

Privatization of Public Services: Trends and Causal Factors

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Introduction

- Privatization
 - A popular and controversial management option
- What is the proper role of government?
 - *Why* does that role change?
- Privatization is increasing at national, state, and local levels.

Defining Privatization

- Kolderie (1986): production vs. provision
- E.S. Savas (2005) taxonomy
 - Delegation: contracting, P3s, vouchers
 - Divestment: asset sale, liquidation
 - Displacement: default, load shedding
- Privatization is complex and measurement is a challenge

Privatization Theory

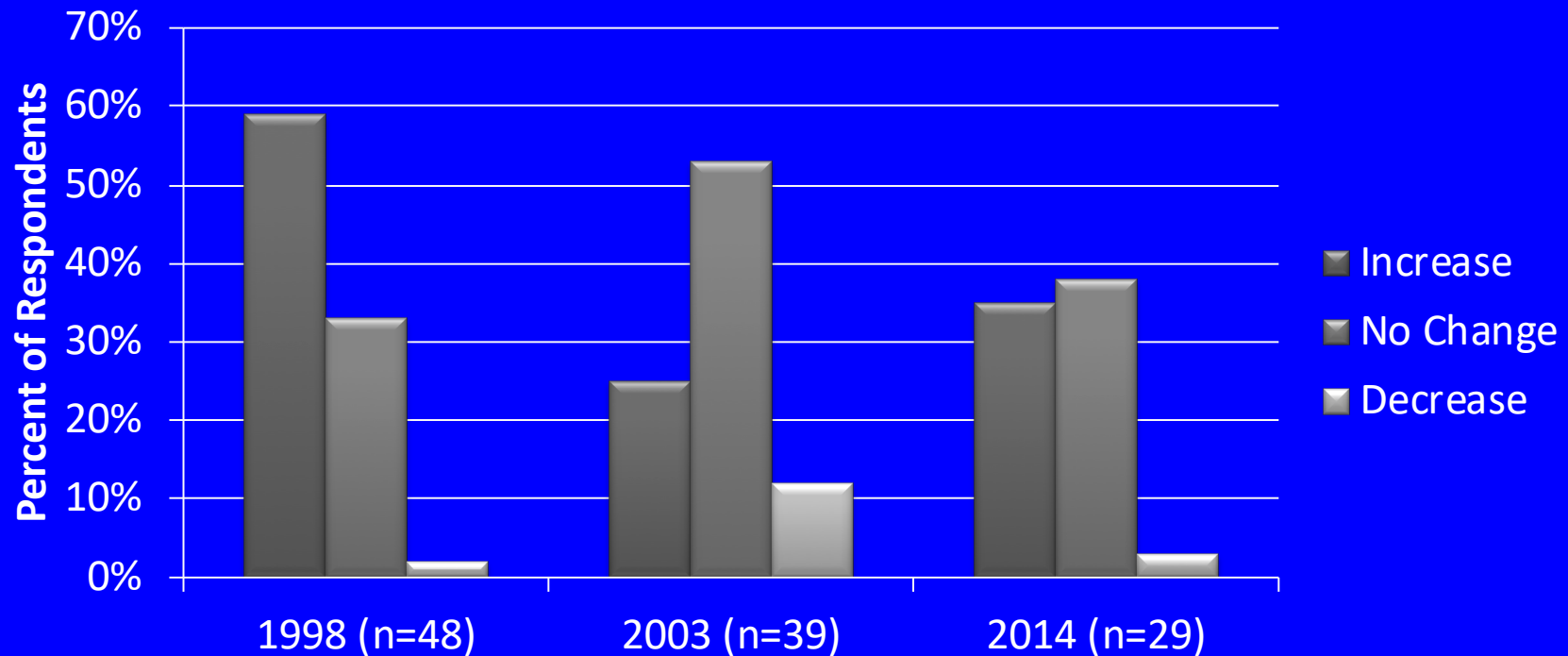
- Transaction Cost Economics
- Three determinants of contracting (Williamson, 1981)
 1. Uncertainty (negative)
 2. Frequency of transactions (positive)
 3. Asset-specificity (negative)
- Megginson and Netter (2001); Zhang (2013)

Privatization Trends

- Popular privatization methods
 - Contracting: 80-91%
 - P3s: 4-64%
 - Grants/subsidies 6-36%
- Reasons for privatization
 - Cost savings conundrum
 - Flexibility/less red tape, lack of personnel/expertise, increased support of political leadership

Privatization Trends

Figure C. Change in privatization activity in past five years



Privatized Programs

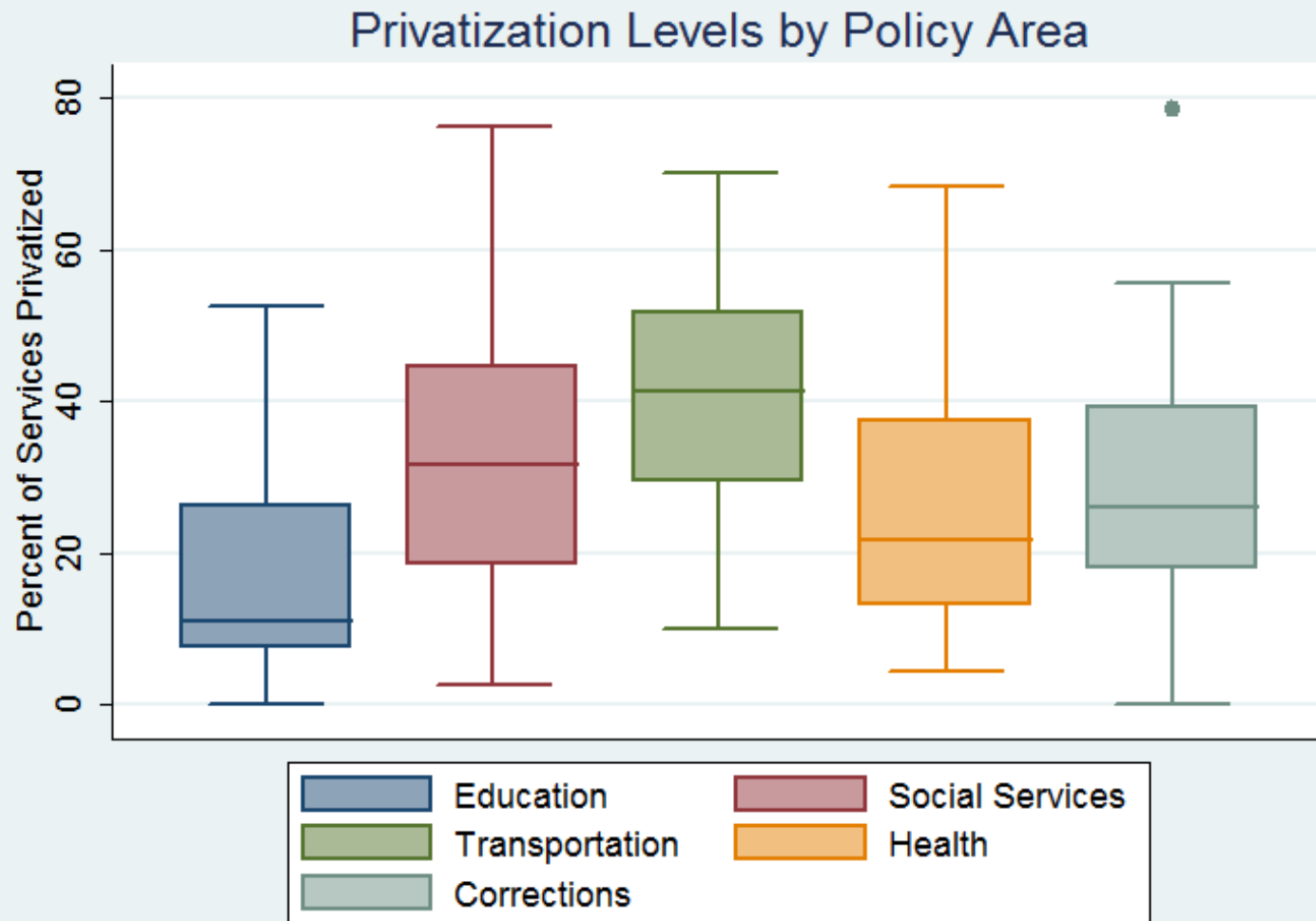
Example of DV construction for Michigan Corrections, 1998

Program/Service Privatized

Medical services at institutions	Substance abuse testing	Michigan: 11 of 28 services privatized
Health/dental care	Employee assistance	
Alcohol and drug treatment	Canteen services	
Facilities construction	Work release programs	Michigan corrections privatization = 39.3%
Mental health services	Prisoner transport	
Prison operations	Clinical assistance	
Laboratory services	Rehabilitation services	
Halfway houses	Employee training	
Food services	Correctional industries	
Education/training of inmates	Court-ordered monitoring	
Community corrections center	Community care services	
Medical waste disposal	Disabled services	
Pharmacy	Laundry	
Religious services	Facility inspections	

Source: 1998 State Privatization Reports, Council of State Governments

Privatization by Category



Explanatory Variables

- Population
- Fiscal Stress
 - GDP
 - Tax Revenue
 - Expenditures
- Political Control
- Ideology
- Legislative Professionalism
- Unions
- Poverty
- Percent Black
- Regions

Observations

	Health	Corrections	Education	Social Services	Transportation
Observations	51	68	50	50	70
States	34	45	37	34	43
R-squared	0.635	0.430	0.316	0.382	0.273

Fiscal Variables

	Health	Corrections	Education	Social Services	Transportation
G.D.P.	0.415* (0.220)	0.261 (0.236)	0.464* (0.244)	0.167 (0.386)	0.554*** (0.173)
Tax Revenue	-0.566** (0.225)	-0.239 (0.199)	-0.0962 (0.351)	-0.330 (0.352)	0.0238 (0.239)
Expenditures	1.437** (0.679)	0.0324 (0.659)	-0.181 (0.808)	0.398 (1.281)	-0.982* (0.574)

Political Variables

	Health	Corrections	Education	Social Services	Transportation
Political Control	14.36 (10.53)	-9.443 (9.967)	-14.42 (11.14)	11.01 (14.10)	-15.42* (8.197)
Citizen Ideology	0.708** (0.300)	-0.181 (0.292)	-0.854** (0.315)	-0.134 (0.341)	0.00259 (0.240)
State Ideology	-0.648 (0.615)	0.678 (0.583)	1.044* (0.561)	-0.983 (0.756)	0.640 (0.484)
Legislative Professionalism	0.155 (0.306)	0.0436 (0.201)	0.657** (0.311)	0.395 (0.328)	0.198 (0.193)

Demographics

	Health	Corrections	Education	Social Services	Transportation
Private Unions	-0.829 (0.649)	-1.446*** (0.532)	1.456* (0.841)	1.298 (1.214)	1.535** (0.603)
Public Unions	0.279 (0.314)	0.398 (0.240)	-0.509 (0.373)	0.179 (0.467)	-0.545* (0.295)
Population	0.830** (0.354)	1.121*** (0.344)	-0.488 (0.603)	-1.166** (0.542)	0.109 (0.489)
Poverty Rate	-0.606 (0.864)	-0.0786 (0.451)	-0.0135 (0.716)	-0.741 (1.254)	-0.649 (0.534)
Percent Black	0.170 (0.361)	-0.550** (0.212)	-0.200 (0.292)	-0.509 (0.455)	0.0172 (0.219)

Region

	Health	Corrections	Education	Social Services	Transportation
Northeast	-3.239 (9.398)	-16.41** (6.760)	23.17** (9.728)	23.81*** (8.594)	17.61*** (6.494)
South	1.736 (11.08)	3.545 (7.190)	8.780 (7.810)	13.08 (12.83)	16.92** (6.998)
West	11.94** (5.759)	-5.693 (5.841)	-9.509 (6.578)	-9.227 (5.963)	-1.267 (6.097)

Discussion

- Does economic growth increase privatization?
 - Health (+), Education (+), Transportation (+),
- Do private unions benefit from transportation privatization?
- Why does population matter?
 - Health (+), Corrections (+), Social Services (-)
- Why do more black residents reduce privatization of corrections?
 - Punitive policy or voting influence
- What's different about the Northeast?
 - Corrections (-), Education (+), Social Services (+), Transportation (+)

Conclusions

- Lack of data not only on quality, but also on cost-savings
- Policy areas matter, aggregating them masks the impacts of unions, ideology, race, and region
- Future research