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To steer or to row: Contemplating the role of privatization

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At the "Rethinking State Government" conference held at the University of Maine in January 1993, a panel explored the issue of privatization -- of using private enterprise to provide public sector services. In introducing the panelists, Patricia Collins, chair of the University of Maine System Board of Trustees, noted that privatization has been proposed to address societal needs that can no longer be met by traditional methods. With too many demands and too little money, and with the prevailing view of government as inefficient and unresponsive, the State of Maine asked the Special Commission on Governmental Restructuring to consider new solutions and present recommendations to the 115th Legislature. Among the ideas proposed was that of privatization.

According to Collins, advocates of privatization quote E.S. Savass, chair of the Department of Management of City University of New York, who said, "the word government is from a Greek word which means to steer. The job of government is to steer, not to row the boat. Delivering services is rowing, and government is not very good at rowing." Or they quote Mario Cuomo: "It is not government's obligation to provide services, but to see that they are provided." Opponents caution that there is much to be lost by privatization, that there are risks of inequities and poor service. Indeed, they stress that some government services should never be contracted out. The following statements by the four panelists in this discussion reflect this same wide range of perspectives.

Privatization as a valid alternative

by Sawin Millett, Commissioner, Maine Department of Finance and Administration

My perspective is primarily that of someone who has worked in the public sector -- at the local level in both government and education, and at the state level in both the legislative and executive branches. I have also worked for a private, nonprofit school management service organization. I believe strongly in what government can do. Government is one of our best hopes for promoting a better society and democratic institutions, for facilitating people's ownership of their own future, and for helping them achieve their own (private) goals. I am not an advocate for privatization as a tool to reduce the size of government, but I believe it is a valid alternative for delivering some services at less cost under certain present circumstances. Government has always relied on the public sector (itself), the private profit-making and non-profit-making sectors, as well as the general public to assist in the delivery of services that people expect from their government. In the 1960s, we in local government did not call it "privatizing" when we turned to the private sector for snow removal, road construction, covering and maintenance of dumps, printing, legal advice, and numerous other seasonal, sporadic, and essential activities. We didn't even consider it as "contracting out," but rather as the most efficient way to acquire needed services for small towns with no staffs, limited expertise, and scarce resources.

We are at a critical crossroads, with not only an opportunity, but a necessity, to look at problems and solutions differently than we have in the past. Although we failed to adequately focus on the

root causes of Maine's growth in the 1980s and the downturn in the 1990s as they were happening, we now realize that we are faced with a more structural, permanent adjustment in the Maine economy, and our solutions must address that change. We must consider strategies not just to balance the budget or to downsize government. We must set priorities that are both vertical and horizontal, that will carry us into the next century, and that will reflect what we as participants in the decision-making process today believe that Maine citizens in the 21st century will expect of us.

Privatization can take many different forms. The familiar concept of "contracting out," that is, identifying a service and putting it out to bid, is a very simplistic and incomplete view of privatization. A recent document from the Legislative Office of Policy and Legal Analysis entitled *Privatization: A Process Review and Status Report* defines three forms of privatization: (1) reducing the role (and, I would add, the scope) of government and increasing the role of the private sector in an activity (*i.e.*, a program, issue, or service) or in the ownership of assets; (2) delegating public duties to private organizations; and (3) the provision of public sector services to the broad, general public through the private sector. If that is an acceptable definition of what privatization is all about, then I would suggest that it is not a panacea but a useful management tool with applicability, value, and relevance in selected instances. Sometimes privatization is best applied to the full scope of an activity, at other times only to certain components within it. Privatization is best utilized as a priority-setting and restructuring tool, rather than as a fiscal management device, and should be viewed as a living, changing strategy that applies differently in different circumstances and situations. In other words, the 1980s decision to privatize more of the sales of alcoholic beverages through agency stores is not necessarily one that we ought to adopt and implement across the board with no opportunity to evaluate or to make course changes.

Why should we privatize in the first place? The usual arguments favor cost savings and increased efficiency. If neither of these apply, we should probably not be considering privatization. Sometimes, though, it provides an opportunity for fund matching, for example in such areas as Medicaid, corrections, and mental health, where federal tax dollars relieve some of the burden on local taxpayers. And there are additional benefits: increased quality of access to goods and services, the promotion of competition, enhanced staff flexibility, better government control and accountability, and a more readily-adaptable system that can be adjusted for short-term corrections or concerns while maintaining an essential accountability and has some productivity advantages.

The decision to privatize requires careful consideration of a number of policy and programmatic questions: Are there goods and services that are best suited to something other than full-fledged government delivery? To whom should these goods or services most legitimately be directed? What are the relative values of these goods and services among all the competing goods and services that might be offered given unlimited resources? Is the good or service an essential one? Is it appropriately a government function? What is the relation of costs to benefits? What are our desired outcomes, and how are we going to measure them? How are we going to use evaluation data? In other words, what is our timeline for an experimental application, subsequent evaluation, and a longer-term decision on the suitability of the arrangements?

In summary, privatization is not a panacea; it is one tool that, if used correctly -- with full public participation in the process, and with thorough planning to assure accountability as well as results and efficiencies -- ought to be considered in the restructuring of a government system characterized by limited resources on a permanent and structural basis.

Sawin Millett has been Commissioner of Finance since 1989. Prior to that, he served as Director of Legislative Operations for Governor McKernan. He is a past executive director of the Maine School Management Association and served as Governor Longley's Commissioner of the Department of Education and Cultural Services.

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