



Privatization Trends and the Contract City

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Between the implosion of General Motors, the verbal assaults on health insurance companies and the collapse of the housing bubble, the private sector hasn't had a good year in the PR department for a while. Yet even while some health care activists clamor for a government-run insurance plan to "keep insurers honest," state and local governments are still using privatization to get the public's work done.

Privatization can mean several things, such as selling off government-owned assets. (Think British Rail.) More often, however, it means contracting out government services, to a for-profit company through a long-term lease or other measure that may involve a lump-sum payment to the agency doing the privatization. In these situations, government stops performing the service; instead, it establishes the financial and performance terms of the contract, and then ensures that the company comply with the contract.

In early August, the Los Angeles-based Reason Foundation (<http://reason.org/>, which works to advance "free minds and free markets") published the 23rd edition of its Annual Privatization Report, which gives policy makers and interested citizens a look at the latest developments.

Privatization isn't something to be undertaken lightly. "A central lesson learned from global experience in privatization," the authors say, "is that it works best when governments develop a centralized, independent decision-making body to manage privatization and government efficiency initiatives—a state 'center of excellence' in procurement."

The report cites Florida's Council on Efficient Government and Virginia's Commonwealth Competition Council as two examples of effective privatization centers. The Florida council has saved the state \$550 million, while Virginia has saved \$40 million a year on an ongoing basis with its counterpart.

The report says that recently Arizona, Illinois, Oklahoma and Utah have either considered or actually created similar organizations.

The Arizona legislation, which came up short by two votes in both chambers, may have been the most ambitious of recent proposals. Among other things, it would have created a council to identify each state function as either inherently governmental or nongovernmental. Further, it would have required departments to make a business case for keeping each function in-house, rather than subject it to competitive bidding.

The report describes some recent uses of privatization in various states, including for a hospital for the developmentally disabled in Maine, toxic-waste cleanup of 20,000 sites in New Jersey, child-support enforcement in Tennessee, and the workers' compensation system in West Virginia.

Local governments have been using privatization as well. The efforts range from the modest (animal shelters in Seattle) to more ambitious efforts to provide nearly all services through competitive

bidding. Near Atlanta, area residents created four new cities, and then contracted out nearly all non-public-safety services. Each ended up using a single firm to manage all its services. More recently, a fifth city, Dunwoody, was created with a population of 37,000. Unlike the other four new cities, Dunwoody parceled out contracts to several companies, including one for public works, another for economic development, and a third for financial and administrative services.

Privatization is much less advanced in Minnesota. During the most recent session, Sen. Geoff Michel, R-Edina, and Rep. Laura Broad, R-New Prague, introduced companion bills (SF 1291 and HF 1486, respectively) to direct the department of administration to create a list of state-owned assets. The legislation would also direct the department to “determine the privatization potential of governmental programs or activities, including the performance of corresponding cost-benefit and public-private performance analyses; and review the practices of state agencies and nonprofit organizations receiving state funds that may constitute inappropriate competition with private enterprise.” In addition, the bills would require the department to investigate the feasibility of contracting out the Minneapolis-St. Paul International Airport and the state lottery.

They went to committees on local government, which took no action.

Perhaps they were sunk, at least in part, by Minnesota’s fondness for government activism. Given that the Reason Foundation’s stated mission is “to advance a free society by developing, applying and promoting libertarian principles, including individual liberty, free markets and the rule of law,” you might think that privatization is simply another anti-government technique.

Yet privatization itself is about smart government, not small government. If a state uses privatization where it makes sense to do so – providing better customer, using the latest in technology, drawing on outside expertise – it might also mean lower costs. While that savings could be used to shrink the tax burden, it could also be used to fund other government services, with no net shrinkage of government.

Public-sector unions and their political allies can present roadblocks to privatization, though sometimes they can raise legitimate concerns. After all, it’s easy to get it wrong, whether through poor contract design, favoritism in the bidding process, or some other factor.

But that opposition just takes us to the purpose of government. Is government primarily a way to create civil service jobs with lifetime tenure? If so, then privatization is never a good idea. But if we have government to make sure that certain things get done, then privatization can and should be another item in the toolbox.