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# Reversing Privatization, Rebalancing Governmental Reform: Markets, Government and Citizen Participation

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# Overview

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- Late 20<sup>th</sup> century experiment to expand role of markets in local government service delivery
- Privatization experience uneven
  - Lack of cost savings (Bel and Warner 2008a, 2008b)
  - Increases Inequality (Warner 2006)
  - Undermines Citizen Voice (Warner and Hefetz 2002)
- Reversals appear in the late 1990s
- Not a return to old bureaucratic delivery, instead
  - A shift to a new mixed position –
  - markets *and* public delivery
- Rebalancing Governmental Reform – Pragmatic Approach

# Understanding Reversals

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- Limits to Market Approaches
- Critical Role of the State
  - In constructing the social and legal foundations for markets to function
  - In acting as a market player - ensuring competition, regulation
  - **In promoting innovation**
  - In creating spaces for democracy and community building
  - In public planning to build a long term view
- Challenge – Finding the right balance

# Reversals

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- United Kingdom

- End Compulsory Competitive Tendering (1998). Shift to “Best Value” framework, ‘contestability’, ‘scrutiny’

- New Zealand

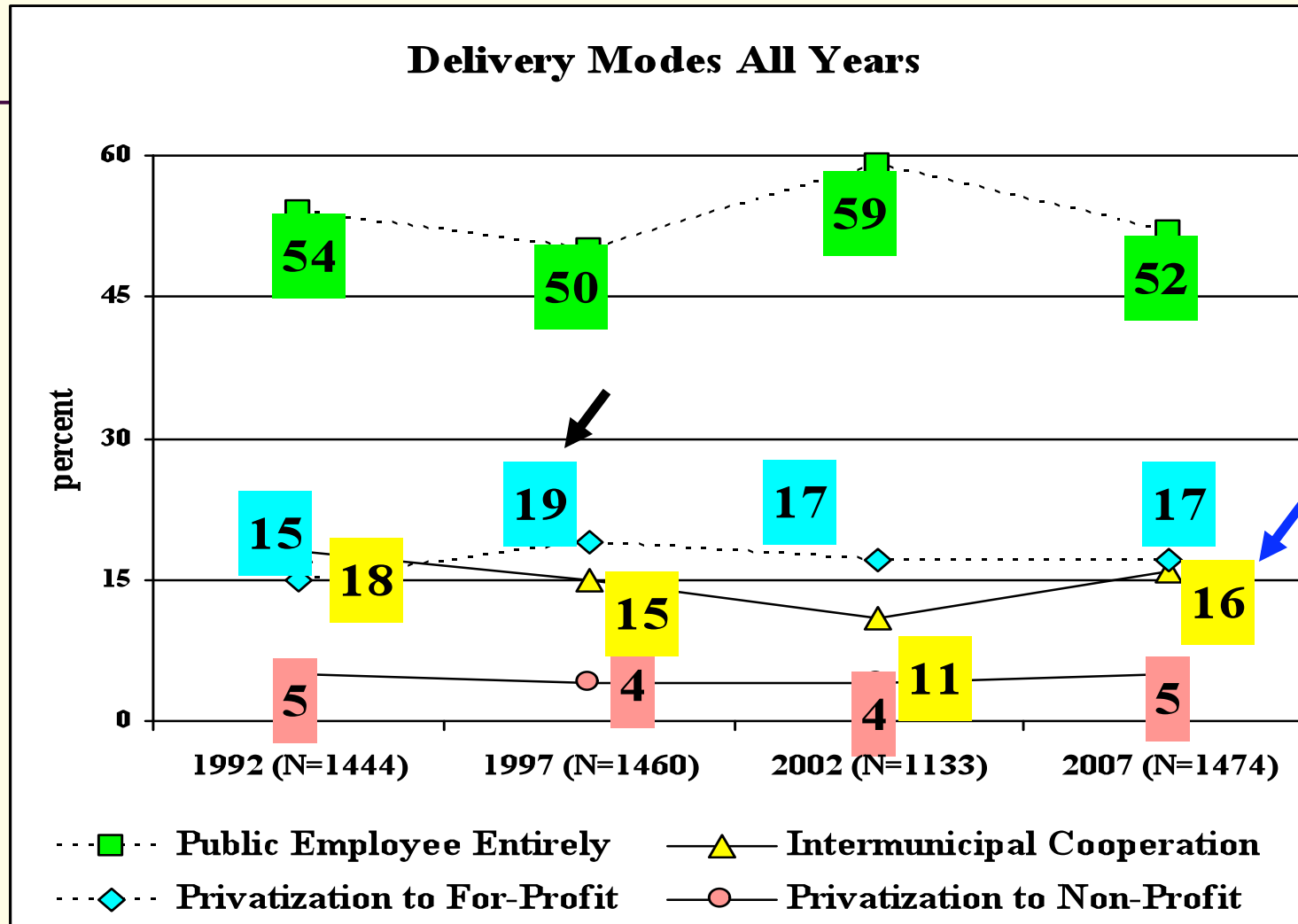
- 2002 Local Government law to restore governmental capacity and build an accountability framework.
- Recognize multiple roles of local government
  - balance economic development, social wellbeing, environmental management and civic engagement.

# Reversals

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- United States – pro-market orientation but privatization never compulsory
- Contracting Out Peaks in 1997
- Rise in public and mixed public/private delivery
  - ensures government capacity – internal knowledge, innovation
  - market management - competition, benchmarking &
  - citizen voice in service delivery process

# US Privatization Peaked in 1997

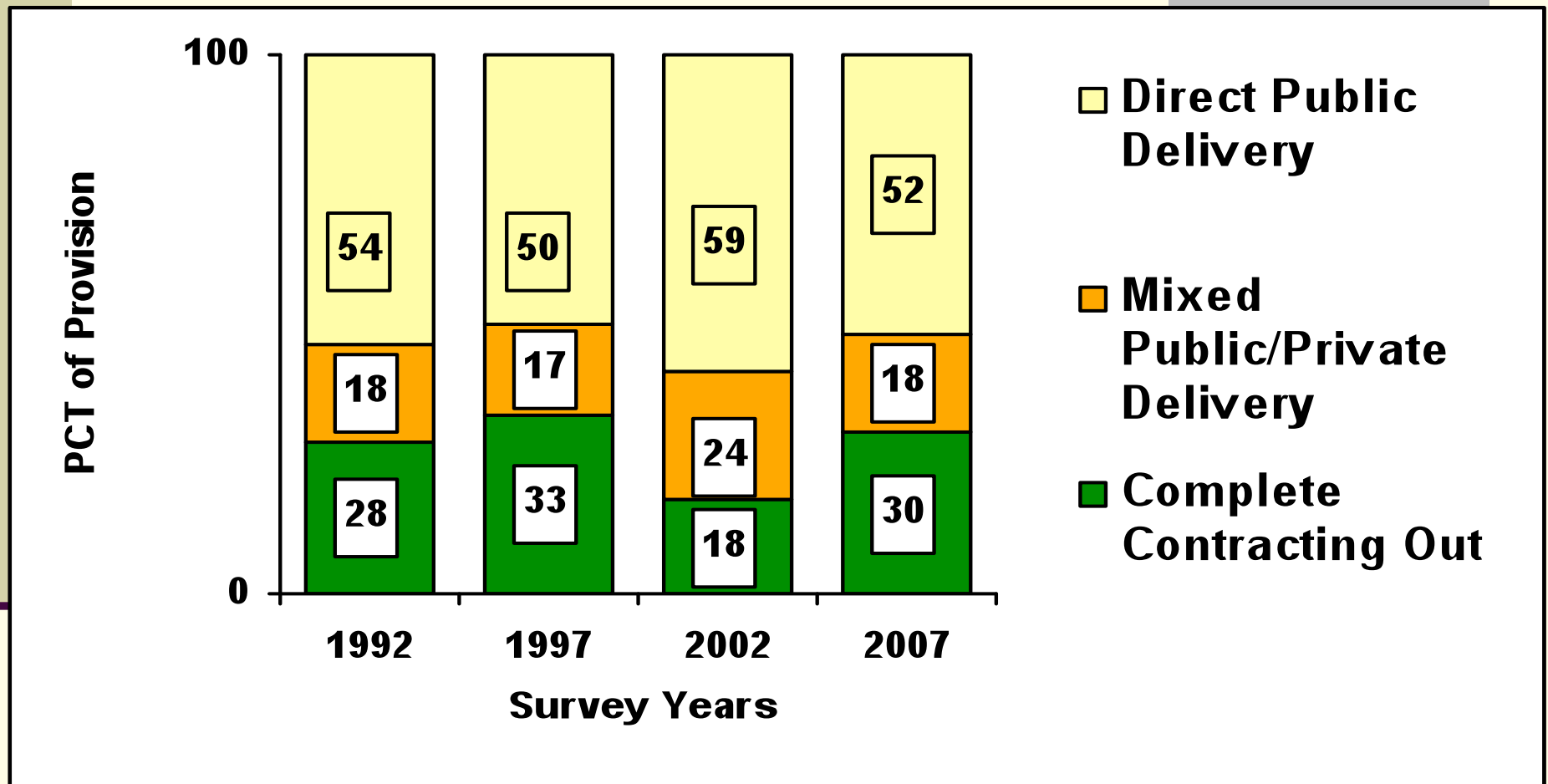


Average provision as % of total provision

Source: International City/ County Management Association, Profile of Alternative Service Delivery Approaches, Survey Data, 1982, 1988, 1992, 1997, 2002, 2007

# Contracting Peaked in 1997

## Dynamic Process of Innovation and Reform



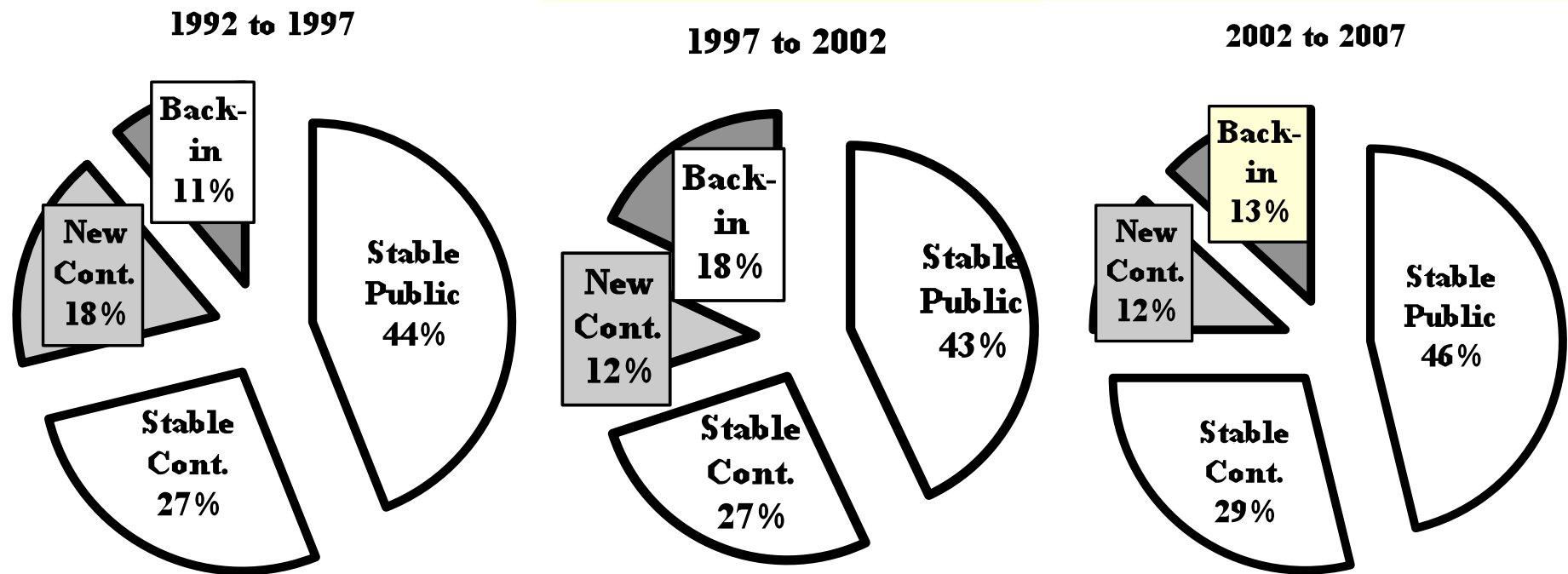
Source: International City/ County Management Association, Profile of Alternative Service Delivery Approaches, 1992, 1997, 2002, 2007 Washington DC. (Warner and Hefetz 2008) Sample Size 1100-1500 US municipalities nationwide

# Reverse Contracting

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- Local governments re-internalize (in source) previously contracted services
- Reasons: (Managers' Views)
  - Problems with service quality (61%) and lack of cost savings (50%),
  - Internal process improvement within the public sector (33%)
  - Citizen interest in bringing work back to public sector (25%)
  - Problems with Contract Management (17%)
    - (lack of competition, monitoring difficulties)

# Most Delivery is Stable (contract or public), Experimentation is at the Margin



**Average percent of total provision across all places.**

Source: ICMA Survey of Alternative Service Delivery Approaches, 1992, 1997, 2002, 2007 Washington DC. US Municipalities Paired samples. N=500-600 (Hefetz and Warner 2004, 2007)

# Cycles of Reform:

## #1 Bureaucratic Management

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**Problem** – corruption, cronyism

**Solution** – Public Bureaucracy - Technical Management, Expert Driven Planning, Separate Politics from Administration, Attention to Due Process

### **New Problems:**

- Bureaucratic Rents
- Unresponsive, inflexible
- Inefficient
- Oversupply public goods

# Cycles of Reform:

## #2 New Public Management

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**Problem:** Inflexible, unresponsive, slow

**Solution:** More Market – Competition, Privatization, Consumer Choice, Performance Management

### **New Problems:**

- Markets concentrate – competition erodes
- Contracting expensive, hard to monitor
- Relational contracting leads to collusion
- Citizen voice  $\neq$  consumer choice
- Competition creates inequality
- Decisions not socially optimal – preference misalignment, information asymmetries
- Loss of democracy and due process

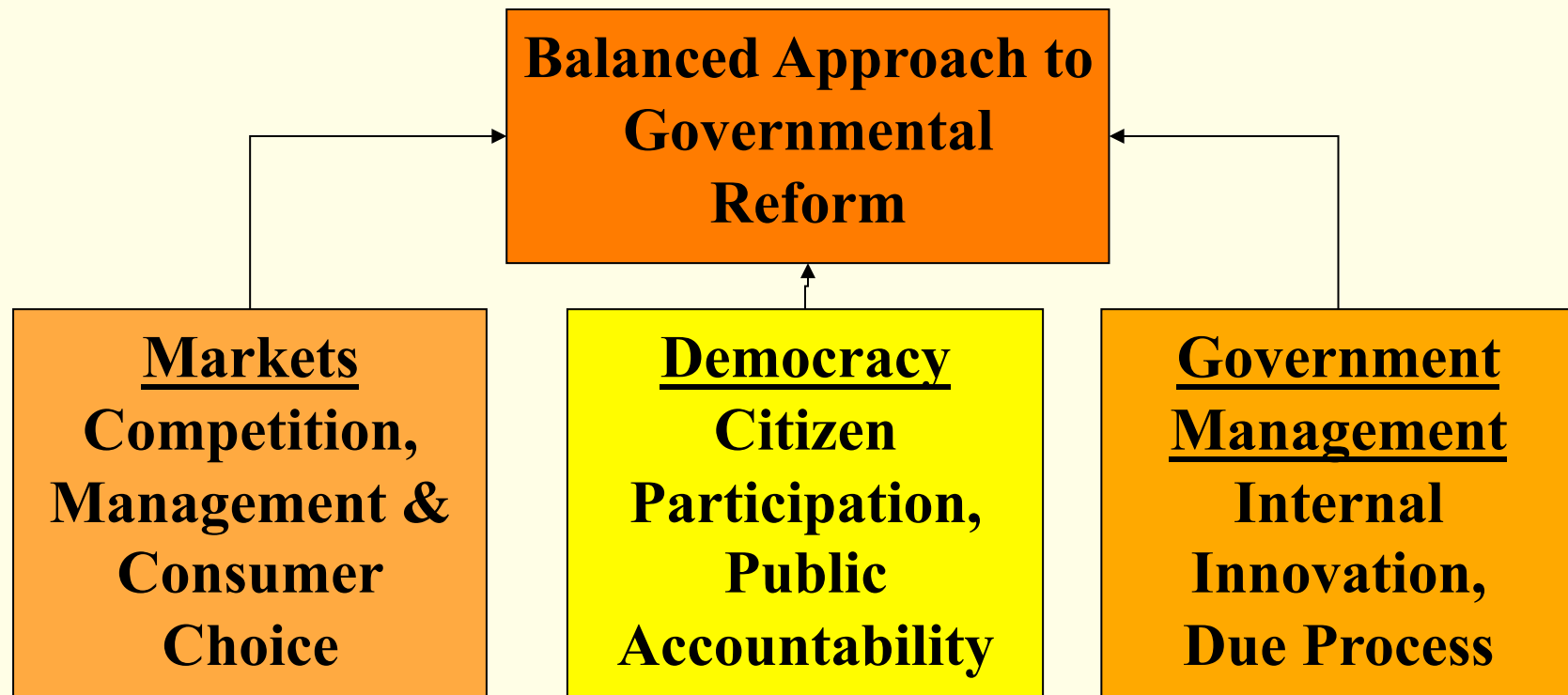
# Cycles of Reform:

## #3 Reassertion of a State Role

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**Problem:** corruption, costs increase, lose control

**Solution:** Rebalancing Reform – Markets,  
Government and Citizen Participation



# Learning from Past Reforms - Need to Balance Market and State

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- Institutional Framework for Markets is Socially Constructed
  - Often lags market development (eg Post Socialist Transition)
  - Requires governmental capacity (regulatory standards, anti-trust law, enforcement capacity)
- Many Public Services are Natural Monopolies – public monopoly better than competition (Warner and Bel 2008)
- Human Interaction is more than market exchange: Redistribution, reciprocity, engagement
  - Privatization shifted the social contract, undermined citizen rights to services
- Community building is the ultimate public good
  - Public services provide the mechanisms for citizens to learn to engage heterogeneous differences

# Government Role

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- Market Manager – ensure competition, create institutional foundation for markets, regulation
- Bureaucratic Management - technical expertise, broader, longer term vision
- Deliberative Space – public engagement
  
- Public Service Provision is about more than cost & quality,
  - Includes accountability, voice and redistribution
  
- Reversals not a return to public delivery of the past
- Reflect a new balanced approach:
  - Markets, Government and Citizen Participation

# Role for Unions: Frame the Debate in a New Way

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## Old Myths

- Markets are superior to government.
- Public sector workers are selfish and inefficient

## ■ Current Realities

- Markets are short term, self interested and unstable, but are also a source of innovation
- Government provides
  - the infrastructure that supports the economy and social wellbeing
  - the space for a collective conversation about long term societal goals.
- Public sector workers are innovative, service oriented and stewards of the broader public good.

# Role for Unions

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## Within Country

Promote Internal Process Improvement – This is Critical

Recognize Need for Labor Flexibility

Recognize Need for Customer Service

Ensure Accountability – be the whistle blowers

Reclaim the Public Service Ethos - Protect Citizenship Rights

## Internationally

Ensure contracting and labor standards, regulatory authority of sub-national governments

Watch GATS negotiations (Gerbasi and Warner 2007)

Sponsor a global conversation about the positive role of government

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