Privatization

Thomas Pallesen

Introduction

In Christopher Hood’s now classic article ‘A Public Management for All Seasons’, privatization is considered to be one of the constitutive elements of New Public Management (NPM), perhaps the constitutive element of New Public Management (Hood 1991). Privatization is not only one of the four public sector ‘megatrends’ that Hood links to NPM. He also dubs privatization as one of the ‘doctrinal components’ of NPM because NPM is replicating or coloured by private sector thinking. Thus, ‘hands-on professional management’, ‘explicit standards and measures of performance’, ‘output control’, ‘disaggregation’, ‘competition’, ‘private sector styles of management’, ‘discipline and parsimony in resource use’ are all doctrines more or less taken over from the private sector.

Paradoxically, even though privatization is a prominent element in recent public sector reforms and a constitutive element of NPM, there is no common understanding of what privatization really is. In the literature, we find two digit numbers of different meanings of the concept of privatization. But, even though we are not certain about what privatization actually is, there seems to be a surprisingly broad understanding of why central, state and local governments globally are said to have resorted to privatization: private delivery is considered to be cheaper than comparable government-provided services. Following this assumed competitive advantage of private delivery, it has furthermore been argued in the literature that when governments are fiscally stressed, they are inclined to engage in privatization because privatization is a way to preserve the service level when government resources are strained. In contrast to this apolitical account of privatization, other strands in the literature consider privatization as a right-wing political attempt to shrink government services and demolish left-wing political strongholds.

In sum, there seems to be a great number of different understandings of privatization, and of why and when it is politically implemented. The aim of this chapter is to give an account of the concept of privatization and critically discuss its causes and effects. One of the points of the chapter is that, in this respect, it may be important what kind of privatization we are talking about. Specifically,
considering the perhaps most important type of privatization, namely contracting out, it is argued that the driving force of privatization in the public sector is not fiscal strain. Quite to the contrary, it may be ‘the politics of good times’.

The Concept of Privatization

Privatization is a multifaceted concept that has been defined in a number of ways. Savas (2000) for example lists no less than nine different meanings of privatization. Prominent among these is the sale of state-owned enterprises (whether the sale of state and government land and buildings also qualifies as privatization is a matter of greater dispute). Contracting out public services to private providers is also considered to be an important example of privatization. Contracting out often takes place after competitive bidding among private providers – occasionally also public providers are invited to take part. If public providers take part in the competitive bidding, it is sometimes referred to as ‘competitive sourcing’ or ‘managed competition’, and when the public provider actually wins the auction, it may be called ‘contracting in’. ‘Contracting in’ also takes place when public providers take over privately delivered services. What term is used for when one public provider delivers service to another public organization has yet to be definitely coined.

Furthermore, some government agencies are organized and operate on conditions that are more or less equivalent to private companies. They may have their own boards and raise their revenue by selling their services on the private market. These cases of privatization are called both ‘corporatization’ and ‘marketization’ (Christensen and Pallesen 2001a). Finally, Savas notes that the concept of ‘public-private’ partnership broadly refers to joint operation or collaboration between public and private organizations and more narrowly as private provision of infrastructure and buildings in return for a dividend.

The editor of the pro-privatization Privatization Watch and Annual Privatization Report, Leonard Gilroy, also notices that there are many different forms of privatization, but he points out that the most common forms of privatization are contracts, franchises and divestiture. ‘Contracts’ occur when a government contracts with a private sector (for profit or non-profit) providers to deliver public services. In ‘franchises’, a government awards a private firm an exclusive right to provide a public service or operate a public asset in return for an annual lease payment or one-time upfront payment. ‘Divestiture’ takes place when a government is ‘getting out of a service, activity or asset entirely, often through outright sales (Gilroy 2010).

Thus, to academics, practitioners-cum-(pro-privatization)-think-tankers, there are a great number of different forms of privatization. Nonetheless, two forms of privatization stand out as the most important: the sale of government-owned enterprises and contracting out of government services.

Even if we narrow the concept of privatization down to two and accept the idea that the most important instances of privatization are the sale of state-owned enterprises and contracting out, there are still marked differences between the two types of privatization. In economic terms, the sale of state-owned enterprises may be considered as the ‘major’ type of privatization while, in comparison, contracting out is the ‘minor’. This is because the sale of state-owned enterprises represents a more profound privatization than contracting out does; when state-owned enterprises are sold, the government is in principle totally out of this business. On the other hand, when governments contract out, they still have the main voice in deciding what kind of services they need because the delivered services are for public use and the public money spent on contracted services is included as public spending.

This difference in government involvement between selling state-owned enterprises and contracting out can also be illustrated by Savas’ (1997) classic three-way categorization of government involvement. Savas argues that governments have three distinct roles of involvement, namely a regulatory, a financing and a producer role. Thus, in principle, governments can potentially be involved in eight different ways, from total government control (performing all three roles) to absolutely no government control (performing none of the three roles). In between, there are (six) different combinations of government involvement, for instance regulating but not financing or producing the service (for example, the way taxi-driving is organized in many countries), regulating and producing but not financing (for example, how the issuing of passports and driving licenses is often organized). Furthermore, when this terminology is applied, selling state-owned enterprises is a more profound example of privatization than contracting out because when governments are selling state-owned enterprises they are no longer financing and producing these services, while they may maintain or instate some kind of external regulation of the privatized enterprise’s activities. In contrast, when governments contract out, they are only cutting off the producer role, but they are still paying for the services (the financing role) and specifying what they want to buy (the regulating role).

But, when we consider the political dynamics of the two kinds of privatization, the ‘major’ and ‘minor’ characteristics of the types of privatization may be reversed. By political standards, it may be easier to sell government-owned enterprises than contracting out hitherto government-provided services because of the very different short- and long-term fiscal properties of the two kinds of privatization that are important for policy makers’ propensity to engage in them. The argument is expanded below, and it also suggests that there may be different political forces at play behind selling state-owned enterprises and contracting out – and that the ‘minor’ (contracting out) is perhaps, from some theoretical perspectives, more interesting than the ‘major’ (selling state-owned enterprises). Notably, because of the different fiscal properties of the two types of privatization, we should expect contracting out to be a more political-ideological endeavour than selling government-owned enterprises.

Moreover, selling state-owned enterprises is a ‘sunset industry’ because such enterprises are in limited supply. The bulk of the sale of state-owned enterprises in Western Europe took place in the 1980s and 1990s, and privatization of state-owned
enterprises in Eastern Europe has peaked since the sale took off in the early 1990s (Meggginson 2005). Privatization of state-owned enterprises is still going on in the developing world, but also in these countries, as well as in the developed countries, there is a limited stock of marketable enterprises. On the other hand, contracting out public services remains a viable option in all countries with a public sector that delivers services to its citizens. Moreover, (growing) public sectors are presumably not limited in supply in the foreseeable future. For these reasons, concerning the determinants of privatization, the chapter focuses mainly on the factors that explain the contracting out of public services.

Why Privatize – and When?

The literature points to a number of political and economic explanations as to why governments choose to privatize (Feigenbaum and Henig 1994, Spulber 1997, Feigenbaum, Henig and Hannett 1998). Prominent among these is the political explanation that right-wing governments privatize in order to shrink the public sector and, in a broader sense, to diminish the impact of a large government sector and to encourage an ‘enterprise culture’ (Studlar, MacAllister and Asciu 1990). The prime example is, of course, Thatcher’s Conservative leadership in the late 1970s and 1980s in the United Kingdom even though Adenauer’s sale of shares in Volkswagen in 1961 was one of the first examples of major privatizations in Europe (Meggginson 2005).

Another prominent explanation of privatization focuses on the economic rather than the political consequences of privatization. According to this explanation, both left- and right-leaning policy makers pragmatically favour privatization. One strand of this argument is the NPM-toned position that policy makers (should) prefer to shed day-to-day operation of mundane public services and concentrate on setting up goals and overall prioritizing (Lane 2000). In NPM terminology, policy makers privatize because they (should) prefer to steer rather than row.

Another pragmatic line of argument is that both left- and right-leaning policy makers like to privatize because it is a shortcut to spending money on popular vote-increasing purposes without the pain of raising the money on less popular tax increases. In this view, privatization is simply ‘a pragmatic solution to immediate problems, for example the need for cash’ (Feigenbaum and Henig 1994: 194).

Akin to this argument is the idea that the driving force behind privatization is the need to increase the efficiency of the public sector. Numerous studies theoretically and empirically investigate the possible relative efficiency of private versus state-owned enterprises and private versus public delivery of services. Gérard (2008), Megginson (2005) and Vickers and Yarrow (1988) argue that from a theoretical perspective there are reasons to believe that privatization has a positive impact, but that the increase in efficiency is contingent on sufficient competition and/or proper public regulation.

Empirically, Megginson and Netter investigated a number of companies in various countries and industries that have been fully or partially privatized. Their overall conclusion is that privatization has been successful in terms of sale, profitability, investment, operating efficiency, debt and dividend, but that the success of privatization is contingent on proper market conditions with sufficient competition (Meggginson and Netter 2001). Similarly, in a meta-study of nearly a thousand studies, Domberger and Jensen (1997) show that private provision tends to be up to 20 per cent cheaper than public service provision – but replicate Megginson and Netter’s caution that a competitive market is a precondition for harvesting any advantages of privatization because private monopolies are no more efficient than single public providers. Hodge’s meta-analysis also suggests that costs can be saved by contracting out but notes that the savings are often marginal (Hodge 2000).

One counter-argument against the postulated efficiency advantage of private provision is that private and public services are not comparable (Blom-Hansen 2003). It is argued that public services are more expensive either because the quality is higher or because public employees have better pay and working conditions than their colleagues in the private sector. Either way, public services tend to stand out as more expensive than private services if these differences between public and private services are not taken into account. However, Blom-Hansen shows that private services are somewhat cheaper than public services even if the quality of the services is taken into account but that the savings are often marginal. In sum, privatization as sale of state-owned enterprises raises substantial short-term revenue and it seems that the enterprises – with sufficient competitive and regulatory conditions – become more profitable when they are privatized. Consequently, privatized state-owned enterprises also become taxable in the long run, but in comparison to the substantial instant revenue from selling the state-owned enterprises, the additional long-term tax revenue is much more limited.

In contrast to sale of state-owned enterprises, contracting out publicly provided services does not generate any short-term extra revenue; in the short run, it may even incur costs on the public authority to set up the contracting out regime. In the longer run, contracting out public services can as a rule of thumb be expected to save the public purse an average of 10 per cent on the outlay on these services.

Assuming a political leadership that takes an interest in overall societal efficiency, we should expect widespread contracting out of public services and steady privatization of state-owned enterprises. However, with this kind of political leadership, it may be difficult to explain why we had publicly-delivered services and state-owned enterprises in the first place. This also suggests that the political leadership is not searching for optimal societal solutions, at least not all the time or perhaps only some of the time. What policy makers maximize is disputed, and the issue will not be discussed here. Whether it is offices, votes, policy goals (Strøm 1990), budgets (Niskanen 1971) or slack (Migue and Belanger 1974), it does seem that policy makers’ concerns are much broader than societal efficiency. Also, there are reasons to believe that policy makers focus on short-term rather than long-term political costs and benefits (Christensen and Fallesen 2001b). If this line of
argument has some merit, it also suggests that the distributional impact of the two kinds of privatization is important for policy makers’ eagerness to engage in this kind of political activity.

Considering the distributional benefits of the two kinds of privatization, they both create marginal long-term benefits but differ in terms of the presence of the substantial instant revenue that is suitable for fulfilling short-term political goals of various kinds (for example, by increasing spending or lowering taxes), whether the reason is maximization of votes, offices or policies. Thus, in terms of both timing and size of the benefit, it is likely that it is much easier to establish a political majority behind privatization of state-owned enterprises than it is to establish a political majority behind contracting out public services to private providers.

In terms of political costs, the impact of both contracting out and selling state-owned enterprises is more uncertain. At first sight, public managers and public employees stand to lose when services are contracted out or state-owned enterprises are sold to private investors. Public managers and public employees often oppose plans to privatize, and they may voice their opposition to the plans to contract out services. This resistance represents a political cost to the policy makers who champion plans to contract out or sell state-owned enterprises, but it may be softened by a number of contingencies, for instance when the private employer is obliged to take over the existing staff and uphold their working and pay conditions. In this way, the political costs of contracting out and selling state-owned enterprises are also diminished (as well as the economic benefits of privatization).

In sum, the political costs of contracting out or selling state-owned enterprises are comparable, and in both cases, there are means to lower these costs. But, taking the benefit side into account, privatization as the sale of state-owned enterprises seems to have a much broader appeal to policy makers than contracting out.

Notably, the very limited, if any, short-term economic gains from contracting out make it much more likely to be the subject of partisan politics. If there is no economic short term in sight, Social Democratic political executives have a very limited incentive to contract out. With limited economic gains, there is no reason to upset the core constituency and compromise their own sceptical ideological view on contracting out.

To conservative politicians, the calculus may be different. Even if there are no economic gains from contracting out, it may nonetheless be an attractive reform strategy to enhance the right-wing ideological policy goal of diminishing the public sector just because they consider it to be a good idea. Exactly because of the often very substantial gains from selling state-owned enterprises, this reform strategy may be blurred in terms of ideological footprints because left-wing governments also are tempted to exploit these opportunities that often comfortably outweigh the cost of privatizing state-owned enterprises.

Moreover, the distributional benefits of the two kinds of privatization raise the more general question of how privatization is related to fiscal stress. The literature traditionally sees privatization as a venue for elevating fiscal stress because of the revenue it generates (Feigenbaum and Henig 1994). But even if the traditional view is taken for granted, it seems relevant to distinguish between the two types of privatization. While contracting out only contributes moderately to dampen fiscal stress, there seems to be much more to gain by selling state-owned enterprises than contracting out in the short run.

Nevertheless, the traditional view is that fiscal stress tends to spur contracting out because public authorities can maintain current levels of services for fewer taxes by replacing more expensive in-house produced services with less expensive privately delivered services (Kodrzycki 1994, 1998). This idea has been questioned, not only due to the general scepticism of policy makers’ eagerness to improve societal efficiency (cf. above). A variant of the argument is Ferris and Grady’s idea that the possibility to intervene in the specific provision of services is paramount to policy makers who prefer in-house provision that enables this kind of ad hoc intervention rather than externally contracted services that are less flexible (Ferris and Grady 1986). The political reality for policy makers is that there is ongoing public debate and critique of the adequacy and quality of public services, and the policy makers in charge are held accountable for the current adequacy and quality of these services. When policy makers contract out services, they constrain their possibilities for responding to this critique in the short run because the quality and number of contracted out services are specified for a longer period. It may be difficult or expensive to persuade the private contractor to change these conditions. In contrast, there is no legal obstacle to the policy makers in charge if they want to change the provision of in-house delivered services. Thus, also in times of economic austerity, and even if in-house provision is marginally more expensive than contracted services, policy makers may be inclined to prefer in-house over privately delivered services.

Expanding on the Ferris and Grady argument that policy makers are more eager to maintain control than saving a few per cent on the service delivery, it should also be noted that contracting out entails a number of ‘transaction’ or ‘contracting’ costs that are often not included in the comparison of public and private services delivery. In principle, it is of course possible to specify responsibilities in detail, that is, to specify performance expectations and the financial or other penalties in case of violation of the contract and so on (Gilroy 2010). However, in the real world of providing public services, it takes a good deal of governmental effort to specify the requirements, simply because it is often difficult to specify exactly what the public buyer wants and what public services precisely entail. This not only seriously complicates the specification and the successive monitoring of the contract. Evidence suggests that contracting out requires employment of highly-skilled juridical and economical expertise (Bhatti, Olsen and Pedersen 2009). These kinds of costs are generally not taken into account when the private and public services delivery are compared. Moreover, there are national or supranational rules of how government biddings should be framed in the first place. If these rules are violated, (supra-)national stipulated fines have to be paid for neglecting the often very dense web of rules governing the process of contracting out in the public sector. These fines may be substantial, and for this reason also, governments may hesitate to contract out even if they aim to increase efficiency and save the public purse for superfluous expenditures.
However, it has been disputed that contracting out is primarily guided by the possibility of marginal savings on public service delivery and that governments do contract out to a greater extent in times of fiscal strain to obtain these savings. On the contrary, it has been argued that contracting out is actually the ‘politics of good times’ rather than the preferred politics in times of economic austerity (Pallesen 2004, Zullo 2009). This argument rests on the idea that societal efficiency is not the only, and perhaps not even the most important, concern for policy makers (cf. above), who may also be concerned about their public employees and the criticism that plans to contract out publicly-delivered services are likely to attract (Chandler and Feuille 1991, Heftzet and Warner 2004). The line of argument is that while contracting out services delivered in-house is controversial, contracting out additional, new services is less likely to provoke criticism because it does not harm the interests of the existing public employees. Thus it is possible to add new contracted out services to the public sector in times of growth and expansion. In contrast, policy makers often need to cut expenditures in times of austerity, and these spending cuts are not very popular. However, the criticism is often less fierce when it comes to cutting privately-delivered services rather than in-house produced services because of the different impacts on the public employees. It can thus be argued that contracted out services are a buffer in the public sector economy and increase when expansion of the public economy is on the agenda and decrease when spending cuts are on the political menu. In effect, contracting out becomes the ‘politics of good times’ rather than a remedy to ease fiscal stress.

Of course, the validity of the general argument of the buffer role of contracted out services assumes that public sector employees are significant political actors with whom most policy makers prefer to avoid conflicts. The validity of this assumption may vary with the political-ideological orientation of the political leadership and the political-institutional context in a broader sense. Thus it may be hypothesized to be more relevant in relatively large public sectors with strong unions, predominantly governed by pro-labour Social Democrats in Scandinavia, than in a more conservative Anglo-American setting of a smaller public sector and weaker public sector unions. But, like the general and theoretically more controversial issue of the impact of fiscal stress on the level of contracting out, this is also an empirical question, to which we will now turn.

**Empirical Studies of the Political-Economic Dynamics of Contracting Out**

As mentioned, it is important to investigate the determinants of contracting out in different political-institutional settings in order to establish whether there is a general pattern or the determinants of contracting out are contingent on the specific setting. Therefore, three empirical studies of contracting out are considered: one from Denmark (a case study of the large Scandinavian public sector) and two from the leaner American public sector. The common denominator of the studies is that they take advantage of public accounting systems that enable a very accurate measurement of contracting out. In this respect, the studies differ from other mainly survey-based studies of determinants and measurements of contracting out. The argument for relying on the fewer studies with accurate measures of contracting out instead of the more numerous studies relying on self-reported levels of contracting out is that contracting is or may be politically controversial and that policy makers and public servants (may) have reasons both to downplay and to exaggerate the level of contracting out when they are asked to report the level. On the other hand, it is rather unlikely that they are willing to fiddle with the figures if there are strict rules of accounting.

The study of contracting out in Denmark investigates Danish localities from 1985 to 1997 (Pallesen 2004). There are pros and cons to sub-national studies, notably in unitary states where central government regulations tend to reduce local governments’ autonomy and dampen the possible impact of the explanatory variables, for example party political differences. On the other hand, studies of the numerous local governments, in this case 275 localities, enable a more rigorous test of determinants of contracting out. In this case, the advantages seem to outweigh the drawbacks. First of all, central government regulation of local government contracting out is very modest, and there are only a few examples of central government rules that prevent local governments from contracting out services (or force them to). For example, local governments cannot contract out primary home nursing care of newborn babies to private companies. As a result of this autonomy, there is substantial variation in the level of contracting out in the localities, ranging from 5 to 30 per cent of total local government expenditure with an average of about 11 per cent. Second, the Social Democrats and the Liberals dominate Danish local government; more than 90 per cent of the mayors are either Social Democrats or Liberals, which makes local governments a fertile ground to study the potential impact of partisan politics on the propensity to contract out. Third, as a matter of central government decree, all local governments are obliged to follow the same accounting guide. The guide describes in detail how local governments should account for their expenses, including outlays on services contracted out to private providers. As a result, it is possible to account very precisely for the magnitude of contracting out, both in absolute terms (total expenditure on contracted out services) and relative terms (the share of total local government services). Finally, the local tax base is the conventional and easily accessible measure for the local fiscal situation. Also this measure varies substantially between the rich localities in the northern suburbs of Copenhagen and the poorer peripheral localities.

The test is a pooled analysis for all localities from 1985 to 1997. To verify the results of the pooled analysis, time series analyses have been conducted for each of the 275 localities. It has been argued that local market structure and size of localities are important for the possibility and need to contract out (Ferris 1986, Greene 1996, Stein 1990). The local market structure refers to the access to a competitive market of possible providers. It often requires that the locality is located in or close to an urban area. For this reason, location in the greater metropolitan Copenhagen
result of the study is that prosperous localities contract out more than fiscally strained localities.

Table 17.2 shows that there is a positive impact of an improved economic situation in the localities, that is, a change in the local government tax base, on total local government expenditure and the relative share of local government expenditure spent on contracted out services. When the local government’s economic situation improves, it spends more in general but even more on contracted services. On the other hand, when the local government tax base deteriorates, total spending is moderated and the level of contracting out is reduced. In this situation, spending on contracted services decrease even more than general spending is reduced. In effect, contracted services have a buffer role in the public economy and the evidence supports the notion that contracting out is ‘the politics of good times’ rather than a device to counteract fiscal stress.

Many studies of contracting out in America use the International City/County Management surveys of alternative service delivery (Ferris 1986, Greene 1996, Morgan, Hirlinger and England 1988, Morgan and Hirlinger 1991). These surveys report the localities’ use of private providers for different services – public works, transportation, public utilities, public safety, health and human services, parks and recreation, cultural and arts programs and support functions – and give a crude measure of the trend in local government contracting out (Greene 1996).

The surveys conducted by the Council of State Governments and the American State Administrators Project (Chi, Arnold and Perkins 2003, Brudney et al. 2005) aim to obtain a more precise measure of contracting out by asking the local authorities to estimate the level of contracting out in intervals of 5 per cent (less than 5, 6–10, 10–15 and so on).

Notwithstanding their merits, the surveys show that it is difficult to measure precisely the level of contracting out in this way. A more precise measure requires an administrative system that precisely and routinely registers all expenditures to privately-delivered services, but such budget and account systems are generally not found in the American public sector. An exception is the school districts’ budget and account systems, which register outlays to privately-delivered services.

Some empirical studies of the determinants of contracting out take advantage of and focus on American school districts in Texas and Washington (O’Toole and Meier 2004, Pallesen 2006). These studies measure contracting out as the ‘purchased services’ delivered by private providers, that is, food services, student transportation, maintenance of buildings, facilities, equipment and grounds, security, warehousing and distribution, and information technology services.

Analysing the determinants of contracting out requires variation in the level of privately-delivered services. In Texas, the average level of contracting out is 9 per cent of total current expenditure, but it varies a great deal, from a low 0.6 per cent to a high 54 per cent. In Washington, the average level of contracting out is 10 per cent, but it varies somewhat less, from 3 per cent and up to 30 per cent of the total current expenditure. Thus, both the average level and the variation in contracting out in the Washington State schools are similar to the level and variation in contracting out in Danish localities.
Table 17.3 The impact of fiscal resources, school size, teacher turnover, local funds and school bureaucrats on contracting out in Texas state school districts, 1997–99 (n=3122)

<table>
<thead>
<tr>
<th>Revenue per pupil</th>
<th>Enrolment</th>
<th>Teacher turnover</th>
<th>Local funds</th>
<th>School bureaucrats</th>
<th>Central officers</th>
<th>Explained variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>.4080</td>
<td>-.0252</td>
<td>.0374</td>
<td>.0271</td>
<td>.9326</td>
<td>1.3662</td>
<td>.2400</td>
</tr>
</tbody>
</table>

Note: Level of significance: at least 5%.
Source: O’Toole and Meier (2004).

Table 17.4 The impact of fiscal stress, size of school district, metropolitan area, urbanization and task difficulty on contracting out in Washington state school districts, 1993–2001 (n=888)

<table>
<thead>
<tr>
<th>Fiscal stress</th>
<th>Size of school district</th>
<th>Metropolitan area</th>
<th>Urbanization</th>
<th>Task difficulty</th>
<th>Explained variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>-.376***</td>
<td>-.244***</td>
<td>-.088</td>
<td>.176***</td>
<td>.053*</td>
<td>.210</td>
</tr>
</tbody>
</table>

Note: Level of significance: ***1%, *10%.

The School Districts' fiscal situation is in both studies measured as the total resources available per student. To account for the fact that also the task difficulty varies and puts different strains on the school districts with similar total resources available per student, the share of students with English as a second language (ESL-student) is included in the Washington study. The Texas study includes other control variables, such as teacher turnover, since it is argued that low organizational memory may force school districts to rely more on contracted out services. Furthermore, stronger bureaucratic capacity, measured as the size of the central school district administration, may have an impact on contracting out. Moreover, the importance of district size (cf. above) is taken into account in both studies.

As seen in Tables 17.3 and 17.4, the most important result of the investigation of the determinants of contracting out in both Texas and Washington state school districts is the level of fiscal stress. Notably, and similarly to the result of the Danish study, increased fiscal stress significantly reduces the level of contracting out.

Moreover, contracted out services have the same buffer role as in the Danish localities (Table 17.5). When the available resources per student in Washington state school districts increase (decrease) contracted out services' share of total current expenditure also increases (decreases). On average, the budgetary adjustment of the contracted out services is nearly two times higher than the change in total expenditure. By way of example, when expenditure per student increases (decreases) by 3 per cent, contracted out services increase (decrease) by 5 per cent.

Table 17.5 The impact of an improved school district fiscal situation on expenditure per student and level of contracting out, 1993–2001 (n=888). After control for school district size, metropolitan status, urbanization and task difficulty

<table>
<thead>
<tr>
<th></th>
<th>Change in expenditure per student</th>
<th>Change in school districts' contracting out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in school districts' fiscal situation</td>
<td>.657***</td>
<td>.176***</td>
</tr>
</tbody>
</table>

Note: Level of significance: ***1%.

In Texas, a school manager explains the very same mechanism this way: 'Some of our contracting is for bells and whistles, a guest conductor for an orchestra or video services for athletic events … these things are the first to go in a budget crunch. By contracting out we avoid layoffs' (O’Toole and Meier 2004: 348).

Conclusion: 'The Politics of Good Times'

Privatization is a multifaceted concept, but sale of state-owned enterprises and contracting out public services to private providers are considered to be the two most important features of privatization. While the sale of state-owned enterprises has peaked in the Western world, contracting out is likely here to stay because it is possible as long as we have public sectors. The two types of privatization differ in other respects as well. Sale of state-owned enterprises generates instant revenue, which makes it a privatization strategy with a broad political appeal. Because there is no fast money in contracting out, it may have a stronger appeal to right-wing policy makers who want to diminish the role of the public sector. On the other hand, both sale of state-owned enterprises and contracting out are said to improve long-term societal efficiency, at least marginally. The relative cost efficiency of private enterprises and private service delivery is traditionally perceived to spur fiscally stressed public authorities to contract out. The traditional view of the impact of fiscal stress on contracting out assumes that policy makers are rewarded for trying, in this way, to maintain the service level with less spending. This reasoning may be wrong because policy makers and (because) voters may have broader priorities. Notably, for political decision makers who are held accountable for public services whether they are in-house or contracted services, enforceable contracts with external providers are likely to reduce the flexibility and therefore the attractiveness of externally delivered services in general. Moreover, it requires specialized and highly skilled government units to handle a complicated contract regime governed
by national and sometimes supranational rules as is the case within the European Union. Most importantly, the major lesson of this inquiry is that privatization in the form of contracting out is not attractive to policy makers because it may be somewhat cheaper than in-house produced services and therefore especially interesting in times of austerity. Rather, contracting out is a convenient buffer in a public sector that shrinks in times of fiscal stress and expands in times of public sector growth, basically because it is easier to cut off privately delivered services than public sector employees. In essence, contracting out is politics and, to be more specific, the ‘politics of good times’.

A Transformative Perspective on Public–Private Partnerships

Carsten Greve and Graeme Hodge

Introduction

Public–private partnership (PPP) has become a defining characteristic of modern governance. Interestingly, though, precisely how PPPs fit together with the evolution in recent decades of New Public Management (NPM) is less clear. PPPs can be broadly defined as organizations and institutions that mix elements from both the public sector and the private sector, and interest in PPPs has clearly gained momentum through the 1990s and in the 2000s. This chapter seeks to gain some conceptual clarity regarding just how notions of PPP fit within some of the developing ideas of public sector change.

Basically there have been two arguments as to the relationship between PPPs and NPM. One is that PPPs have been an extension of the NPM agenda, which was itself based deeply on notions of marketization and efficient private sector delivery methods. Under this view, PPPs are seen as privatization in disguise – a way to institutionalize the NPM agenda through the backdoor if you like. The other argument is that PPPs are a whole new phenomenon. Following this line, PPP itself represents a key part of the post-NPM New Public Governance agenda, which seeks networks instead of single organizations, and encourages cooperation instead of competition.

This chapter argues that the appeal and power of PPP lies in its very ambiguity. It is this exact feature of PPP – the uncertainly as to whether it is a NPM or a more post-NPM and governance-influenced agenda item – that makes PPPs attractive. PPPs can represent both types of reform and can therefore be located right at the centre of the transformative perspective on public management reform. PPP represents transformation into new and improved public sector delivery practices, whilst some parts stay the same! And not only does it represent old and new together, it simultaneously represents private sector efficiency hand in hand with political effectiveness. This chapter proceeds by first articulating the breadth of the PPP phenomenon. It then investigates the manner in which PPP has formed part of