

Decentralization in U.S. Public Higher Education: A Comparative Case Study of New Jersey, Illinois, and Arkansas
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Part of Section on Choosing Government or Privatization

Choosing Privatization

The question is to what degree should government be the “policy maker, regulator, manager, and protector” (Colorado Legislative Council 1987, 6) of a public service. In many ways which course is followed depends upon one’s point of view. Similar considerations are addressed when choosing one of the policy concepts and approaches over the other (Donahue 1989). Choosing privatization or some hybrid is a complex problem. One underlying conclusion can be drawn: the use of privatization as a policy tool is situational. States respond in “different ways depending on their size, complexity, policy ‘maturity,’ governance structure, and politics (or tradition of ‘protecting’ institutions turf)” (Epper 1999, 23). “To ask whether bureaucrats or private contractors perform better *in general* is as meaningless as asking whether, *in general*, an ax or a shovel is the better tool. It depends on the job” (Donahue 1989, 84).

The goals of any decision need to be adopted before proceeding to selection of a policy instrument. Privatization is simply a vehicle to be used to obtain certain goals. What the goals are must be made clear.

The critical issue is achieving the best balance among legitimate interests. The best balance will vary from society to society and over time within a society as contexts, value definitions, and priorities change (Wirt, 1986). (Swanson 1989, 286)

A series of questions gleaned from the literature can be asked to help make a decision about whether privatization is a policy concept that might be most effective in a given situation. First is a set of general questions that can be asked to guide the decision

General Questions for Choosing Privatization

Vision: How can a “community vision” be developed?
Goals: Which policy concept is most likely to achieve the desired goals? Is there something inherent in a policy concept that prohibits achieving the purposes and objectives in a given situation? What policy concept is most likely to address social goals such as fairness, equity, liberty, security, diversity of institutions, and diversity within institutions? Will the underlying causes of the problem be addressed? Can the policy concept be used for the purpose for which it is intended?
Quality:

<p>Which policy concept is likely to allow for the task to be performed best and how closely is it likely to approximate the ideal?</p> <p>Will the chosen policy concept add value to the function?</p> <p>Will the same or a higher quality of service be provided?</p> <p>Which is likely to be more effective?</p> <p>Which form is most likely to be able to adapt to changing circumstances and stimulate change and improvement?</p>
<p>Cost:</p> <p>How will the cost of the service be affected?</p> <p>Which policy tool will provide more cost efficiency?</p> <p>Which will increase productivity?</p>
<p>Personnel:</p> <p>How will current employees be affected?</p>
<p>Political and Legal:</p> <p>What is the likely political resistance and will the change be able to address the major concerns?</p> <p>What are the legal constraints and liabilities?</p>
<p>Miscellaneous:</p> <p>Which will provide for more choice?</p> <p>What is the exposure to risks and hazards including security and confidentiality?</p>

Specific Questions for Choosing between Government and Privatization

<ol style="list-style-type: none"> 1. Is the task something only government can do or can it best be done by private entities? 2. Are the means more definable or observable (choose government) or are the ends more definable or observable (choose privatization)? (Donahue 1989) 3. Is it more necessary to affect means (choose government) or ends (choose privatization)? (Donahue 1989) 4. Is it easier to “monitor fidelity to instructions” (choose government) or to “measure results”(choose privatization)? (Donahue 1989, 45) 5. Is the task difficult to measure and evaluate (choose government) or does it allow for easily measured performance standards and clear evaluation of results (choose privatization)? (Donahue 1989; Wallin 1997) 6. Is the task “uncertain at the outset and prone to revision” (choose government) or can requirements “be specified in advance,” can the task be concretely identified at the beginning (choose privatization)? (Donahue 1989, 45) 7. Is a close relationship to the agent important (choose government) or is an arm’s length relationship more attractive (choose privatization)? (Donahue 1989) 8. Is it more important for the service provided to be responsive to government

- (choose government) or to the consumer (choose privatization)?
9. Are there assurances that fraud, abuse, inefficiency, and deception can be curtailed (choose privatization)?
 10. Would it be disruptive to change “agents in midstream” (choose government)? (Donahue 1989, 45)
 11. Is the provision of the service critical and generally only a government provided service (choose government)?
 12. Is close control/regulation essential (choose government) or is a more laissez faire approach appropriate (choose privatization)?
 13. Does the planning process need to be comprehensive (choose government) or can it be more localized (choose privatization)?
 14. Is it important for government to affect significantly the activity (choose government) or for those providing the service to affect it significantly (choose privatization)?
 15. Is the activity purely governmental (choose government) or is the activity provided in the private sector as well (lean toward choosing privatization)?
 16. Should the service be more responsive to the government (choose government) or to the consumer’s needs and expectations (choose privatization)?
 17. Does the activity need to be evaluated closely (choose government) or is autonomy necessary (choose privatization)?
 18. Is economy of scale a primary consideration (choose government)?
 19. Is relatively stable and assured funding more important (choose government) or is flexible and entrepreneurial funding more important (choose privatization)?

A balance between the two, government and privatization, may be the best choice in many cases. Where does government or privatization work well, and where do they not? It is apparent that the answers to most of the questions in the two tables above are subjective in manner. However, a rigorous process can be developed to answer them in a more objective fashion. The complexity of the task of choosing in a rationale manner should not deter policy makers from following this course.

In the process of considering privatization as the policy framework, there are additional factors that need to be considered. To ensure success, at a minimum, the following elements need to be in place:

1. A competitive environment;
2. Sufficient availability of a service being considered for privatization;
3. Assurance that current entities have the capability to adapt to the new freedom;
4. Incentives to make the policy choice work;
5. A clearly defined Request for Proposal with an appropriate bidding and contracting process (Fixler and Poole 1987);
6. An explicitly stated, enforceable, output based contract with well defined expectation to include accountability measures;
7. An acknowledgement that contracting is complex;
8. An evaluation process that effectively measures the service;

9. Assurances that what is being proposed is true privatization (e.g., performance funding) not regulation in another guise; and
10. Consideration of transition costs.

A caveat is in order in regard to evaluation. “There is always the possibility that the power that privatization gives away with one hand, evaluation may take back with the other” (Weiler 1990, 446). Rigid evaluation systems, even though they are initiated post hoc, still can guide day-to-day activities and decisions. A tight linkage exists between evaluation and control (Weiler 1990). Attempts need to be made to put in place an effective yet appropriate evaluation process that does not weaken the privatization process.