direct or indirect public management. Our outcome variable, therefore, was the percentage of health establishments contracted out by the local government in relation to all SUS establishments under municipal administration. The frequency of this data is monthly, but

to obtain our outcome variable we used the average of all months of the last year of the mayor's term.

To arrive at a measure for outsourcing of the public healthcare sector workforce, we did a similar procedure, by first selecting all establishments affiliated with SUS under municipal administration. Then, as in Greve and Coelho (2017), the workers whose contracts were mediated by a third party were selected, to obtain the percentage of contracted out workers in the municipal public health sector.

To examine social services, we utilize the census data of the Unified Social Services System (SUAS). The municipal administration SUAS census, released every year, is provided by municipal authorities overseeing social services. Although there exists contracting out of municipal funds to non-public entities for social service provision, there is no consistent data across all election periods. Nevertheless, as with healthcare workers, we are able to examine the percentage of contracts mediated by a third party in relation to the total workforce of municipally administered Social Services, which is our outcome variable.

Table 2 shows the average presence of the non-government public facilities in the areas of basic education and health care services for each election year, as well as the incidence of third-party workforce hiring arrangements in healthcare and social services.

[TABLE 2 HERE]

Regression Discontinuity

Many of the same factors that determine an electorate's political decisions often relate to public policies directly. A region that is wealthier or is more urbanized may be more inclined both to vote for a certain party and also to enact a specific form of public provision. To deal with these issues, a popular procedure to estimate the effect a particular policy is through a Regression Discontinuity Design (RDD).

This involves examining policies whose enactment is determined by a cut off a certain variable - such as a minimum income threshold in the case of conditional cash transfers - to estimate the policy's effect only between those who narrowly did and did not receive it. Assuming this running variable can't be manipulated and that those around the cutoff only differ in receiving the policy, it is possible to estimate the causal effect based on the disparity between these two groups.

A Regression Discontinuity Design is characterized by the absence of a systematic relationship between unit characteristics above and below the cutoff. Formally, this is equal to the assumption that the vector of covariate characteristics x is a continuous function at the cutoff c in the running variable z , providing a clear distinction between treated and untreated units.

Another assumption is that there is common support on both sides of the cutoff, meaning that there are observations both below and above the cutoff point. Units cannot perfectly predict their treatment status, and there is no systematic sorting around the cutoff point. For the sharp case, which applies to our study, the probability

of treatment of a unit above or below the cutoff is equal to one, while fuzzy designs only necessitate this probability to be discontinuous.

For observations close to the cutoff, meaning that for z_i close to c , the treatment assignment is effectively randomized. This implies that, in the limit approaching the cutoff, the discontinuity in outcomes y is equal to the treatment effect:

$$\beta = \lim_{(z \rightarrow c^+)} E[y|z] - \lim_{(z \rightarrow c^-)} E[y|z] \quad (1)$$

Where β is the estimated Local Average Treatment Effect, while $E[y|z]$ is the conditional expectation of y given z .

In the instance of elections, vote margins are used as the running variable. Since there exist small election-day fluctuations in vote counts caused by uncorrelated events such as weather, this would mean the outcome in very narrow races behaves as if decided randomly. Using the case of tied races decided by coin tosses, it has been shown that incumbent advantages calculated through the procedure of bias-corrected RD with robust Standard Errors produces similar coefficients to the experimental case (Hyytinen et al., 2018).

For determining the ideology of the ruling mayor's party, we employed the ideology classification developed by Zucco (2021), which in turn derives from the Brazilian Legislative Survey (BLS) conducted every four years to members of the federal legislature. The average BLS results for every party then determine its political position on a 1 to 10 (left to right) scale. The authors find that the optimal clustering that captures the ideological variation of parties is around a binary left-

wing and conservative camp. The questionnaire also contains questions regarding the role of the state in the economy and privatization, which are well-correlated with the overall left-to-right score. This implies that, at least according to elected officials' own stated positions, there is a noted ideological divergence in public provision preferences at the national level, which is reflected in party cleavages.

Regression Discontinuity for election results is, in many cases, applied to countries that display a two-party system, in which all or a great majority of contested elections feature the same party whose victory or defeat margin can be defined as the running variable. For multi-party democracies such as Brazil, this binary classification must first be defined by the researcher. This is often a result of previous analysis of ideological score cleavages, wherein a party is classified as left or right-wing according to survey responses of its presence at the national level.

To define a certain party as left-wing, it is first necessary for a party to have national representation in the legislature. While there are general movements across time that affect BLS scores across multiple parties, the relative ordinal position of parties remains mostly consistent between cycles.

We use a similar methodology as the one employed by Gouvea et al. (2021), by assigning a benchmark left party based on the average party BLS scores along several electoral legislative cycles. Then, this benchmark party, as well as all others with a lower BLS score, are assigned as left-wing.

Brazil's most important left-wing political force is the Worker's Party (PT), which has won five of the last six presidential elections and was the largest single

party in congress for the period analyzed. We employ an ideological left-wing classification by assigning PT as the benchmark party. This resulted in 3157 local election races from 2008 to 2016 between a left-wing and right-wing front-runner. The parties included are, in left-to-right order: PSOL, PCdoB, PT. These three parties also had the lowest BLS scores in all legislative cycles among parties which existed during the entire period we analyze. We also employ an alternate broader specification including the Green Party (PV) as the benchmark, leading to a total of seven left-wing parties.

For each mayoral candidate race i , we use the following equation to compute a Left-Wing victory, taking V_i^L and V_i^R as vote share of the left-wing and right-wing front runners in relation to all votes:

$$T_i(V_i^L, V_i^R) = \begin{cases} 1, & \text{if } V_i^L > V_i^R \\ 0, & \text{otherwise} \end{cases} \quad (2)$$

Our regression is then estimated using the following specification:

$$Y_i = \alpha + \beta T_i + f(V_i^L - V_i^R) + \theta X_i + \varepsilon_i \quad (3)$$

Wherein Y_i is the outcome variable, α is a constant, T_i is the left-wing victory and $f(\cdot)$ is a polynomial function of the left-wing's victory (or defeat) margin. Observed covariates are captured by the vector X_i , while ε_i is a random error term. Following the methodology set out in Calonico et. al. (2014), we estimate this equation with bias-corrected non-parametric confidence intervals, chosen to minimize the mean squared error of the local polynomial. Observations are weighted according to a triangular kernel function, denoted as $K(\cdot)$, assigns weights to observations based on

their proximity to the cutoff point. It is defined as:

$$K(u) = \begin{cases} 1 - (|u|/h), & \text{if } |u| \leq h \\ 0, & \text{if } |u| > h \end{cases} \quad (4)$$

Where u represents the distance of an observation from the cutoff point, and h is the bandwidth, representing the range within which observations are included in the estimation. For all outcome variables, we include results with heteroskedasticity-robust nearest neighbor standard errors.

Results

The validity of a Regression Discontinuity relies on the assumption that there is no sorting of the forcing variable, in this case the margin of victory of left-wing candidate. We estimate test for sorting using the test proposed by McCrary (2008) as well as the one found in Cattaneo, Jansson and Ma (2020) in Table 3. In both cases, the tests fail to reject the null hypothesis of no sorting, as visualized in Figure 1. We also test if a narrow left-wing victory is correlated with city-level characteristics, by reproducing RD estimates for several relevant observable city variables, finding no significant effects (Table 4).

[TABLE 3 HERE]

[TABLE 4 HERE]

Another important consideration for the validity of regression discontinuity lies in the correlation of political alignment and mayoral characteristics. These include mayoral age, marital status, college degree, gender, election spending and profession.

If there are significant differences in the personal attributes of left-wing mayors, any identification would also capture the effects of these traits - assuming they also impacted governance preferences (Table 5). Indeed, a (narrow) left-wing victory results in mayors that are significantly more likely to have a college degree and less likely to have been a business-person, as shown in Figure 1.

Correlation of partisan position and candidate traits such as age or prior profession could, irrespective of any direct effect of ideological preference, conceivably impact the choice of contracting out. We model this possibility by controlling our regressions for mayoral traits as well as election year dummies for all outcome variables in our results.

[TABLE 5 HERE]

[FIGURE 1 HERE]

We begin by examining the effects of ideology on the management of public establishments controlled by the municipal government. Table 6 presents the results for kindergartens and preschools, as visualized in Figure 2. We find no significant effects of ideology on contracting out.

[TABLE 6 HERE]

[FIGURE 2 HERE]

When considering contracting out of municipal SUS Healthcare Establishments,

Table 7 shows that it is not possible to reject the null hypothesis that left-wing mayors do not affect the outcome variable, as shown in Figure 3. Turning to the outcome variable for outsourcing of the public workforce, Table 8 displays the estimates for healthcare and social services. We find no significant effects of ideology on the proportion of workers whose hiring arrangements were made by a third party in relation to all public-sector workers (Figure 4).

[TABLE 7 HERE]

[TABLE 8 HERE]

[FIGURE 3 HERE]

[FIGURE 4 HERE]

For all outcome variables, we also test the results with different bandwidths for the RD treatment effect estimator, finding that the results remain insignificant for all outcome variables for different bandwidths when accounting for mayoral characteristics. (Table 9). In the context of assessing the reliability of election outcome Regression Discontinuity (RD) designs, an important robustness check is the placebo test. This involves investigating the impact of a left-wing victory on the outcome variable during the same year as the election, rather than focusing on the final year of the mayor's term in office. If we assume that the RD results indicate a cause-and-effect relationship, then the placebo test should reveal non-significant effects. To provide a clearer picture, we include the results of these placebo tests in Table 10. We also show the results for the alternate broader specification of left-wing ideology, showing that the results remain

qualitatively the same (Table 11).

[TABLE 9 HERE]

[TABLE 10 HERE]

[TABLE 11 HERE]

Discussion

The use of quasi-experimental methods has brought new evidence on the effect of fiscal and ideological characteristics on non-government presence in the public sector. Elinder and Jordahl (2013) and Alonso and Andrews (2020) have found ideological preferences to be an important factor in shaping contracting-out decisions. These findings support the predictions of citizen-candidate models of representative democracy, in which candidates are motivated to run for office to enact their preferred policy preference.

Critically, however, this causal mechanism is predicated on there being enough fiscal and political discretion for the mayor to implement their particular policy choice. Previous studies have shown fiscal factors to be the most often cited reason to contract out services (Van Slyke and Hammonds 2003, Greene 2002). More recently, Geys and Sørensen (2016) show by exploiting natural variations in municipal hydro-power plant revenue that an exogenous negative fiscal shock induces contracting out arrangements.

The municipal education and health sector in Brazil both receive intergovernmental ear-marked transfers for the provision of services, through the Appreciation of Education Professionals Fund (Fundeb) and the National Health Fund (FNS) respectively (Pinto Junior et al. 2014, Castro et al. 2019). Since the institutional

design of these transfer schemes within the Brazilian federal system may affect the incentives and discretionary authority of make-or-buy decisions at the local level, it is worth examining them more closely.

The FNS has since 2009 organized the various types of healthcare transfers to cities and states into six Funding Blocks for actions and public health services: Medium and High Complexity; Basic Care; Pharmaceutical Assistance; Health Surveillance; and Management and Investments. Cities received in 2016 around 2,7% of the nation's GDP through these funds (Benevides 2018). Municipalities could contract out private or non-governmental establishments with these resources, so long as the contracted party is affiliated with SUS and provided service in the area for which each block is designated (Viana et al. 2017).

In regards to basic schooling, the education national fund (Fundeb) is the framework for federal transfers to local governments, functioning by transferring to cities an amount in accordance with the number of children enrolled in municipal schools. Students enrolled in contracted out public schools may count towards this total, assuming they study in non-profit kindergartens and pre-schools institution (Pinto 2015, 2018). However, the value per student can be different depending on whether the student is enrolled in a municipal public or contracted out establishment. Cities receive around 20% less for each student in a contracted out full-time kindergarten (0-3 range) than if it was directly managed by the city. For part-time kindergartens, a similar penalty was in effect during two of three election cycles analyzed. Regarding Pre-schools (4-5 range), the original 2007 Fundeb only stipulated contracted out students to count towards the city's transfer value until 2011.

Pinto and Correa (2020) argues this was a clear signal for cities to phase out contracted out facilities - causing a decline in the number of contracted out facilities after 2011. The end date for the end of was extended to 2016, after which contracting out for preschools practically ceased. For mayors considering contracting out early childhood education, this framework opened the possibility that shifting enrollment from schools directly managed by the city to contracted out establishments would reduce overall resources by affecting per student transfers, especially in cities more dependent on federal subsidies. This institutional design, together with the fact that the contracted-out institutions were required to be non-profits, meant there was a lesser incentive for cities to contract out as a cost-efficiency strategy (Brazil 2012, 1990).

Both Healthcare and Basic Education are subject to minimum spending percentages of the city's resources, stipulated by the Brazilian Constitution. Municipalities must spend at least 25% for education and 15% for healthcare services. Despite the similar framework in both areas, the use of city's own resources tends to be two to three times higher in healthcare than for education. All municipalities spent more of their revenue on healthcare than educational services (Vieira et al. 2020).

In the Brazilian system of universal single-payer healthcare (SUS), decentralization of healthcare administration is one of its main pillars. Local authorities have had to contend with a constitutional mandate to manage a sector which employs a highly qualified workforce, pressuring cities to spend a greater amount of their own resources - specially in medium and high complexity services (Araújo et al. 2017). Since Brazilian labor market legislation throughout most of our sample forbid outsourcing "core activity" labor, this effectively segmented different sectors of the workforce into being

outsourced, such as cleaning services and security (Brazil 2017). In the healthcare sector, for instance, many nurses, doctors and other health professionals were still contracted through regular contracts with the municipal health authority - even in outsourced establishments (Biavaschi et al. 2014). The great majority of expenses in the healthcare sector is related to the payroll of this specialized workforce that could not be effectively outsourced (Souza and Mendes 2016).

The existing literature on party platform divergence in Brazil points to the significant role of expenditure rigidity and constitutional transfers in limiting the effect of mayoral ideology on local policy. Gouvêa and Girardi (2021) find that while left-wing mayors do not increase the size of government due to strong constitutional constraints, they show a clear preference in allocating a larger share of resources to social spending. Similarly, Fujiwara (2015) examines how the introduction of electronic voting machines increased the political participation of less-educated voters - increasing voter shares of left-wing parties and mayoral expenditures in healthcare, but not government size. These results both show how the Left in Brazil show limited policy divergence in relation to their Right-Wing counterpart, in order to benefit of poorer voters that make up their base.

In Brazil, mayors have a significant role in parties' performance in the state and federal legislature. Deputies (equivalent to a US Congressman) and Senators are selected in proportional open-list elections, which occur two years removed from local races. In a country with weak party brands, this has resulted in the widespread use of elected mayors as brokers for party support in legislative races. Mayors are in a better position to draw support from their constituency and hire other local notables to attract votes, due to them often occupying leading roles in their communities (Novaes 2018).

For left-wing parties, this mechanism is especially prevalent in smaller and less urbanized towns, in which unionized workers and liberal professionals – groups historically more ideologically aligned with the Left - are often not present in large numbers (Monteo, 2012). These are the norm for municipal executive races, as median population for municipalities was 10.935 in the 2010 census.

If political parties strategically choose their mayoral candidates with a focus on gaining future electoral support, there's a potential for them to prioritize candidates with strong local connections over those who align more closely with their ideological beliefs. Consequently, this could weaken the link between national partisan ideology and local policy decisions.

Conclusion

This article sought to examine the interplay between political ideology, workforce outsourcing and non-governmental provision of public services at the local level. We examined three essential areas - healthcare, early childhood education and social services - whose provision is present nation-wide and are available to the entire population of Brazil. Our findings indicate that Left-wing mayors do not exhibit a decreased propensity to outsource the management of healthcare facilities or Charter Schools. No effect is found for outsourcing the public workforce in healthcare or social services.

For incumbent left-wing mayors seeking to satisfy their constituency, purely ideological considerations would in principle preclude most contracting out of public services. However, electoral incentives constrain the weight of ideological alignment as a consideration for candidate selection by parties. It is also likely that the mayors

themselves believe that voters will care more about the presence and quality of public services, rather than whether it was provided in-house. This means that make-or-buy decisions are overall tailored mostly to the specific fiscal considerations of their cities, as well as the institutional framework for public-private local partnerships unique to each sphere of the public sector.

In such situations, the impact of ideology on make-or-buy decisions may be curtailed by the actions of federally elected officials, who are more attuned to voter ideology and directly influence the legislative frameworks governing municipal outsourcing. An illustrative instance of this influence can be observed during the presidency of the Workers Party from 2002 to 2016, where federal policies discouraged the outsourcing of municipal early education services.

As it pertains to the literature on partisan platform differentiation in Brazil, the results presented here are in line with other work that finds limited policy divergence in the country, mediated by institutional and fiscal constraints at the local level. Although the public service provision regulatory framework examined in this article is specific to Brazil, these results provide broader implications for the role of institutional design in shaping contracting out incentives in the public sector as a whole.

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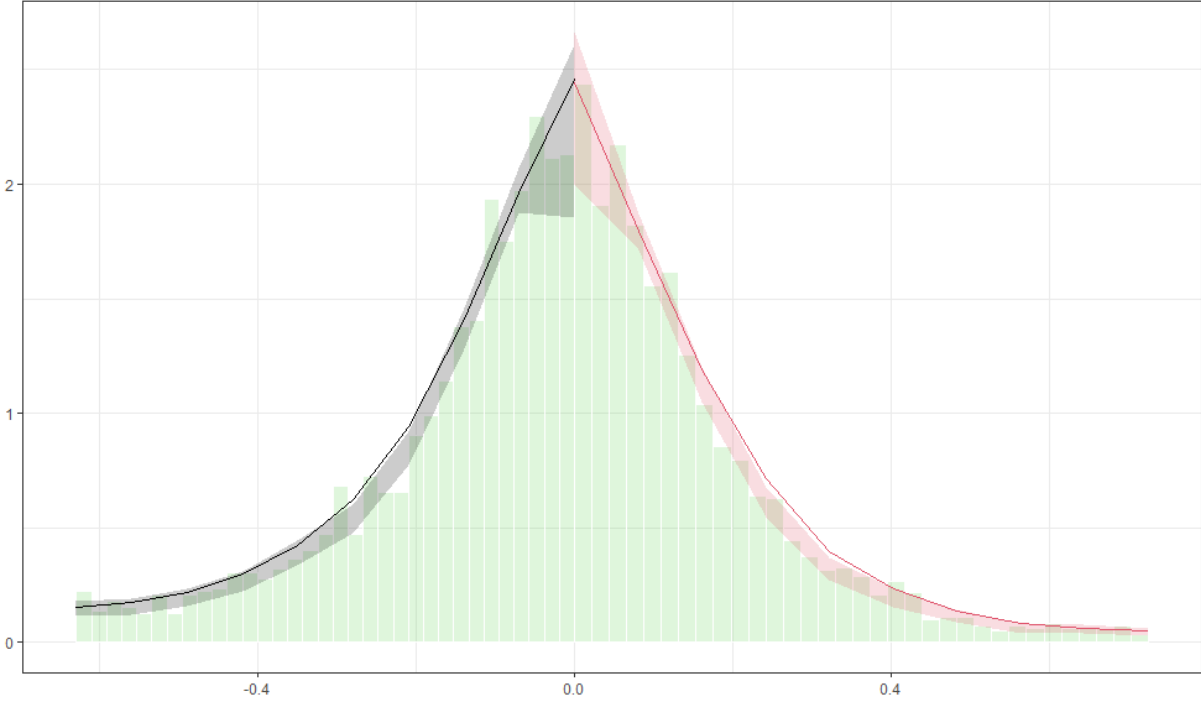
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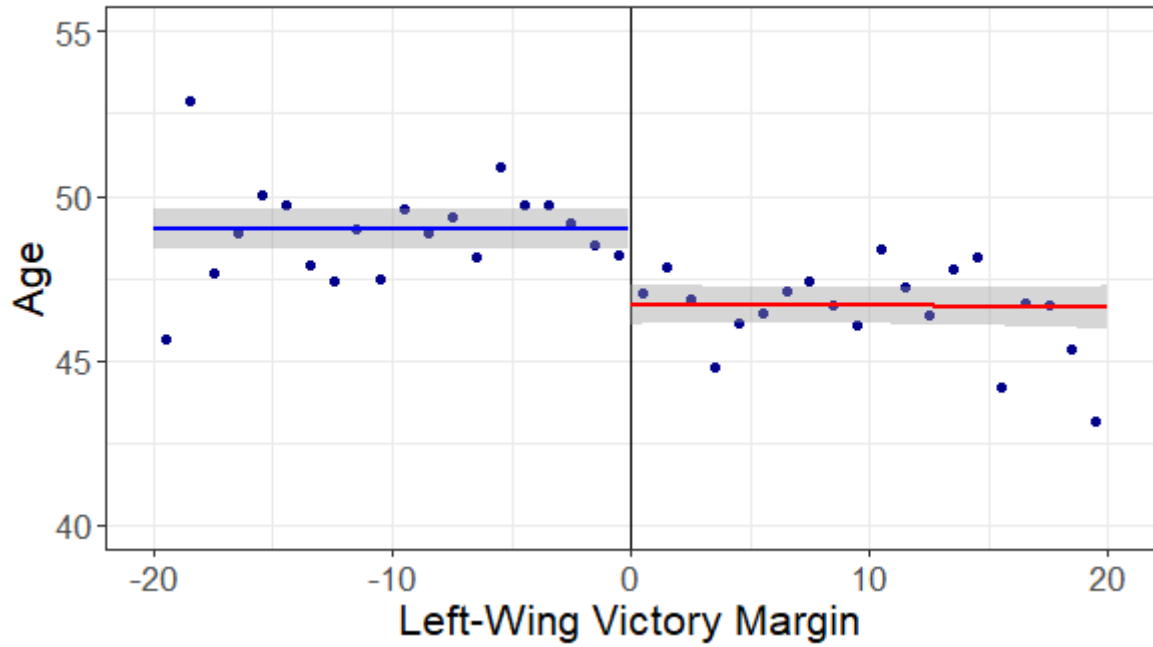
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Figure 1: Density Plot for Manipulation Tests



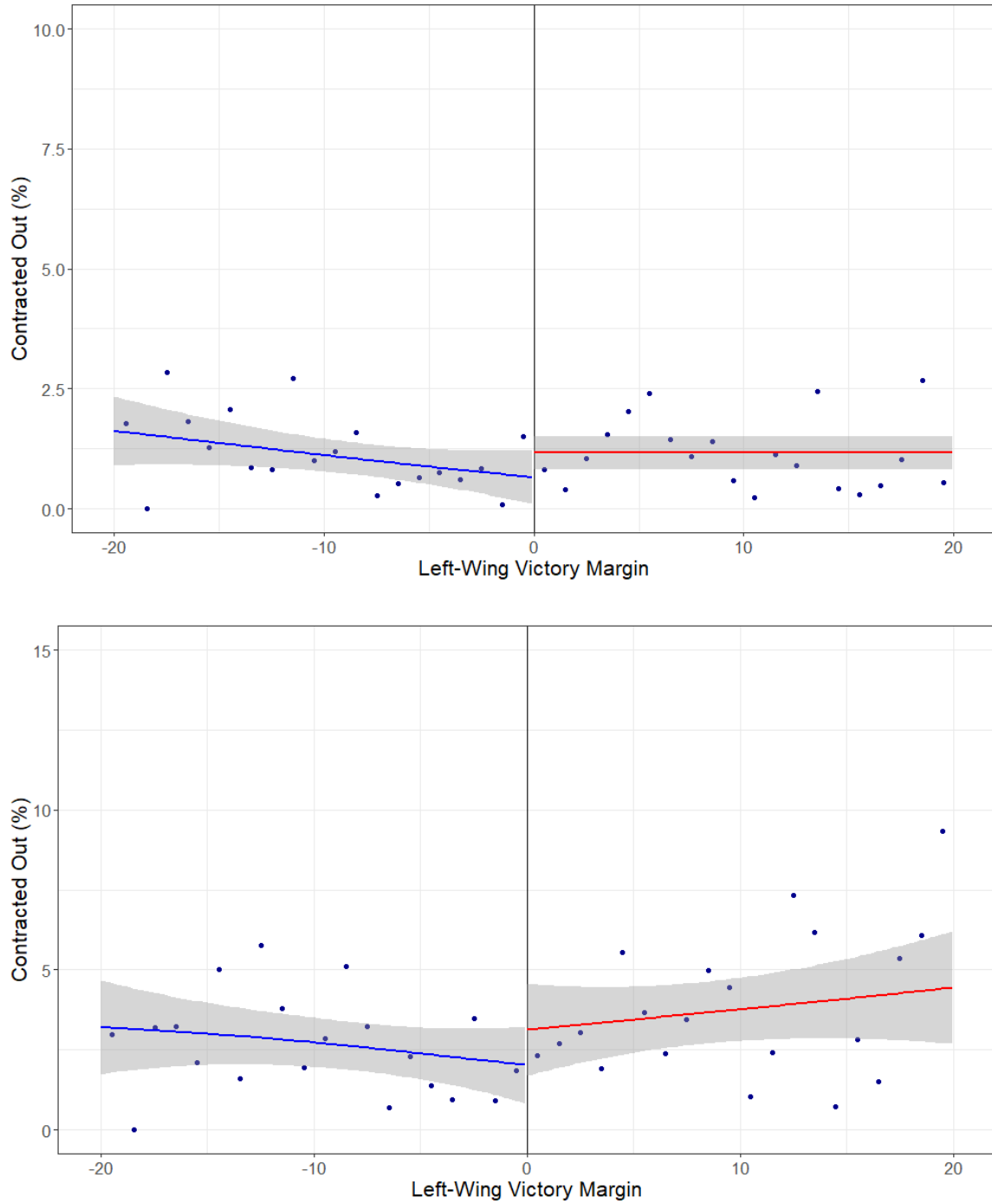
Note: Density Plot of the running variable (Left-Wing margin of Victory). 95% Confidence intervals obtained according to the sorting test proposed by Cattaneo, Jansson and Ma (2020)

Figure 1: Effects of Ideology on Mayoral Age



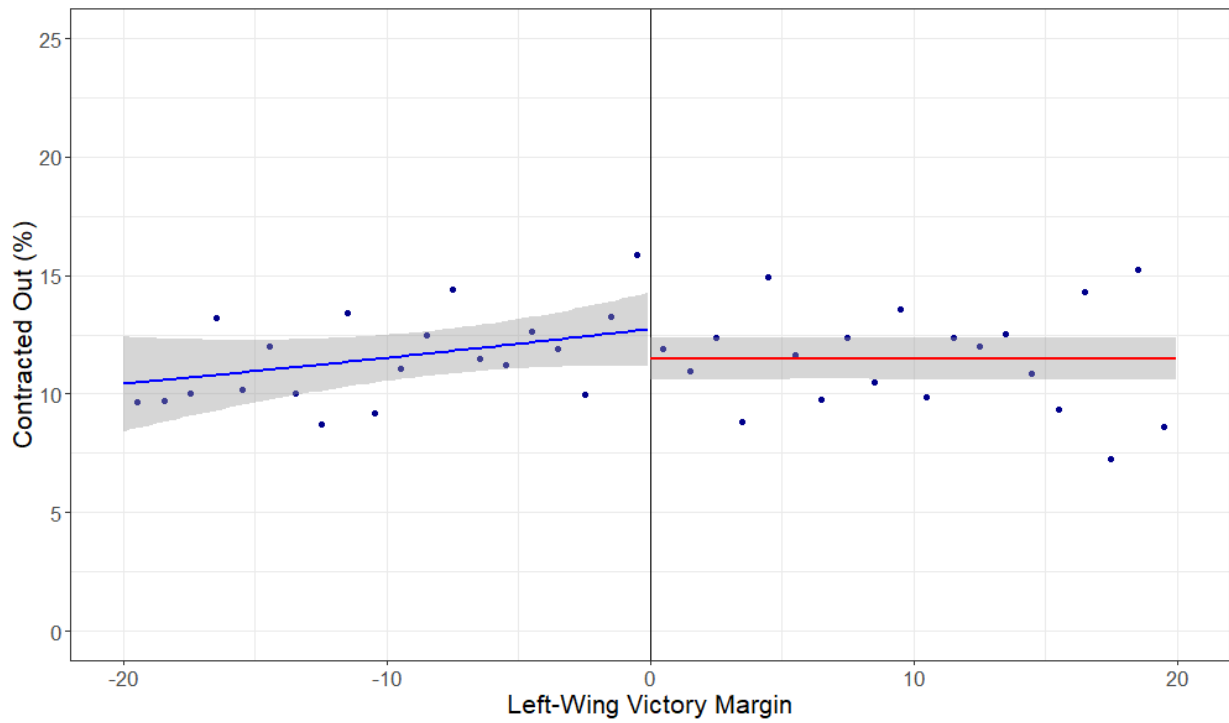
Note: Average binned values (bins = 100) and 95% confidence intervals based two Generalized Linear Model Regressions in either side of the cutoff .

Figure 2: Effects of Ideology on Contracting out of Municipal Preschools (Top) and Kindergartens (Bottom)



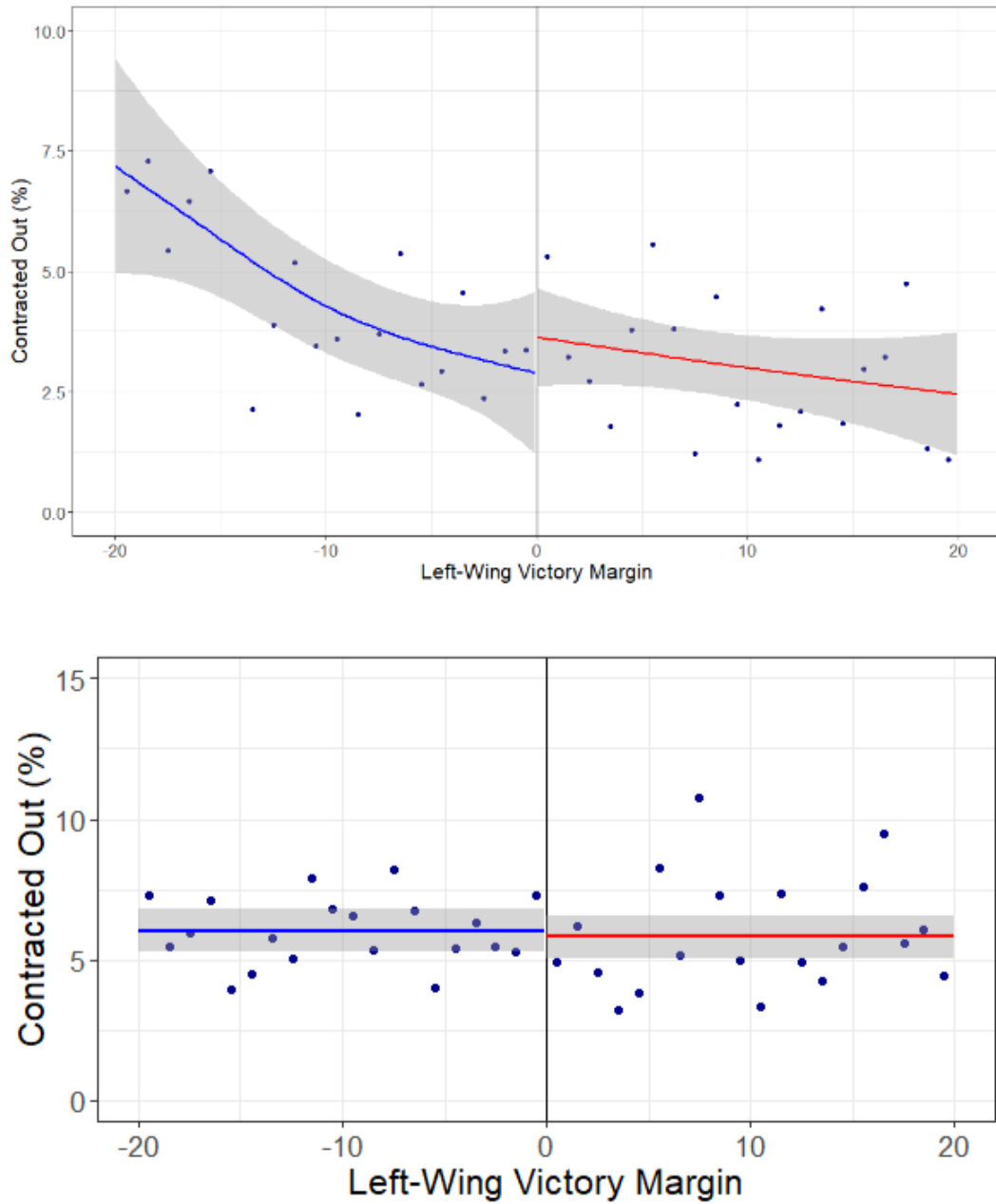
Note: Average binned values (bins = 100) and 95% confidence intervals based two linear regressions in either side of the cutoff .

Figure 3: Effects of Ideology on Contracting out of Municipal Healthcare Facilities



Note: Average binned values (bins = 100) and 95% confidence intervals based on two Generalized Linear Model Regressions in either side of the cutoff .

Figure 4: Effects of Ideology on Outsourcing workers of Municipal Social Services (Top) and Healthcare (Bottom)



Note: Average binned values (bins = 100) and 95% confidence intervals based two Generalized Linear Model Regressions in either side of the cutoff .

Table 1: Descriptive Statistics

Mayoral Characteristics	Mean	Median	Sd	Min	Max
Left-Wing Mayor (%)	27	0	44	-	-
Male (%)	89	100	31	-	-
Higher Education (%)	49	0	50	-	-
Married (%)	76	100	43	-	-
Health Professional (%)	6.8	0	25	-	-
Education Professional (%)	4.4	0	21	-	-
Social Worker (%)	0.27	0	5.2	-	-
Business Person (%)	12	0	32	-	-
Age	48	48	14	20	90
Campaign Spending (R\$1000)	448	200	1158	0	45470

City Characteristics	Mean	Median	Sd	Min	Max
Monthly Per Capita Income (2010 R\$)	525	499	248	122	2105
Human Development Index	0.60	0.65	0.19	0.42	0.86
Over 65 (%)	43	20	35	0	99.9
Rural Population (%)	38	37	23	0	99.8
Male (%)	46	50	14	0	94.3

Table 2: Contracted Out Provision in Brazilian Municipalities

Contracted Out Management	2012	2016	2020
Healthcare Establishments (%)	10.7	10.1	10.4
Basic Education Schools (%)	8.33	8.37	6.91

Contracted Out Workforce	2012	2016	2020
Healthcare Workforce (%)	8.61	5.84	4.16
Social Services Workforce (%)	3.63	4.21	3.51

Note: Contracted Out Workforce refers to percentage of third-party contracts in relation to all workers under municipal authority

Table 3: Manipulation Testing Using Local Polynomial Density Estimation

Parameter	Left of c	Right of c	
Number of obs	1475	1335	
Eff. Number of obs	1042	1098	
Order est. (p)	2	2	
Order bias (q)	3	3	
BW est. (h)	0.264	0.27	
Method			$\mathbf{P} > /T/$
Robust			0.4631
McCrary			0.5612
Window Length / 2	$< c$	$\geq c$	$\mathbf{P} > /T/$
0.004	20	26	0.4614
0.008	44	59	0.1674
0.012	73	87	0.3041
0.016	94	119	0.0999
0.020	126	142	0.3595
0.024	143	172	0.1145
0.028	171	201	0.1326
0.032	195	216	0.3239
0.036	216	236	0.3715
0.040	241	255	0.5595

Note: Bandwidth estimates (h) obtained by the robust method. Robust p-value obtained according to the sorting test proposed by Cattaneo, Jansson and Ma (2020), while McCrary p-value refers to the test proposed by McCrary (2008).

Table 4: Summary Statistics and Regression Results - City Characteristics

Variable	Summary Statistics		Regression Results		
	Left-Wing	Right-Wing	Coefficient	<i>t</i> -value	<i>p</i> -value
Household Per Capita Income (2010 R\$)	5104	5353	-41	-0.13	0.9
Human Development Index	0.7	0.7	-0.035	-1.2	0.22
Male Population (%)	45	45	-0.41	-0.25	0.8
Rural Population (%)	39	41	-0.16	-0.052	0.96
Over 65 Population (%)	5	5	0.77	1.6	0.1
North (%)	8	10	-3.6	-1.1	0.29
Northeast (%)	37	36	0.79	0.12	0.9
Centralwest (%)	5	5	0.44	0.17	0.87
Southeast (%)	28	28	6.3	1.1	0.25
South (%)	22	22	-3.9	-0.68	0.5

Table 5: Summary Statistics and Regression Results - Mayoral Characteristics

Variable	Summary Statistics		Regression Results		
	Right-Wing (Mean)	Left-Wing (Mean)	Coefficient	<i>t</i> -value	<i>p</i> -value
Teacher or Professor (%)	4	9	0.042	1.7	0.094
Social Worker (%)	0.5	0.6	0.0036	0.97	0.33
Health Worker (%)	6	6	-0.0075	-0.29	0.77
Entrepreneur (%)	12	6	-0.048	-1.5	0.13
Age (%)	49	47	-2.3	-2.5	0.014
Male (%)	89	89	0.02	0.65	0.52
Expenses (R\$1000)	1035	491	-17	-0.2	0.84
Married (%)	76	72	-0.029	-0.67	0.51
College Educated (%)	51	56	0.072	1.3	0.18

Table 6: % Schools Contracted Out

	Kindergartens	Preschools
Conventional	1.32 (1.02)	0.39 (0.42)
Bias-Corrected	1.51 (1.02)	0.35 (0.42)
Robust	1.51 (1.19)	0.35 (0.48)
With Controls	1.49 (1.22)	0.16 (0.48)
N Below Cutoff	1532	1662
N Above Cutoff	1374	1494
Eff. Obs. Below Cutoff	697	882
Eff. Obs. Above Cutoff	874	873

* $p < 0.05$, ** $p < 0.01$

Note: Only includes contracting arrangements made by the municipal government. Optimal bandwidths following Calonico et al. (2014) were chosen to minimize the mean squared error of the local first-order polynomial RD point estimator using triangular kernels.

Table 7: % SUS Establishments Managed by Non-Public Organizations

Healthcare Establishments	
Conventional	-1.86 (1.33)
Bias-Corrected	-2.15 (1.33)
Robust	-2.15 (1.54)
With Controls	-2.17 (1.67)
N Below Cutoff	1662
N Above Cutoff	1495
Eff. Obs. Below Cutoff	966
Eff. Obs. Above Cutoff	1069

* $p < 0.05$, ** $p < 0.01$

Note: Excludes public SUS establishments not under administration of the municipal government. Optimal bandwidths following Calonico et al. (2014) were chosen to minimize the mean squared error of the local first-order polynomial RD point estimator using triangular kernels.

Table 8: % Outsourced Workers in the Municipal Public Sector

	Social Workers	Healthcare Workers
Conventional	1.01 (1.08)	-0.86 (0.98)
Bias-Corrected	1.17 (1.08)	-0.96 (0.98)
Robust	1.17 (1.26)	-0.96 (1.14)
With Controls	1.53 (1.36)	-0.90 (1.50)
N Below Cutoff	1636	1655
N Above Cutoff	1473	1478
Eff. Obs. Below Cutoff	833	1116
Eff. Obs. Above Cutoff	904	1017

* $p < 0.05$, ** $p < 0.01$

Note: Includes all workers in the public sector whose contract was mediated through a third party and not the government itself. Optimal bandwidths following Calonico et al. (2014) were chosen to minimize the mean squared error of the local first-order polynomial RD point estimator using triangular kernels.

Table 9: Sensitivity to Different Bandwidths

	MSE Bandwidth (h)	(h/2)	(h/4)
Healthcare Establishments	-2.16 (1.74)	-3.26 (2.38)	-4.03 (3.35)
Healthcare Workforce	-0.95 (1.51)	-1.64 (2.06)	-0.20 (2.83)
Kindergartens	1.51 (1.24)	1.87 (1.58)	2.16 (1.91)
Preschools	0.16 (0.48)	-0.62 (0.68)	-0.39 (1.03)
Social Workers	1.51 (1.33)	1.81 (1.84)	3.98 (2.64)

* $p < 0.05$, ** $p < 0.01$

Note: Includes only bias-corrected coefficients with robust standard errors, mayoral controls and year fixed-effects. Optimal bandwidths following Calonico et al. (2014) were chosen to minimize the mean squared error of the local first-order polynomial RD point estimator using triangular kernels.

Table 10: Effects of Partisanship on Contraction out - Election Year Placebo

Election Year Placebo Test	
Health Establishments	-2.06 (2.12)
Health Workforce	-1.17 (1.92)
Kindergartens	3.83 (2.20)
Preschools	1.12 (0.94)
Social Workers	-1.62 (1.68)

* $p < 0.05$, ** $p < 0.01$

Note: Includes only bias-corrected coefficients with robust standard errors, mayoral controls and year fixed-effects. Optimal bandwidths following Calonico et al. (2014) were chosen to minimize the mean squared error of the local first-order polynomial RD point estimator using triangular kernels.

Table 11: Estimation with an Alternative Left-wing Classification

	Health Establishments	Health Workforce	Kindergartens	Preschools	Social Workers
Conventional	-0.52 (1.04)	-1.41 (0.85)	-0.45 (0.90)	-0.34 (0.27)	1.10 (1.21)
Bias-Corrected	-0.48 (1.04)	-1.52 (0.85)	-0.72 (0.90)	-0.36 (0.27)	1.53 (1.21)
Robust	-0.48 (1.21)	-1.52 (1.01)	-0.72 (1.06)	-0.36 (0.30)	1.53 (1.36)
N Below Cutoff	3540	3520	3245	3540	1636
N Above Cutoff	3182	3156	2929	3181	1473
Eff. Obs. Below Cutoff	1960	2048	1877	1495	450
Eff. Obs. Above Cutoff	1660	1212	1491	1028	888

* p < 0.05, ** p < 0.01

Note: Due the broader definition of left-wing, there are more observations with this specification than in the baseline. The table only includes bias-corrected coefficients with robust standard errors and mayoral controls. Optimal bandwidths following Calonico et al. (2014) were chosen to minimize the mean squared error of the local first-order polynomial RD point estimator using triangular kernels.