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THE ROCKY ROAD TO PRIVATIZATION

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April, 1987

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ABSTRACT

There are three main types of privatization (1) lowering the proportion of GNP preempted by the public sector, thus leaving correspondingly more for the private sector; (2) transferring present government enterprises to private organizations; and (3) contracting out the production and delivery of services financed by public funds. This discussion (a) evaluates contracting out the type most common in the United States and (b) places it in the context of what has been called "third party government--a term referring to the situation created by the congeries of large recent changes in the relation between public and private sectors.

In contrast to most discussions of "contracting out," which mainly emphasize theoretical economic advantages, this evaluation takes into account the intensely political atmosphere in which government contracting actually operates.

Drawing on long experience with contracting, first as a government administrator and then as head of an organization that contracted for technical assistance with governments in the United States and abroad, the writer points out that many of the advantages attributed to contracting out often are not realized.

While the practice in many cases can save money (the main objective of its proponents), successes are likely to be achieved only with projects meeting certain narrow specifications, requiring (1) streamlined government contracting procedures, and (2) contract administrators with extensive knowledge, relevant administrative skills and experience, and high integrity.

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THE ROCKY ROAD TO PRIVATIZATION

Lyle C. Fitch

The movement called "privatization" is getting a lot of attention nowadays, as strains on government budgets stimulate a search for ways to reduce the cost of public services. The movement, of course, is in tune with the predilection for the private sector of the Reagan Administration, which in turn draws on the traditional American antipathy toward government in general.

Some Straws In The Wind

--OMB Circular A-76 (revised in 1983) states "... the Government should not be in competition with its citizens. It has been and continues to be the general policy of the Government to rely on commercial sources to supply the products and services the Government needs." [1]

-- The Urban Mass Transportation Administration reemphasized in November (1985) that priority consideration in allocating capital funds would go to transit systems that "demonstrate significant utilization of competitive bidding for services."

-- The Department of Housing and Urban Development has established a Governmental Capacity Sharing Division and is sponsoring workshops on contracting out, and related programs to promote use of market-related devices, such as education vouchers. Organizations in a number of states, including Leagues of Municipalities (the League of California cities is one such) and university institutes of public administration have received grants therefore.

-- USAID has a Private Enterprise Bureau, created in 1981, which engages in such activities as general promotion and making seed loans to LDCs for market agriculture and export manufacturing.

-- A Trade Association, the Private Sector Fire Association, has been formed to promote privately provided fire protection.

-- 48 states as of the spring of 1986 permitted operation by for-profit firms of publicly-owned hospitals. New York, one of the two holdouts, is considering such legislation in the current legislative session.

-- Correctional services and facilities (prisons) are now being widely discussed, and some jurisdictions are already contracting for such services. A headline in the San Francisco Chronicle of March 22, 1986 announces that Private Prison Has La Honda Residents Upset. The "prison is a facility to house, and guard, adult parole violators, operated by a private firm under contract with the State Department of Corrections."

-- Several major consulting firms have added privatization to their product line.

-- The appearance of several specialized periodicals, including a newsletter Private Sector/Public Services that was founded in 1981.

Nevertheless, it would be wrong to suppose that the privatization movement is making serious inroads on public sector employment and production thus far. On the contrary, the numbers of employees in all levels of U.S. government--federal and state and local--were at all time highs as of the end of 1985:

federal--2.9 million; state-local--13.6 million.[2]

* * * *

Some public administration analysts are referring to privatization as "third party government", a revolution in techniques of government and delivery of services. Thus the theme of the June 1986 meeting of the National Academy of Public Administration was **Third Party Government and the Public Manager: The Changing Forms of Government Action.**

My own feeling is that the term "third party government" is a case of terminological overkill, for it turns out that most of the so-called "revolutionary" instruments have been around for a long time. Also, the term will inevitably confuse the uninitiated, who will think the reference is to a political party.

For the purposes of this paper, therefore, I define privatization more narrowly as the objective of handing over to the private sector functions that previously have been performed in-house by governments. I first list three main subspecies, and then focus on one of them--contracting out. Finally, I briefly discuss the broader subject of so-called third party government, and its claim to be a radically new phase of American public life.

My comments are primarily descriptive and analytical, with illustrative anecdotes drawn from personal experience, first as a government administrator, and second, as head of a research-consulting organization whose major source of income was contracts with federal-state-local governments in the U.S., and national and local foreign governments. I want to emphasize that on the question of public vs private, I am strictly a pragmatist.

Other things being not too unequal, I will choose the alternative that best combines economy, efficiency and effectiveness.

* * * *

Basic Concepts -- Types of Privatization

The discussion employs the conventional distinction between public and private sectors, recognizing that in real life many organizational formats spill over boundary lines between the two, and that in contemporary discussions, the term "privatization" covers a multitude of arrangements. Three principal subspecies are:

1. Relative increases in private sector production financed by sales to individual consumers in the market over production of public services financed by taxes or other compulsory levies.

This is one of the main things that the President seems to have in mind when he talks about "getting government off the people's backs" and letting them decide how they should spend their money--taking for granted that, given the chance, they won't opt to spend it on taxes for public services.

2. Selling or giving government enterprises to private for-profit firms or nonprofit organizations. (By enterprise I mean

an organization that is wholly or mostly financed by selling its products to private firms or households, or to other government agencies.) Examples are the Administration's proposals to sell Conrail and the Bonneville electric power producing complex.

This form of privatization is much more important in Britain and a number of other countries that have gone in heavily for nationalized industries which are now being sold to private firms

or individuals. A recent article in *The Economist* puts it thusly:

The selling of state assets--from airlines to jute mills--is captivating politicians everywhere, even in socialist Spain and communist China. At its best, "privatization" creates competition, efficiency and wealth. At its worst, it substitutes insensitive privately-owned monopolies for insensitive publicly-owned ones and feeds corruption.[3]

3. Contracting out --hiring private for-profit firms or nonprofit organizations to perform services that might otherwise be provided by government agencies using direct hire (force account) employees. It is implicit that contracting is financed by public funds raised by taxation or borrowing. This is the main form of privatization in the U.S., of course, is the one now most widely debated, and is the main topic of this paper.

Historically, the private sector in the United States has always performed many services financed by public funds. Familiar examples are ordinary supplies that most governments buy in the market; many professional services; design and construction of roads and buildings; and production of weapons and other equipment for the military, which in the U.S. is the largest government contractor of all. Privatization is merely an extension into new areas of what has been going on all along.

* * * *

There is a related large set of issues, that I won't go into here, of what types of goods and services should be provided through the market mechanism and financed primarily by prices, or through the mechanism of social choice and financed primarily by general taxes as opposed to user charges. This raises questions of pure public goods and "merit" goods, conditions under which

individual choices exercised in the market are preferable to social choices, and so on. Here I am interested only in public goods and services--defined as those that a government and its constituency, for whatever reasons, choose to finance by public funds.

Let's stop for a look at the last sentence. What this emphasizes is that a basic function of government, which can't be delegated, is choosing the kinds and amounts of services it will provide, given its financial framework and the resources at its command. Once those decisions are made, the next choice is the means by which the services will be produced and delivered. A large number of such functions can be performed by either government agencies in-house or private sector organizations.

This is a fairly new idea--historically, it has been taken for granted that providing certain types of services was an intrinsic function of government. The revered forefathers of public administration devoted most of their attention to improving the organization and management of government service-providing bureaucracies. With respect to the choice-making function, considered in those days as the prerogative of the Legislature, they were concerned only with some of the machinery--notably planning and budgeting--rather than the substance.

I'm not sure when it was first mentioned in the public administration literature, but the point that choice-making is the essential function of government was brought home when Lakewood, California attracted wide attention by contracting out

all its municipal service functions, and running the town with a "bureaucracy", if you want to call it that, of 50 people or so. This point is still being discovered, as will be seen in later sections of the paper.

Economic Outputs and Political Outputs

Before going further, we should consider the meaning of public goods and services, i.e., the **outputs** that governments produce and deliver to users (beneficiaries). The economists have a narrow definition--outputs are identifiable **goods and services** listed in conventional classifications of government functions--police and fire protection, education, sanitary services, parks and recreation, sewers, roads and streets, and so on, along with the overhead items of administration and financial services. These are the analogs of the goods and services that private firms sell in the market.

But as any elementary student of government knows, people and private organizations want many things from government, for which they will put out effort, political influence and votes, and cash in the form of taxes, political contributions and bribes. They include not only services delivered to users but also the benefits of providing inputs such as jobs and contracts (i.e., contracts awarded as political payoffs) and other "prizes"[4] associated with government. In the political frame of reference, the distinction between outputs and inputs becomes blurred--inputs (defined in the economic sense) become ends as well as means. For instance, it has been noted that in Newark, N.J., urban politics traditionally has been more concerned with,

not the quality or even the quantity of city services, but how the jobs and contracts were distributed among the main ethnic groups--Italian, Polish, Black, Hispanic, etc., and the same is true of many other cities. Indeed Robert Wood once observed that the quality of conventional services is seldom an important issue of urban politics, except around election time.

In any case, the distinction between economic and political outputs is frequently blurred in discussion of the relative advantages of the private versus the public sector. Generally, the public sector is associated with political outputs and private firms with economic outputs. However, private firms get involved in politics up to their ears in trying to obtain public contracts, and in the process further obscure the difference between economic and political outputs. More of this later.

* * * *

Though people individually, and people organized by special interest groups, want numerous things from government besides conventional services, many things also cost money that must come from taxes or borrowing, which are ostensibly for delivered services (economic outputs) but which must cover not only the cost of economic outputs but the greater cost of the entire political outputs. Thus political outputs other than delivered services often take the form of superfluous jobs or other jobs requiring less in effort or skill than is required for competent and efficient service delivery, or contracts with private suppliers that may be excessively costly or inadequately fulfilled, or both. In effect, such costs are an overhead charge on the cost of delivered services.[5]

But as the tax revolts of the 1970s and early 1980s have demonstrated anew, taxpayers get very upset when they suspect that they're not getting their money's worth in services for their hard-earned dollars. The overhead costs of political outputs get classified as "hanky-panky" or outright graft, and often rightly so.

Economy and Efficiency

The two "E's", which the forefathers of public administration pursued like the Holy Grail, later came to be regarded at worst as meaningless cliché's, and at best as highly simplistic, fit only for the more simple-minded economists, accountants and public administrators and beneath the notice of sophisticated exponents of pluralist politics. But I think this putdown is a case of using a stigma to beat a dogma. Perhaps because I am old-fashioned, I find the hoary old terms still are the most efficient and economical means of expressing two vital concepts--vital to this discussion at least.

Economy implies using a given quantity of resources for the socially most useful purpose. It is associated with a standard analytical tool--**benefit/cost analysis**. The economical choice of alternatives is the one with the highest benefit/cost ratio. This point is axiomatic to choice-making, it seems to me. The arguments are rather over what should be included or excluded in benefits and costs.[6]

Efficiency implies producing a defined output with the least expenditure of resources, i.e., minimizing the ratio of inputs to outputs. This is what productivity is all about. Obviously, it

is a desideratum for any supplier, public or private. The problem in some though not in all cases is how to define outputs.

The point is illustrated by a large bridge that was built across the Delaware River between New Jersey and Pennsylvania. It may or may not have been built with reasonable efficiency, but the main trouble when it was built was that it didn't connect any important highways and hence was not an economic use of resources. Politicians could have argued, and some doubtless did, that it was not entirely unjustified--it provided jobs. The point is that the same manpower could have been put to some better purpose, such as rehabilitating already deteriorated bridges, of which there is an oversupply.

To return to the subject--

How to explain the apparent rising interest in contracting out aside from pro-private ideology? I offer the following partial list.[7]

1. The high rate of cost inflation in the state-local sector, which in the period after 1965 was greater than in any other major sector. (Assertion based on GNP deflator data.)[8]

2. The apparent inability of urban governments to cope with the increasing demands on them, as manifested by growing congestion, pollution, crime rates, delinquency, declining pupil performance in public schools, particularly ghetto schools, deteriorating public transportation, and other indexes of performance.

3. The widely held conviction that public bureaucracies are inherently less efficient, economically, than are private firms dominated by the profit motive. Of course, many governments,

particularly larger ones, have done much to earn their bad reputations.

E. E. Savas, one of the leading advocates of contracting out, rests his case on two main points having to do with allegedly inherent incapacities of government.[9]

The first point is the venerable argument that government are monopolies, with no incentive to emphasize the three E's, and with no counterpart of the bottom line--the private sector's main index of success--by which to evaluate performance. This line of argument ignores the fact that many of the firms with which government agencies, notably the Defense Department, contract are themselves monopolistic or oligopolistic. Moreover, sheer power of size often enables them to beat down government contract managers. Equally if not more important is that they spend freely on political contributions, on occasion outside legal limits.[10]

Savas' second point is that government agencies are inherently incapable of efficient operation, not only because they tend to respond to the demand for political outputs rather than economic outputs, but also because they are entangled in webs of bureaucratic controls--budgeting, personnel, procurement, and so on. And he stresses the familiar list of indictments of public bureaucracies--inflexibility, proneness to entropy, and propensity to develop means of insulating themselves from elected officials and appointed department heads who are supposed to lead and supervise them. Again, it is seldom mentioned that the same tendencies infect big business bureaucracy.

Some of the not inconsiderable advantages of contracting out, from the viewpoint of legislatures and top elected officials, have to do with reducing the sheer size of the administrative burden and of coping with obstacles to producing and delivering services, such as those mentioned above. This means that they are paying more attention to economic outputs as opposed to political outputs.

In my experience, one of the most frustrating aspects of many large public bureaucracies is the ubiquitous web of controls--ostensibly designed to promote economy and efficiency, minimize the abuses of spoils systems, encourage competitive bidding, and so on--which commonly are so misconceived, badly designed or manipulated that they inhibit effective administration and performance. In New York City, we used to complain that many of the controls were designed to employ battalions of clerks with green eyeshades to keep honest men from stealing money. For one thing, they created bottlenecks, and bottlenecks invite petty graft in the form of payments to keep the paper moving.[11]

Poor personnel systems are the most invidious control--freezing employees into positions;[12] discouraging disciplining of incompetent or uncooperative employees, inhibiting recruitment, and ignoring qualities that cannot be easily measured such as leadership ability, integrity and demonstrated past performance. Example: The N.Y. City Administrator's Office was doing a study of the management of city heating systems and brought in a heating engineer from another department. When the study was finished, he refused reassignment to his original

department; there was nothing in our office for him to do without working out of title, and no easy way to get rid of him. He had an easy life until I finally managed to eliminate his position from my budget, after which he actually came to my office and wept, literally, over being subjected to such indignity. Lesson: next time hire an outside consultant for the specialized work.

Such dysfunctions are frequently instigated and perpetuated by pressure of employee organizations, but public employee unions and collective bargaining are a subject in themselves. Here I will observe that one of the arguments for contracting out is that it may offer an escape hatch from debilitating civil service restrictions and the more immodest demands of powerful employee unions, with their big muscles.[13] But powerful unions can block such escape hatches by resisting contracting out of work previously done by public employees, and by engineering such devices as the Federal Bacon-Davis Act, along with state legislation requiring payment of union scales for work done on public contracts.

Example: A study by the City Administrator's Office determined that the City could lease its motor vehicle fleet, with better service and regular replacement, for half to two thirds of what it was costing the City to finance and maintain its own fleet. Union pressure blocked any such move, except for a few small experiments with leasing specialized equipment.

Economies of Contracting Out

The chief examples that come to mind are (1) economies of scale, and (2) economies associated with competition. Scale economies can be realized by contracting with suppliers who serve a number of clients (public or private). The contractor may be a private organization or another government jurisdiction. A related set of economies has to do with geographic scale--for example, air pollution control in multijurisdictional urban areas, or flood control in a river valley. Still another involves both functional and geographic scale--examples may be found in mass transportation.

Another aspect of scale is economic and political clout. Large organizations often can bargain more advantageously with suppliers, including other government agencies, private firms, and labor unions. The large organizations in turn can contract to supply services to other government jurisdictions.

Contracting out also enables organizations, public or private, to avoid diseconomies of scale, which may arise when an organization becomes too large or complex to be efficiently managed. Many government agencies depend on private contractors to share management functions. NASA is a prime example--it has relied, and must continue to rely, on a congeries of private firms and nonprofit organizations to provide not only technological inputs and hardware, but to undertake a variety of management decisions that would swamp the NASA staff. (The principle involved is not invalidated by the recent revelations of grave deficiencies in procurement, project monitoring, quality control, and communications.)

Economies of Competition is the most prominent advantage claimed by proponents of privatization. Before buying the claim, however, it is well to be clear on several points.

1. It is not always necessary to turn to the private sector to get advantages of competition. Government agencies may compete with each other--this is one of the potential benefits of redundancy, a concept long associated with the name of Martin Landau.[14] (Of course, such competition has customarily been decried by public administration experts as "duplication of effort.") Intra-governmental competition may even be encouraged by such devices as education voucher systems, which allow parents to choose the public school in which their chicks will enroll.

2. Advantages of competition and economies of scale are often not available in the same package, since economies of scale require large-scale operations, which in turn are usually associated with a degree of monopoly.

3. Competition is not synonymous with integrity or honest workmanship. Most of the giant firms that contract with the defense Department have been caught and penalized repeatedly for attempts to chisel in ways that transcend differences of opinion among accountants as to what are honest charges. Of course, most are also monopolistic or oligopolistic. But at the other end of the spectrum, individual consumers have much trouble with complicated technical products and services provided by small firms--to take one instance, survey after survey of television and auto repair shops conclude that the majority are, in varying degrees, dishonest. In a recent tour of auto repair shops in

Berkeley trying to get a Mustang repaired, I found no basis for disputing such dismal findings. Score: one honest, three probably dishonest.

4. Once having fed at the public trough, many contractors develop a vested interest in maintaining and expanding the programs with which they are concerned, which they exert by means both fair and, at least occasionally, foul. In this respect, privatization offers no advantage, competitive or otherwise, over the public bureaucracies, which are commonly faulted on the ground that their chief objective and criterion of success is getting budget increases.

CAUTION SIGNS IN THE ROAD

Caveat Emptor--Let the Buyer Beware

Problems of specifications and control. Contracting out, properly handled, is at once a skilled and expensive process. It starts with defining needs, writing specifications, and soliciting bids on the specifications.

For routine goods and services, the procedures are fairly well standardized. There have been many improvements in the past two decades, for instance, model specifications for various items have been prepared by state and municipal service organizations and several consulting firms. The Educational Facilities Laboratories, Inc. (funded by a Ford Foundation grant to Stanford University) developed in the early 1970's specifications for five basic components of school buildings: basic shells, lighting, partitioning, air conditioning, and flooring, based on extensive

surveys of physical requirements of school building plants. The project also redefined the roles of contractors and unions who would be involved in assembling the newly developed components.

Another laborer in the vineyard of improving sophistication and competence, particularly of municipalities, was Public Technology, Inc., founded by the ICMA assisted by a Ford Foundation grant. Initial PTI surveys had confirmed that municipal administrators lacked experience in, and were cautious about, contracting with private organizations except in already-established areas.

In recent years, as indicated earlier, a variety of standard specifications for routine types of contracts has become available to state and local governments.

The widely-used technique of the request for proposal (RFP) enlists the cooperation of would be contractors in writing specifications. The client agency states its requirements in broad terms and requires would be contractors to respond with more precise statements of their understanding of the client's requirements, and specific proposals for meeting the requirements. In the process, the contracting agency can collect ideas from which to choose in drawing up a final contract with the winning contender.

An illuminating report on such problems, as they exist and are handled in the Department of Defense, has recently been issued by a President's Blue Ribbon Commission on Defense Management--the "Packard Commission." [15] Despite the enormous scale and unique characteristics of DoD's contract program, many of the Commission's observations are germane to more modest

programs. Its initial conclusion is that as a result of problems with present procedures, many weapons systems cost too much, take too long to develop, and are obsolete technologically by the time they are fielded. Following is a brief review of major deficiencies observed in the development and procurement of new weapons.

1. The process starts with perception by the Services of need for a new weapon or weapon improvements, or from government or industry teams that conceive of a new technology and try to persuade potential users to state requirements that will exploit it. In either case, the process leads to "goldplating"--inclusion of features whose cost far exceeds their real value.

2. Next step--getting funding for the development of the new system. This is likely to be a highly competitive process, with numerous proposals fighting for recognition. The inevitable tendency is to overstate requirements and capabilities and to understate costs.

3. A DoD program team is assigned to prepare detailed specifications. These are the basis of contractors' proposals, describing how they would meet the specifications, with costs and prices. Proposal preparation may expose technical problems, or reveal cost-effective modifications. But the only modifications permitted are those that meet the terms of the (overly-detailed) specifications. As a result, tradeoffs between performance and costs, on which competition should be based, are foreclosed, decisions are based primarily on costs and contracts "too often" go to the most optimistic bidder, who hopes to be able to recover through change orders in the course of development and production. Fixed-price bids can contain this danger, but at the cost of sacrificing flexibility for needed tradeoffs between cost and performance.

4. Once a bidder is selected, the DoD program manager sets out to "accomplish the improbable task of managing his overspecified and underfunded program. . ." But what was improbable quickly becomes impossible, for "an army of advocates for special interests descends on the program, leaving the program manager with no room to balance their competing

demands." Congress, with an intense interest in constituencies, gets into the act. The results are those listed above--interminable delays, inflated costs, and technologically obsolete products. "It is a tribute to the dedication of many professionals in the system, both in and out of DoD, that more programs do not end up in serious trouble." [16]

The problem of quality controls of public services exists whether they are produced in-house by government agencies or by private sector organizations under contract.

For products that can be identified, weighed and measured, or tested as to performance in use, tests concentrate on how well the product meets specifications. The problems are mainly administrative--who inspects the product and how well, and procedures for handling inadequate performance.

Where the product is not easily measurable as to quantity or quality, the control apparatus involves monitoring producing processes and inspection of products by skilled personnel, along with investigations of complaints.

In both cases, external controls are vulnerable to friendly relations between personnel of contracting agencies and contractors, [17] political pressure, and outright bribery.

In this respect, contracting out may have no clear advantage over government in-house production; in fact, quality control may be more difficult with private contractors. Competition is not an adequate control--once a large contract involving substantial amounts of work is signed, competition ceases and other control processes take over. Malperforming contractors may be dismissed or dropped from consideration for future contracts, depending on their political clout, but the possibility of such

retaliation may be poor consolation for bad performance on an important project.

Contract Controls In Economic Model Communities VS
Political Model Communities

The "models" are abstractions--an expositional device; in real life communities may lean one way or the other, but the differences are in terms of more-or-less rather than either-or.

In economic model communities, citizens' interest is mainly in good service (economic outputs) provided at what is considered reasonable cost. The closest real life prototype is a city-manager city, with a population predominantly middle and upper class. This model features a hard-nosed contracts manager (individual or organization) capable of drawing up specifications for the public service concerned, and following through to see that contractors follow specifications and otherwise perform satisfactorily.

In political model communities (the prototype is a large city run by a politically oriented Mayor) provision of inputs--jobs and contracts[18]--are considered valid prizes of governmental control. The general level of citizen satisfaction (as registered by absence of squawks from the public, media complaints and other community noises) becomes a more important servomechanism in the control process, and controls are exerted more through political channels. To the degree that the bureaucracies are subject to political sanctions, they may be more responsive to the demands of politically potent groups; other groups--notably the minorities--are likely to be ignored until they can make their voices heard. In the political

community, political connections are an important factor in filling jobs, not only appointive positions and casual labor jobs, but also jobs nominally under the civil service. Contractors are expected to make political contributions to be eligible for contracts. Contributions may take the form of outright bribes and kickbacks, but such open breaches of propriety are a favorite hunting ground of ambitious public prosecutors, and a safer and more popular form is the campaign contribution--outright grants, subscriptions to fund-raising dinners, and so on. Such potlatch may take its toll by raising the costs of contract services, and in inferior performance, though the more cautious operators will try to perform passably. Even so, there are slips. Thus, the New Jersey State Motor Vehicles Department was in a muddle during 1985 because of difficulties with a new computer system installed by the well-known firm of Price Waterhouse. At some point, it was revealed that PW had made large cash political contributions before receiving the contract; however, I think it is likely that the contribution were to insure that the PW bid (and bids for other projects) would be considered, rather than a payoff for a contract award.

An offshoot of the political model may be termed the entrenched bureaucracy model, in which the bureaucracies themselves wield large political power. Not infrequently, bureaucracies are permeated by petty and not so petty corruption. Inspectors and other bureaucrats often form alliances with contractors and others whom they are supposed to be watching. Or

they exact petty tribute from suppliers, building contractors, and others who do business with the government. Such practices are difficult to uproot because the members, the honest along with the dishonest, tend to close ranks to protect their own from prosecution.

Graft

Contracts are probably the most common and lucrative source of corruption in government. The abuse has been only diminished, not eliminated, by public bidding and other formalities designed to improve the integrity of the process.

In January 1986, both NASA and Mayor Koch of New York City abruptly lost their reputations for good management, though for different reasons. NASA lost its reputation over the revelations of inadequate management practices that culminated in the Challenger disaster, compounded by other revelations of sloppy procurement, accounting and auditing procedures. Mayor Koch lost his when contract scandals erupted on several fronts. In one case, a firm whose organizer and principal stockholder was the Bronx Democratic Chairman, had received a \$22 million contract from the City Motor Vehicles Bureau to develop a handheld computer for the use of meter maids and traffic control personnel which would quickly retrieve information respecting previous violations by offending vehicles. In another case, the Deputy Commissioner of the Traffic Violations Bureau was accused of accepting kickbacks from firms that had received contracts for collecting unpaid fines for parking violations. A former hospitals commissioner was indicted for having accepted kickbacks

from various contractors. Sixteen employees of the public school system, most of them building inspectors, also were indicted for taking kickbacks from contractors, in most cases to expedite payments on overdue bills. Investigations erupted all over as federal and city prosecutors, state and city legislatures, and the IRS rushed to get into the act. And this was only the beginning, as investigators began reaching down into the bowels of the bureaucracies. In the first fallout, the Democratic Chairman and the Deputy Commissioner were indicted on felony charges, the Borough President of Queens (one of the most powerful City politicians and public officials) committed suicide, and a number of other officials resigned.

All this did the cause of privatization no good whatever. A news story published in a March 1986 issue of **City and State** began:

Privatization, touted as a cure-all for the ills of patronage and rising government costs, suffered image setbacks this year . . . reports of unfolding investigations, which crops up almost daily in the headlines of newspapers in New York and Chicago, raise questions about how and whether the process of privatization can be insulated from graft and corruption.

New York and Chicago are easy targets because of their size and their long histories of indulgence in the more outrageous forms of political manipulation for private gain. But anyone who believes that they are isolated instances doesn't read the papers very thoroughly and probably also believes in the tooth fairy.

A quarter of a century again, widespread contract scandals in the Federal Interstate Highway program were one of the most notorious demonstrations that the public trough can be an

attractive alternative to bank robbery. In the 1970's one of the great illicit bonanzas was in the administration of the federal low- and moderate-income home ownership program. Currently, there are more fields to be investigated than there are investigators--one of the smelliest, figuratively speaking, is private contracting in the waste disposal industry, particularly disposal of toxic wastes. In some areas, contracts are held by mob-run firms which discharge their obligations by dumping toxic waste materials into the nearest convenient ditch in the dark of the moon. The mob is big in waste collection and disposal, at least in my part of the world. It is ironic that such matters escape the attention of privatization advocates--waste disposal being of their favorite promising examples.

Caveat Venditor--Let the Seller Beware

The government procurement and contracting process often gets snarled in the same types of controls and limitations that bog down in-house production. Mainly they are instigated by legislatures and administrators to prevent scandals that have already happened. Contractors of competence and integrity, along with taxpayers and presumptive beneficiaries, are the main victims of such pathologies, as well as other manipulations. Here I will illustrate by citing some of the pitfalls that can bedevil a small private, not-for-profit, contractor.

Reporting-auditing Requirements

After I became President of the Institute of Public Administration in 1961, IPA was offered several contract projects by federal government agencies. One was a USAID sponsored project

in Peru (1) to provide technical assistance on various aspects of National Government administrative improvement, and (2) to assist in developing an institute for administrative training and research.

We got on well enough with the Peruvians and a succession of AID directors, and our initial contract was repeatedly extended for a total of 12 years. But as we were getting under way, the worm in the woodwork was the auditing of AID contracts, done by the Defense department which handled more auditing work than anyone else. The auditor assigned to us had been conditioned by experience with working on the U.S. Steel Company; his main preoccupation was to see that IPA didn't get away with anything, and he demanded a set of compliance procedures which might have been suitable for building a battleship, but had little relationship to what we were doing. It took much negotiation in and out of AID to get things somewhat straightened out.

We got into an analagous bind some ten years and numerous federal contracts later, and an AID contract to support the Ecole National d'Administration in Vietnam. Ours was only one of numerous projects--I think the U.S. at that time was spending more on public administration in Vietnam than in all the rest of the world put together. To try to keep track of things, AID Washington designed highly detailed reporting systems, covering objectives, planning to achieve objectives, programs to achieve plans, and progress in implementing programs.

All very logical, except that complying with the requirements preempted 20-25 percent of the time of our team's

professional staff. And since about half the remaining time was required to meet the logistical requirements of living and operating in Vietnam--housing, transportation, office equipment and supplies, clerical assistance, and so on, there was relatively little left for helping our Vietnamese counterparts, supposed to be the purpose of the project. Naturally, our reports reflected what David Stockman has described as the rosy scenario forecast, however they were accepted and signed off by the eminently realistic AID resident director of public administration programs, who had his own reputation to protect.

Competing with Political Influence

At the outset of the 60's it was still fairly common practice to award sole source contracts to well-qualified contractors. During the decade, the number of consulting organizations increased exponentially (increases usually peak in the periods following a change of Administration). Requirements for competitive bidding were tightened, affirmative action quotas were instituted, and set asides for small business and minority firms were initiated. With the advent of the Nixon Administration in 1969, contract awards took on more of a political flavor.

IPA did a project for the Environmental Protection Agency involving means of reducing auto-generated pollution in 12 large cities. Our report was well regarded, and we were asked by the EPA program people to do a follow-on project on 12 additional cities. But we didn't get the contract; it went to an appendage of one of the high-tech firms, which had zero track record in the

field. IPA and the EPA program people darkly suspected that the fact that the winner had been one of the largest corporate contributors to the Republican presidential campaign chest was not completely unrelated to the award.

Unsafety in Numbers

Early in the 1970s, USAID inkled that it would award a contract for technical assistance for public administration, and for developing an institute of public administration in Liberia, and IPA, having already worked in several African countries, decided to submit a proposal. (For the next year, every IPA staff member going to or coming from a project in Africa or Asia stopped off in Liberia to discuss the situation with the locals.) The AID RFP drew some 35 proposals, of which five were retained on a short list comprising two universities, one of the big consulting firms, an affiliate of one of the big high-tech firms (they were going into everything in those days) and IPA. On the strength of its proposal, and the support of the Liberians, IPA won the contract, but it was a long costly struggle.

Responding to RFP's is costly both to individual competitors and in the aggregate. Costs of a single response would run to \$10,000 and up. IPA has engaged in competitions where we estimated that the aggregate cost to the contenders of preparing proposals exceeded the entire value of the contract--a clear case of social costs exceeding benefits. (IPA's house rule was that we would not enter a proposal unless we thought the chances of winning were 25 percent or higher, but some of the large consulting firms crank out mass produced responses and, it is

reported, are satisfied with a winning proportion as low as 5 percent.)

Elimination By Set Aside

IPA had spent two years, and many thousands of dollars in manhours, working with AID on developing a new approach to manpower training in LDC's, on an understanding with the program people that a project contract would be tilted our way. But when the project was put in motion, the Administration had been under pressure to shunt more contracts to small business, and the AID contracts division (which lived in another tent) decreed that this contract would be reserved for a small business firm. IPA qualified as a small business in every respect but one--we were a nonprofit organization. There was nothing we could do--it went to a small business firm with few qualifications other than smallness.

Low Ball Hardball

IPA submitted a proposal to AID that ranked first on content, but with a budget double that of a recently organized rival firm. Our competitor's proposal was considered to meet the broad specifications of the RFP, however, and Competitor won the contract on price, though we filed a protest maintaining that there was no way they could do what they promised within their bid. Long before the contractual period was up, they had spent all their money, and AID, to save its own face, had to provide supplementary funds--by the time the project was terminated it had cost AID double the amount of the original IPA bid.

Epilogue: Some time thereafter, it was discovered that the president of the firm involved had been illegally diverting government funds to support, among other niceties, a mansion, a Mercedes and a mistress. He was duly convicted of fraud and sent to the pokey to reflect on, if not repent of, his transgressions.

Sniping from Legislatures

In the later 1970's, some of the liberated staff of the Senate Foreign Relations Committee began pushing for Congressional directives requiring AID technical assistance to concentrate on elevating the poorest of the poor. IPA's Liberian project was targeted as a horrible example of failure to move vigorously in this direction, as evidenced by the fact that University graduates, rather than illiterate farmers, were being selected for advanced training in the United States. The real target, of course, was USAID, not IPA, but such was the heat from the swingers on the Foreign Relations committee staff that AID felt unable to renew our contract. The President of Liberia got into the Act, and when President Carter dropped by for a visit in 1979, President Tolbert's one specific request to him was that the IPA contract be renewed.

Epilogue: Before the end of the contract period the case became moot when the long-suffering tribal groups in Liberia revolted against the rule of the Monrovia autocrats, and the President and his chief ministers were dragged out to the beach and shot. The IPA and other technical assistance projects were cancelled without further ado.

* * * *

Such is, or was, life among the Beltway bandits. With the advent of the Reagan Administration, the technical assistance business withered, and public relations became the big game on the Potomac.

So Where Do We Stand?

The practice of contracting out has been gaining momentum, partly as an aspect of the current interest in exploring new ways of delivering public services, and partly because of the Reagan Administration's commitment-in-principle to the private sector. But the growth is mainly at the state-local level; I suspect that at the Federal level the volume of contracts has withered concomittantly with the attempts to shrink the public sector (notably excepting defense) In the past, economy drives have tended to increase the demand for consultants to replace in-house expertise lost through reductions in force, but not this time.

I haven't run across any recent estimates of the total amount of contracting out to government, but the annual amount is probably well over \$200 billion; Defense Department expenditures alone total approximately \$170 billion. There have been a number of studies of contracting out by various sets of governments, e.g., period surveys of municipalities by the International City Management Association, studies by the Urban Institute, and so on. A recent typical survey by the California Tax Foundation of California counties, municipalities and local authorities, reports some degree of contracting out by nearly all governments surveyed. Summary data include the following:

Functions Most Commonly Contracted

<u>Cities</u>	<u>Counties</u>
<u>Service functions</u>	<u>Service functions</u>
Public works	Air pollution control
Health services	Ambulance service
Animal control & shelter	Health care services
Parks & recreation	Museum & cultural activities
Transportation services	Parks & recreation
	Certain public works services
<u>Support functions</u>	<u>Support functions</u>
Maintenance	Maintenance
Communications equipment	Buildings & grounds
Office & lab equipment	Office & lab equipment
City vehicles	Architectural, engineering, design services
Data processing equipment	Data processing
Buildings & landscaping	Other professional services
Janitorial services	Personal services

Most Common Advantages Cited

Reduced cost of labor, material or overhead	Same
Availability of special equipment & skilled personnel	Same

Most Common Disadvantages Cited

Difficulty monitoring contracts	Same
Unreliability of contractors	Same

Miscellaneous Comments

Many government managers are favorably disposed to contracting out, but public employee unions, and to some extent political leaders, are not.

The decision to contract should be based, not on private vs public ideology but rather on efficiency and cost effectiveness.

Local government systems unfamiliar with contracting out need both management and additional training in order for this method of service delivery to become widely used.[19]

Over the nation, entire industries of firms specializing in providing various public services have appeared.

A rapidly expanding area in the past two decades has been

contracting for management functions of publicly-financed services, where plant and facilities are furnished by the contracting government. Management of publicly-owned mass transit systems and hospitals are prime examples.

Prisons and other correctional facilities are a hot subject at the moment. Contracting for food and other ancillary services has been going on since the 1970's. Now private firms are beginning to contract for the construction and operation of entire prisons. The first case reported is a contract by the State of Pennsylvania with Buckingham Security Ltd., calling for the design and construction, and therefore operation, of a maximum security prison.

Private firms are moving into the field of waste water treatment, long a preserve of municipal governments, which received substantial financial assistance from the federal government. In some cases private firms are undertaking both the financing, construction and operation of new treatment plants, and in other cases are modernizing and expanding municipal facilities originally built with federal assistance.

Cases where prisons and other facilities are constructed and operated under contract by private firms posed important issues in the 1986 tax reform bill--whether state-local bonds issued for such financing should be tax exempt.[20]

Another still expanding area is contracting for various innovative social services and health services. One interesting development in the health area has been the institution of so-called peer review organizations (PRO's)--private firms that have

received contracts with the federal Health Care Financing Administration to monitor hospital use and quality of care for Medicare patients. A recent article in the New England Journal of Medicine reports that there are 54 such organizations, one for each state and each of four U.S. dependencies. Contracts are biennial and range from \$226,000 in Guam to \$27 million in California. An abstract of the article indicates their purpose and problems.

PROs promised reductions in readmissions, in "unnecessary" admissions or invasive procedures, and in "avoidable" mortality and morbidity. A review of contract summaries for 49 PROs revealed wide variations in production targets. In attempting to meet their goals PROs will encounter numerous potential pitfalls, including inaccurate discharge data, inadequate descriptors for the variety of patient; and physicians' management plans, honest differences in judgments about patient care, and limited research on the criteria used to set their reduction targets as well as the means to accomplish them.

[Under the circumstances] PROs are more likely to be seen as agents of cost containment than of quality assurance. Both their credibility and their effectiveness might be enhanced if an expert panel of clinicians and health services researchers were established to help them set and achieve reasonable objectives for quality of care. [21]

Summing Up

There have been numerous studies of specific instances of contracting out, with estimates of quantitative savings. Savas (1982) cites a number of them, along with conclusions from his own investigations; Marc Bendic, Jr., provides a more recent and exhaustive list of studies.[22]

From the evidence of results thus far, privatization can be useful but can not match the claims for Sloan's Liniment three or four generations back--"Good for man and beast and cures all

ailments." In general, I concur with Bendic's conclusions. I
quote:

[The evidence indicates that] there are enough documented success stories with privatization that government should seriously examine market based approaches whenever undertaking a major initiative that meets the following qualifications....

- Relatively narrow objectives, readily defined and easily measured
- Specifiable tasks and familiar production processes, monitorable at modest cost.
- A number of willing and able competing private sector suppliers.
- A competent, honest government to enforce the rules of a fair market.

...As the mix of objectives in a program shifts toward more complex, long range, holistic and more measurable outcomes and when the state of the art is more primitive concerning how to achieve those outcomes, the record of experience is barren of success stories...the historical landscape becomes strewn with negative findings, aborted demonstration projects, and unfilled expectations. In seeking to educate or train the disadvantaged, transform ghetto communities or economies, improve individuals' living patterns, health, or social functioning, or meet other complex objectives, the record of past privatization initiatives is not impressive.

In conclusion, there is no question but that contracting out, along with other forms of privatization, is on a roll, extending its scope and seeking to reach into new areas. The momentum will probably continue unless this form of privatization overreaches itself and compiles an ignominious record of failures, or the level of exposed corruption so outrages public patience that sentiment begins tilting back toward public performance of public services.

Such possibilities can be averted by improving the quality of contract works. It is significant that many surveys of state-local governments, on their experience with contracting out, cite as obstacles the unreliability of contractors and the difficulties of monitoring contract performance. The process of contracting needs improvement, beginning with the training and sophistication of contract officers and monitors, and putting less emphasis on low bids per se and more on contractor quality and dependability, as established by past performance.

[Contracts awards based on political pull, kickbacks and bribes, and other improprieties of course would have no place in the almost-perfect state.]

The recommendations of the Packard Commission on defense acquisition offer useful guidance on procedures that can be used to advantage in less massive programs. In summary, they are--

- A. Streamline acquisition of organization and procedures.
- B. Use technology to reduce costs.
- C. Balance costs and performance.
- D. Stabilize programs, e.g., by expanding the use of multi-year procurement for high-priority programs.
- E. Expand the use of commercial products.
- F. Increase the use of competition, emphasizing quality and established performance as well as price.
- G. Enhance the quality of acquisition personnel, e.g., by including business-related education and experience for civilian personnel. [The Navy's China Lake Project was com-for offering a useful model of useful personnel administration techniques.]

My own present feeling about privatization generally corresponds with that recently stated by that long time observer

and wise old owl of American public administration, James L. Sunquist, in Public-Private Partnership: New Opportunities for Meeting Social Needs. He observes:

...while privatization has something to offer both the taxpayer and the recipient of the public service, it is being dreadfully oversold these days as the solution to ails government. And the whole concept is being tarnished by the indiscriminate jumbling of a false concept of privatization with the genuine one.

In true privatization, the government's role is only reduced: it does not disappear. And what is relinquished may be the easiest part of the whole job--the doing. The conceiving, planning, goal-setting, standard-setting, performance-monitoring, evaluating, and correcting all remain with the government. If these are done badly, the public interest suffers, and so, usually, does the private contractor.[23]

PRIVATIZATION CONSIDERED AS "THIRD PARTY GOVERNMENT"

I pointed out earlier that contracting out is only one of a congeries of techniques for cooperation between public and private organizations. The larger area also has been expanding and commanding increasing attention of the public administration fraternity.

Lester Salamon of the Urban Institute [24] characterizes the development as "a technological revolution that has taken place in the last few decades in mechanisms that the public sector uses to carry out its programs." One outstanding feature he sees in the change in public technology is that the new tools operate indirectly; they allow government to operate by remote control; in the case of the federal government they rely on a host of nonfederal actors (including states and localities) but all levels are coming to rely increasingly on nongovernmental actors.

Many of the "new tools" mentioned will not strike the older generation as particularly new--among those listed, besides contracting out, are:

Formula grants	Tax expenditures
Price supports	Procurement assistance
Interest subsidies	Major systems acquisitions
Direct payments	Economic regulation
Direct loans	Special regulation
Loan guarantees	Public Corporations
Insurance	Public-private corporations
	Intra- and interstate authorities

What is new is the realization that the public administration profession and literature has failed to put the "tools" such as those listed above in a perspective to which they are entitled by sheer magnitude. Thus, many of the federal programs do not appear in the federal budget. Another consequence is that it is often difficult to find out who is doing what, or to trace the flow of funds from the federal government through the various delivery networks. This may be explained in part by the fact that many of them have been designed to serve limited private interests rather than anything that could seriously be called the "public interest", regardless of the grandiloquent language in the preambles of the legislation establishing them. Many of the so-called tax expenditures are a case in point. Keeping them hidden improves their chances of escaping exposure for what they are.

However that may be, there is no question but that there has been an explosion in the magnitude of the relationships between governments and the private sector. One example is federal loans and loan guarantee programs--in 1985 they amounted to about \$130 billion to commitments (compared to about \$55 billion in 1975,

while commitments at year's end totalled about \$658 billion. With these programs the banks, not public employees, are the administrative agents.

The trend toward nontraditional instruments is also occurring at the state-local level, where special authorities now borrow more for construction than all general-purpose state and local governments combined. Another example: the bulk of "human services" paid for by government are delivered by nongovernment rather than government agents. In a recent 5-year period, 42 percent were delivered by nonprofit institutions, 19 percent by for-profit firms, but only 39 percent by government agencies.

The process puts the federal government and to an extent the state-local governments, in the position of wholesalers of public services, rather than retailers. It can be argued that the process utilizes government for what it does best: determining priorities, mobilizing resources, utilizing the democratic political process to set the pace, and then utilizing the strength of private sector institutions for what they do best--delivering services. Rather than concentrating on the concept of government as the producer or provider of government services, says Salamon, we should consider its role as an "engager" of public services. We need a more coherent understanding of the characteristics of the different available instruments and criteria for deciding which is best for particular tasks. We have to move from a preoccupation with interagency problems to a broader understanding for interagency and interorganizational relationships.

For so-called third party government, Salamon points out, has generated tremendous management problems for which public administration, which likes to draw sharp lines between public and private spheres, has not devised adequate techniques. Necessary conditions mentioned by Salamon include mutual understanding of tasks to be performed--in practice government officials frequently are obliged to purchase from the services that providers (nonprofit and others) have available, rather than tailoring service to need as perceived by responsible officials. Another condition is effective oversight of performance. [The last two comments, of course, concern contracting out.]

Some of the "new tools" have been created in order to circumvent the incapacities of established government agencies--bureaucracies by topside administrative controls (budget, personnel and procurement are traditionally the leading offenders), legislative restrictions, and established internal operating routines. In some cases, the new institutions have been dubious successes at best (the Postal Service Corporation), or resounding failures--the New York City Hospitals Corporation. In other cases, new organizational devices have compiled excellent management records which later deteriorated--TVA, Bonneville, NASA, and the Port Authority of New York and New Jersey. In the latter cases, the failures or deterioration were not due to a lack of public administration theory or techniques in the agencies themselves, but were due rather to (1) failure to maintain a high level of managerial quality or (2) the imposition of new conditions or pressures on the organization that jeopardized sound organization and procedures (NASA seems to have

been an outstanding example).

The larger problems of public corporation-authority management lie with the sponsoring governments. Thus James Liegland observes of New York State authorities that

"there is still no consensus among state leaders on the best way to manage these entities. In fact there is still disagreement about how many authorities there actually are, with estimates ranging from 28 to 42, let alone where the responsibilities and jurisdictions of one agency end and another begin....Among the challenges presented, perhaps the principal one is developing a system that allows authorities to take advantage of their status as independent corporate subsidiaries of the state and yet insists that authority directors maintain and build their responsiveness to the state's needs." [25]

I have already suggested that many of the tools of "third party government" have little to do with the public welfare. With such programs, what may be happening, to quote Theodore Lowi, "is not the public appropriation of private property, but rather the private appropriation of public authority," where government action is tailored and public funds are spent to favor one special group or another at the expense of society as a whole. In such a picture, quality of administration has little meaning unless its real purpose is to minimize the social waste involved by making it as difficult as possible for the unrighteous to make off with the boodle.

The tax reform bill passed by the U.S. Congress in 1986 is an interesting attempt to undo some of the private appropriation of public authority, utilizing the concept of the "level playing field." In the process, one of the sets of the new tools, tax expenditures, has been largely discarded.

The convoluted history of the tax reform measure is a

reminder that essentially we cannot escape the ancient problem addressed by Plato and Aristotle--what is the public welfare, and who should be responsible for defining and implementing it, and by what means?

"Revolution" may be too strong a term for the changes in government formats and roles in the 20th Century; as already noted, they have not reversed, though they may have slowed down, the increases in employment at all three levels of government. But we have certainly been seeing a vigorous evolution process at work. Though most of the types of "new" programs have been around for a long time in one form or another, they have been evolving and expanding as special interest groups battle for advantage, and legislators and administrators seek to placate their particular constituencies while they--at least some of them--attempt to select and keep insight a guiding star of the public welfare.

NOTES

1. The wording is confused, but the term "Government" apparently means both government per se and the public served by government. Or perhaps the writer doesn't believe that government should be in the business of serving the public.

2. Economic Report of the President, 1986, Table B-40.

3. "Privatization: Everybody's Doing It Differently," The Economist, Dec. 12, 1985.

4. See Wallace Sayre and Herbert Kaufman, Governing New York (Russell Sage, 1960), for a classification of benefits (their term is "prizes") associated with New York City Government.

5. Parenthetically, this confusion between economic and political definitions of output extends to accounting for national income and product, in the government sector. Aside from income transfers such as welfare assistance and social security payments, the main category of public expenditures is government purchases of goods and services. But this figure does not represent economic outputs at all, rather it is the amount spent for inputs that governments purchase ostensibly to produce economic outputs. If anything, it is a measure of political outputs, as here defined. By contrast, private sector production is valued in terms of economic outputs, valued at the prices that products (outputs) bring in the market.

This inconsistency in the income accounts has driven economists up the wall for years, but it persists because no satisfactory way has been devised for putting a market value on government economic outputs. One difficulty is that many of them can't even be defined very precisely. E.g., how define the outputs of a police department, i.e., the results of police efforts, in measurable units?

6. In this connection in an article in the Nov-Dec (45/6) issue of The Public Administration Review entitled "Do Economists Overemphasize Monetary Benefits?" the writer of course comes out in the affirmative. A better conclusion would have been "Some may and some may not--it depends on the economist." It also depends on the institutional viewpoint of the institution for which the economist works--as Miles law states, "Where you stand depends on where you sit." For instance, the Corps of Engineers is notorious for exaggerating the benefits and minimizing the cost of whatever project they are pushing at the moment.

7. For a more comprehensive discussion, see Harvey Brooks, "Seeking Equity and Efficiency: Public and Private Roles," Chapter 1 in Brooks, Lance Liebman and Corinne S. Schelling, eds., Public Private Partnership: New Opportunities for Meeting Social Needs, published for the American Academy of Arts and Sciences by Ballinger Publishing Company, 1984.

8. Between 1965 and 1985, percentage increases in major sectors were:

Gross private domestic investment-----	231
Consumer expenditures, total-----	143
Consumer services-----	161
Fed. govt., including defense-----	292
S&L govt. purchases of goods & services-----	295

Federal defense and nondefense expenditures were not broken down until 1972, but the increases between 1972 and 1985 were:

Federal nondefense purchases-----	143
Federal defense purchases-----	163
S&L purchases-----	163

One reason for the high cost of state and local purchases was the fact that compensation of state and local employees increased more than compensation in any other major industrial sector except contract construction. Another probable reason has to do with productivity--although productivity trends are difficult to measure, most studies made during the 1970's, when interest in productivity was high, indicated substantial decreases in state-local governmental employee productivity.

9. Savas, Privatizing the Public Sector: How to Shrink Government (Chatham House Publishers, 1982; and "An Empirical Study of Competition in Municipal Service Delivery," Public Administration Review, Vol. 37, Nov-Dec, '77).

10. The doughty Admiral Hyman Rickover, famous naval innovator (he pushed through the innovation of nuclear-powered submarines against hidebound opposition in the Navy Department), known as a perfectionist and hard driver, at one point got so irritated with the shenanigans of private contractors that he advocated throwing private contractors overboard and concentrating warship construction in Naval Shipyards.

11. Lewis Rubin observed, "The natural instinct of a wounded bureaucracy is to smother anything that moves, which only leads to backroom deals to unstick the works." "Lessons of New York City's Scandals," New York Times, 4/5/86, p.15.

12. When I went to work for the New York City Division of Administration in 1954, entrance to the regular civil service high-level administrative class was limited to persons who had entered and gone through the various levels of the lowly clerical class. This requirement effectively kept college graduates out of the administrative class. As a result, the newly established Division of Administration employed no members of the .pa administrative class. To get around the restriction, I was given a provisional title of senior management consultant.

13. The muscles consist of not only of power to disrupt vital public functions (e.g., garbage collection and public transportation) but also voting strength. For instance, New York City public employees, with their families, can account for some 20 percent of the vote in city elections.

14. "Redundancy, Rationality, and the Problem of Duplication and Overlap," Public Administration Review, 19/8, July-Aug 1969.

15. A Formula for Action, A Report to the President on Defense Acquisition, April 1986. The Commission Chairman was David Packard, a former Secretary of Defense.

16. Summary from pp. 5-9 of the Report.

17. A perennial problem of defense contracting, where armed forces contract officers and supervisors tend to move to the other side of the military-industrial complex when they retire.

18. It will be remembered that in this context, contracts with an eye to political loyalty are distinguished from contracts impartially awarded.

19. California Tax Foundation, Contracting Out Local Government Services in California, Sacramento, 1981.

20. Barry Zucker, "Tax-Free Bonds that Shouldn't Die," New York Times, 3/29/86, p. 15.

21. New England Journal of Medicine, October 11, 1985.

In a case that came to the writer's attention, the California PRO (California Medical Review, Inc.) had evaluated a diagnosis and surgical procedure performed on a terminally ill Medicare patient by a distinguished surgeon, and found him to be guilty of "gross and flagrant" negligence. He requested a review, which was held after much delay, and after he had received assurances from the District Medical Director that the review would be only a formality, "nothing to worry about." After a lapse of nine months, during which time he heard nothing from the CMRI and never received the transcript of the hearing that had been promised, he received a letter reaffirming the original finding ("after reviewing additional [unspecified] evidence". The surgeon's attorney then wrote CMRI, (1) reviewing the case, (2) enclosing a deposition from a professor of surgery at the Stanford University School of Medicine evaluating the diagnosis and procedure and stating his opinion that under the circumstances, it had been adequate and proper, and (3) enquiring about further steps that should be taken to clarify the record and reverse the adverse finding. Again the only response, after another lapse of several months, was another reaffirmation of the original charge. Finally, however, the charge was withdrawn.

On the record, the CMRI itself is guilty of gross and

flagrant violation of proper administrative procedure and due process, not to mention neglect of a basic principle--that successful regulation requires the cooperation of the regulated group.

22. "Privatization of Public Services: Recent Experience," Chapter 7 in Public-Private Partnership: New Opportunities for Meeting Social Needs.

23. Chap. 14, "Privatization: No Panacea for What Ails Government," pp. 305-7.

24. "**The Changing Form of Public Administration,**" a presentation to the National Academy of Public Administration on 6/5/86. Much of the factual data in this section is based on Salamon's analysis.

25. Empire State Report, May 1986. See also Annmarie Hauk Walsh, The Public's Business, Twentieth Century Fund, 1978.

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