

Week 12 – Privatising Social Policy

Goodwin, S. and Phillips, R. (2015) 'The marketization of human services and the expansion of the not-for-profit sector', in G. Meagher and S. Goodwin (eds.) *Markets, rights and power in Australian social policy*, Sydney: Sydney University Press.

Growth of NFPs

- There is extensive evidence that, over the past two decades, non-government organisations have taken on a dramatically significant role in the Australian welfare state, as governments increasingly fund them to deliver human services. Mark Considine argues that this trend in Australia 'can be viewed as the most important and most radical change to state–society relations since the advent of the modern welfare state' (2003, p. 63).
- In 2010, the Productivity Commission found that not-for-profit organisations were the major providers in most human service areas across Commonwealth, state and territory government agencies and that there were around 20,000 non-profit organisations in the human services sector that relied on government for their main source of funding. The Productivity Commission also reported that total government funding to non-profit human services had increased from \$10.1 billion in 1999–2000 to \$25.5 billion in 2006–7 (Productivity Commission 2010, pp. 300–62). By way of contrast, research conducted in 1995 by the Industry Commission identified some 11,000 'community sector social welfare organisations' that were receiving government funding, and most of the organisations identified employed fewer than five staff (Industry Commission 1995).

Defining NFPs

- As such, the term not-for-profits (NFPs) is utilised. Thus the defining characteristics of the organisations under discussion are 1) that they do not seek to distribute profits and 2) they seek to provide a range of public goods and services (taken, partially, from Casey & Dalton 2006, p. 25). Here then, their distinctiveness hinges on the common feature that they are not, as Davidson puts it, 'in it for the money' (Davidson 2009, p. 65). While 'the NFP sector' encompasses a huge diversity of organisations, including sporting, hobby and cultural

History

- Indeed, Leslie Chenoweth claims that, in Australia, governments have historically distanced themselves actively from funding and providing services, favouring a culture of 'Australian self-reliance' (2008, p. 54).
- 'that haphazard coverage of voluntary organisations' (Fawcett et al. 2010, p. 99) did not really emerge until the postwar period when, as Smyth suggests, 'there came a point when Australia needed a welfare state' (2008, p. 215)
- In the Australian welfare state, government provision of community services 'developed slowly, in a sketchy, residualised and uneven manner' (Harris & McDonald 2000, p. 54)

Early support of NFPs (50s-80s)

- St Laurence and Salvation Army - . For example, in the 1950s, under the Aged Person's Home Act 1954, these church-based organisations were encouraged by the Commonwealth government (through matching funds for capital expenditure) to build and operate accommodation for the aged. In the 1970s, they were funded by the Commonwealth government to provide labour market programs to deal with growing unemployment, and during the 1970s and the 1980s they

received government 'project funding' for poverty alleviation programs (particularly for the elderly and low-income families), community development projects, unemployment services, emergency and crisis accommodation services, alcohol and drug treatment programs, and domestic violence services.

- In the 1970s and 1980s an array of new NFP organisations appeared on the social policy landscape. In what Anna Yeatman (1990) called the 'democratic-participative' era in Australian public administration, new social movements politicised a new range of social needs: women's rights, consumer rights, environmental issues, disability rights, gay and lesbian issues, migrant rights and so forth. These movements made claims on the state, both for government services (such as legal aid offices¹ and community health centres) and for funding for community-based organisations to provide services (such as community legal centres, women's health centres, neighbourhood centres and refuges). What is distinctive about the advocacy of these movements is that they were claiming not just a redistribution of resources, but the democratisation of state institutions and practices: service delivery models were pitched as an alternative to professionalised, bureaucratised, and disempowering models of welfare bureaucracy

Growth in NFP sector (90s-current)

- , in the early 1990s, the state-sponsored community sector lost much of its legitimacy. Public choice discourses contributed a rationale for the de-funding of services provided by women's groups, environment groups and migrant rights groups (Fawcett et al. 2010). Public choice proponents argued that many of the NFP groups actively involved in the delivery of community-based services not only failed to reflect the public good, but also seriously distorted social policy by promoting 'special interests' over the interests of the general community and, in some cases, building 'service empires' for themselves; The development of technocratic approaches to public sector program planning and resource allocation, referred to as the 'new public management' (NPM), demanded that funded services demonstrate measurable outcomes. This entailed a broad shift from grants and project funding to output-based funding
- Competition positions service delivery as an output of policy that has already been decided. This contrasts significantly with the ideals of community-based human service organisations as social policy-in-action and of a more diffuse and devolved social democracy.
- Competition was to be fostered through the contracting out of services, and non-government organisations were to tender for government contracts. This approach is referred to as the 'purchaser-provider split', in which the role of government is conceptualised as primarily the buyer (steerer), rather than the provider (rower) of public services. According to Dalton and colleagues (1996, p. 100), the purchaser-provider split was 'supposed to allow governments to distance themselves from the day-to-day operation of services ... by contracts or contracting out services'. The centrality of contractual arrangements in these reforms led some public policy analysts to refer to a shift to 'the contract state' or 'New Contractualism' (Dalton et al. 1996; Davis 1997; Sidoti et al. 2009; Yeatman 1995).

e.g. Job Network

- The now iconic example of the outsourcing program involved the delivery of services to unemployed people. (In 2001, an OECD report called the Job Network a 'radical transformation of employment service delivery ... without parallel in OECD countries' (2001, p. 262).) Until 1998, publicly funded employment services for job-seekers had been delivered by the Commonwealth Employment Service (CES), a public sector agency. In 1998, the CES was replaced by the Job Network, a network of 300 public, private and not-for-profit providers. Aulich (2011, p. 208) describes the move in terms of privatisation, explaining Minister Amanda Vanstone's rationale

for outsourcing in the following way: Vanstone argued that a privatised service would cost less, give more choice and personalised services to job-seekers and would be better for employers. Private providers would be paid on the basis of outcomes, to drive down costs and drive up labour market participation. In the second round of contracts in 2000, the network had reduced to 197 providers, consisting almost exclusively of for-profit and not-forprofit organisations.

- Reflecting on the development of Job Network, the then Minister for Employment and Workplace Relations, Tony Abbott, explained: As the purchaser but not provider of employment services, the Government has created what might best be described as a 'social market' – a competitive market which exists because government has summoned it in to being. In this sense, the Job Network is an 'arm' of government and Job Network members are the government's partners and allies in so far as they are bound to one another in the delivery of services the public has come to expect (2003, p. 200).
- By 2014 the employment services sector, which had been renamed Job Services Australia by the Rudd Labor government in 2009, consisted only of NFPs and for-profit-providers. Australian governments outsource homelessness services, personal and family services, drug and alcohol services and services for people with disabilities and fo

The Third Way

- A central plank of the Third Way is the devolution of social services to local community groups and associations. Giddens, for example, suggested going beyond the welfare state to develop a 'social investment state', or a 'positive welfare society' by altering the balance between the forms of welfare support government provides directly and those that emerge out of the 'third sector', or community-based organisations and associations (Giddens 1998, p. 117).
- . The list included statements such as: The sector is mission driven rather than market driven. This means that surpluses are reinvested back to provide a dividend for community stakeholders, rather than individual shareholders... The sector can be more responsive to previously unrecognized needs resulting from market or government failure... An ability to respond holistically and flexibly ... Such responsiveness and flexibility cannot be guaranteed by contracted commercial services and probably not by more bureaucratic and siloed government structures. Participation and representation of clients in management structures, program development and delivery can be empowering and lead to more effective outcomes... Meaningful community involvement in, and responsibility for, providing community services is an important tool for weaving community cohesiveness. This can serve as a safeguard against some parts of our society becoming marginalized and alienated.

Policies

- . Since the 2000s, Australian NFP human service organisations have been increasingly allocating resources to policy research through the establishment of policy research units and policy research positions
- . First, the professionalisation of organisations that accompanied NPM techniques of disciplining NFPs resulted in the more regular employment of staff with research backgrounds and research degrees: the change in workforce demanded by the new requirements promoted an internal culture of developing a research base that fitted with the external pressure from funders for 'evidence'.
- Prior to contracting out, the departments used to do evaluations of their programs. For example, governments had the data to ask questions such as whether training or work experience is more effective in moving people into the workforce. Once services were contracted out, they could no longer ask these questions because they weren't providing the services ... the fact that government is no longer producing evaluation research has created an opening for other players. (quoted in Goodwin & Phillips 2011, p. 27)

- Policy research became an effective form of working for social justice in a context where 'evidence-based change' was privileged over other forms of community and consumer participation and social movement activism (Goodwin & Phillips 2011, p. 31).
- In addition, because NFPs are seen as 'not being in it for the money', the evidence they produce is largely regarded as objective, or at least more disinterested than for-profit providers. In the context of marketisation, this final point, however, must be regarded as moot. As can be seen, in the competition state, NFPs are in it for the money, even if that money is for community stakeholders (which, as organisations grow, includes organisational staff) rather than individual shareholders.

Results

- Kerry Brown and Robyn Keast (2005) suggest that new ways of funding and providing social services may have strengthened government control through the introduction of coercive regulatory arrangements. Through these arrangements, services are governed at a distance and this can have a stifling effect on NFP's putative capacity to innovate and be responsive to localised and individual circumstances
- Similarly, contractualism and competitive tendering encourage business-like practices in NFPs and orient them toward achieving the best financial outcomes, rather than the best social outcomes. The so-called gaming of performance measurement regimes (Pollitt 2007) by both NFPs and for-profits and the professionalisation of government contract tender writing are two examples of shifts in practices that blur the boundaries between these two types of organisations. I

Hughes, O. E. (1998) *Public Management and Administration: An Introduction*, 2nd edn. London: Macmillan, especially chapter 5 (Public Enterprise), pp. 109-128

Extent of privatization

- then spread to other countries, to the extent that, from the early 1980s to 1993, more than 7000 enterprises had been privatized (Farazmand, 1996, p. 18).

Reasons for public enterprise

- : inadequate private supply of goods and services; rescuing private firms if their closure is against the public interest; improving competition; reducing social costs such as environmental externalities; even to protect national sovereignty in some way (e Japanese tobacco and salt monopolies were established to pay for the war with Russia in 1905 and that mail services were set up as government monopolies to facilitate spying on correspondence (Hood, 1994, p. 37))

Rees (1984, p. 2) argues that there are four reasons for the existence of public enterprise:

- To 'correct' market failure.
- Market failure can occur for reasons of natural monopoly, restriction of competition in some other way, externalities or spill-over effects on others and where the goods produced are to some degree public goods (Chapter 4). To have these industries in public hands may be 'a way of retaining the cost advantage of a sole seller while preventing the resource misallocation which would result from a profit-seeking monopoly' (Rees, 1984, p. 3).
- To alter the structure of pay-offs in an economy
- means altering the benefits received by particular individuals or groups. Beneficiaries could include the employees, consumers or government. One way of altering pay-offs is the extensive cross-subsidization prevalent in public enterprise pricing.
- Rural electricity users may receive services at uneconomical rates, while other consumers are charged more than the cost to provide that service. If rural electricity services were provided

privately, consumers would either pay more, or the company might decide that providing the service was simply too expensive

- To facilitate centralized long-term economic planning.
- To change the nature of the economy, from capitalist to socialist.
- In the United Kingdom in the post-war period, railways, steel and coal were nationalized so that the commanding heights of the economy were in government hands. Public enterprise had been regarded as a form of 'soft' socialism, perhaps a transitional stage on the way to full socialism.

Kinds of public enterprises

- A public enterprise is a particular kind of statutory authority: one that sells goods and services to the public on a large scale, with the financial returns accruing in the first instance to the authority itself.

Public utilities

- Public utilities provide services – water, sewerage, electricity, gas, and telecommunications – considered essential for the economy as a whole. These are usually provided as services with connections to households from a network.
- the household connection means there is a real, or at least a tendency towards, 'natural monopoly'. Once a network is established, it becomes continually cheaper to add extra consumers.
- the essential nature of public utilities means the services they supply are politically sensitive, with great disruption to the private economy and households resulting if supplies are interrupted.
- As a result of political sensitivity and the tendency to natural monopoly, many governments historically have favoured outright ownership of public utilities

Land transport and postal service

- Both public transport and postal services have a propensity for poor financial returns. This has led to a run-down in systems, as capital spending is delayed and unions fight to retain the working conditions of an earlier age. If prices are raised or services cut, governments face substantial political costs. Even if fewer citizens use public transport, they still seem to want the service continued and if changes are not made, continuing losses impose greater pressure on already tight budgets

Regulatory authorities

- They exist in some countries by use of the government's legal powers, such as to compulsorily acquire commodities, particularly rural commodities for further sale, or to require the purchase of insurance for motor vehicles. The use of compulsory acquisition or compulsory purchase is what distinguishes this group of enterprises, as their main asset is the coercive power of government.

Privatization general

- makes more sense to see privatization as the reduction of government involvement in general: as a reduction in production, but also a reduction in provision, subsidies or regulation, or indeed any combination of the four instruments
- Steel and Heald (1984, p. 13) argue that privatization can be carried out through: charging; contracting-out; denationalization and load-shedding; or liberalization

Economic arguments

For privatization

- reducing taxes by using the proceeds from sales; exposing activities to market forces and competition; and reducing both government spending and the government's share of the economic cake.
- Stimulating competition is an attractive part of the privatization programme. In theory, competition provides powerful incentives to both produce and price efficiently. When faced with competition, public enterprises that do not operate in accordance with consumer demand, or who overprice their products, will lose custom
- There is need to sequence reforms so that a public monopoly is not converted to a private monopoly (Kay and Thompson, 1986). And as Stiglitz argues (2001, p. 350): A regulatory structure can be created to ensure that some of the efficiency gains from privatization are shared by consumers and other users and that other social objectives, such as universal service, are enhanced. But the proposition that privatization can, in principle, increase the efficiency of the economy and achieve other social objectives should never be confused with the proposition that, in the absence of effective regulatory structures, privatization may do neither in practice.
- Even where local networks are too expensive to duplicate, it is possible to franchise particular areas to private companies or to regulate so that the network owner must provide access to competitors. The overall result is that public enterprise may not be needed even for natural monopolies and even if a private monopoly is created, its potential for abuse of monopoly power may be no worse than the public monopoly it replaces
- A further economic argument for privatization has been to reduce crosssubsidies. This is where an enterprise varies its prices so that, within its overall functions, profitable activities subsidize unprofitable but desirable activities. Privatization is seen as a way of charging for services in accordance with their true costs. Cross-subsidies are now argued to be economically undesirable as true costs and inefficiencies can be hidden. They are an unspecific way of assisting those disadvantaged in some way or having particular political strengths. Other mechanisms are preferable, such as direct cash transfers to those to be given assistance, or by direct funding from the Budget. If the government desires the provision of specific services, it should provide the funds for the purpose

Against privatization

- the problem of monopolies, in which new private monopolies could use their power to raise prices, cut services and make consumers worse off
- The problems of organization and control in utility industries such as telecommunications, gas, electricity, and water are amongst the most difficult in the field of microeconomic policy. Indeed, our view is that under public ownership there are conditions in which they become so acute that public ownership is to be preferred. When there are massive economies of scale and scope, high entry barriers, or externalities, private ownership performs poorly. The incentive and opportunity to exploit consumers threatens allocative efficiency, and the lack of competitive benchmarks leads to internal inefficiency and slack. The fact that public ownership is also far from perfect in these circumstances reflects the inherent difficulty of economic organization in such industries. (Vickers and Yarrow, 1988, p. 428):

Britain e.g.

- Competition has been muted. The former enterprises remain a political problem because of political sensitivity. Gas and electricity companies were attacked for raising prices, increasing executive salaries and making high profits at the same time as large numbers of consumers were

applying for assistance in paying their bills. The privatization of British Gas is cited as 'a textbook example of how not to privatize a state monopoly. The creation of a huge, arrogant, inefficient and exploitative private sector monopoly was a serious misjudgment on the part of a government committed to competition' (Wilks, 1999, p. 261).

- At the beginning of the programme, private monopolies replaced public monopolies and consumers did not greatly benefit; neither was there much benefit to industries that use these services as input
- by not establishing a competitive framework at the beginning, the government made it difficult for one to be set up later.
- Although having a specific office to regulate an industry seems reasonable, the absence of effective competition means there must be conflict over price between the enterprise and the regulator, as well as potential 'capture' by the industry. The regulatory system has led to 'a perpetual system of ordered competition' in which regulation remains permanent and firms rely for their profits on the regulatory environment rather than competition (Burton, 1997, p. 184).

Efficiency

For privatization

- The private sector is assumed to have a time-tested set of incentives and accountabilities in place, and as these are not present in the public sector, there must be inefficiency.
- Systematic evidence on the relative efficiency of public and private production is extremely limited and 'universal generalizations are drawn on the basis of a few empirical studies and impressionistic examples' (Heald, 1983, p. 308)
- For small-scale operations there is some evidence that private provision is more efficient. For example, a comparison of private and public refuse collection shows that private contractors tend to be cheaper than public ones (Savas, 1982). At such a local level, there may be a case for greater use of contracting out in areas like refuse collection or road construction

Against privatization

- according to Vickers and Yarrow (1988, p. 40), for all the theoretical benefits of private ownership, evidence is rather mixed, and 'the evidence does not establish the clear-cut superiority of private ownership in respect of cost efficiency'.
- Perhaps the proponents of privatization make the mistake of comparing actual public sector management practices with an idealized private management world. In this ideal, management is controlled by, and is accountable to, its shareholders; workers feel part of their enterprise; the share price reflects the value of the company; and the final sanction for poor management is the threat of takeover. In some cases, these views may be realistic, but private managers are often averse to taking risks, treat their shareholders with contempt, and takeovers may be concerned with making paper profits rather than improving management. The available evidence seems to suggest no measurable difference between the two sectors.

Control

For privatization

- r. According to Zeckhauser and Horn (1989, p. 35): The separation of ownership and control in any enterprise creates an agency problem. In private corporations, the shareholders' ability to sell their stock or vote out management creates incentives for those who control the enterprise to serve the interests of owners. The very diffuse, non-transferable shareholding that

characterises government ownership, by contrast, reduces these incentives. Consequently, those who control the public enterprise pay less attention to the interests of their taxpayer shareholders, and groups with more concentrated interests, such as suppliers, consumers and employees, can influence management to favour them over the taxpayers

- Both public enterprise and private enterprise have principal/agent problems but these are likely to be greater in the public sector in general, particularly public enterprise.
- Part of the early public sector reform process involved reasserting control over public enterprises, making them pay larger dividends, and devising better means of ensuring accountability. The success of these changes was mixed and inevitably led to further privatization. If accountability is poor and improvements not possible, the case for privatization becomes much stronger.

Except for small-scale activities, it is likely that public enterprise will eventually disappear as an acceptable way of delivering private goods and services.

Bryson, J.M., Crosby, B.C. and Bloomberg, L. (2014) 'Public Value Governance: Moving beyond Traditional Public Administration and the New Public Management, *Public Administration Review*, vol. 74 (4): 445-456.

Traditional Public Administration

- Traditional public administration (Waldo 1948/2007; Stoker 2006) arose in the United States in the late 1900s and matured by the mid-twentieth century as a response to a particular set of conditions. These included the challenges of industrialization, urbanization, the rise of the modern corporation, faith in science, belief in progress, and concern over major market failures.
- In its idealized form, politics and administration were quite separate (Wilson 1887). Goals were determined in the first instance by elected officials and only secondarily refined by technical experts in response to political direction. Government agencies were the primary deliverers of public value through the way they designed and implemented politically defined objectives (Salamon 2002). Efficiency in government operations was the preeminent value. Citizens were viewed primarily as voters, clients, or constituent
- . Mostly successful experience with government responses to World War I, the Great Depression, and World War II helped solidify support for traditional public administration and built strong trust in government as an agent for the good of all

New Public Management

- After a long gestation period, the New Public Management (Hood 1991) became the dominant approach to public administration in the 1980s and 1990
- New Public Management arose out of a concern with government failures, a belief in the efficacy and efficiency of markets, a belief in economic rationality, and a push away from large, centralized government agencies toward devolution and privatization.
- In New Public Management, public managers are urged to "steer, not row." They steer by determining objectives, or what should be done, and by catalyzing service delivery, or how it should be done (rowing), via their choice of a particular "tool" or combination of tools (e.g.,

markets, regulation, taxes, subsidies, insurance, etc.) for achieving the objectives (Salamon 2002)

- Markets and competition—often among actors from different sectors—are the preferred way of delivering government services in the most efficient and effective way to recipients seen as “customers,” not citizens. Public managers should be empowered and freed from constrictions so that they can be “entrepreneurial” and “manage for results.”

The Emerging Approach

- Citizens, citizenship, and democracy are central to the new approach, which harkens back to Dwight Waldo’s (1948/2007) abiding interest in a democratic theory of administration. T
- The approach advocates more contingent, pragmatic kinds of rationality, going beyond the formal rationalities of Herbert Simon’s (1997) “administrative man” and microeconomics’ “economic man.” Citizens are seen as quite capable of engaging in deliberative problem solving that allows them to develop a public spiritedness of the type de Tocqueville saw in the 1830s American republic when he talked about the prevalence of “self-interest rightly understood” (de Tocqueville 1840/2002; Mansbridge 1990).
- Scholars arguing for the new approach see public value emerging from broadly inclusive dialogue and deliberation. The conversation includes community members from multiple sectors because, as Beck Jørgensen and Bozeman (2007, 373–374) note, “public values and public value are not the exclusive province of government, nor is government the only set of institutions having public value obligations, [though clearly] government has a special role as guarantor of public values.”
- Citizens thus move beyond their roles as voters, clients, constituents, customers, or poll responders to becoming problem-solvers, co-creators, and governors actively engaged in producing what is valued by the public and good for the public (De Souza Briggs 2008).
- This often means helping build cross-sector collaborations and engaging citizens to achieve mutually agreed objectives (McGuire 2006; Agranoff 2006; Fung 2006). Public managers’ role thus goes well beyond that in traditional public administration or New Public Management; they are presumed able to help create and guide networks of deliberation and delivery and help maintain and enhance the overall effectiveness, capacity, and accountability of the system
- s. In the emerging approach, discretion is needed, but is constrained by law, democratic and constitutional values, and a broad approach to accountability