THIRD PARTY GOVERNANCE: Transformations in Public Management

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Study of Selected OECD Nations

- Third Party Governance and Transformations in Public Management
- Internal Reforms to Promote Efficiency
- Growing Use of Indirect Governance Tools to Engage Other Sectors
- Impetus and Rationale
- Implications for Performance and Accountability
- Implications for Budgeting
Metaphors

- Hollow state
- Disarticulated state
- Third Way
- Third party governance
- Privatization
- Hiving off, boarding out, outsourcing
- Devolution
- Governance, not government
- Network management
- Not your father's public administration
Impetus for Third Party Governance

- Fiscal constraints
- Rising public expectations for performance
- Global economies and pressures
- Rise of “wicked problems” on the agenda for public action
- Political vulnerabilities of leaders in a 24-7 media era
- Increase in private market interest in public services
Internal Governmental Strategies

- Focus on replacing hierarchical controls with incentives
- Separating Financing From Provision
- Instilling greater competition
- Shifting accountability from inputs to results
- Promoting greater managerial flexibility

Internal Tools
- Contracts with ministries
- Government franchise and revolving funds
- Government corporations
- Quango’s and other nondepartmental public bodies
Federal Civilian Employment and Outlays (Fiscal Years 1950 – 2006)

Note: Executive branch civilian employees excluding postal service.
Source: Office of Management and Budget.
The True Size of Government (Fiscal Years 1990 - 2005)
Tools of Government

- DIRECT GOVERNMENT
- GRANTS
- LOANS/GUARANTEES
- TAX EXPENDITURES
- INSURANCE
- PRIVATIZATIONS
- REGULATION
Continuum of Indirect Governance Tools

- Internal Managerial Reforms
- Quasi-Governmental organizations
- Contracting for specific Services/products
- Market based regulatory approaches
- Public-Private Partnerships
- Devolution
- Tax credits and vouchers
- Divestiture

Traditional Direct Government

Fully Private
Total Federal Effort in FY 2000
(by Budget Function and in millions of dollars)

By Budget Function

- Mandatory Outlays
- Discretionary BA
Total Federal Effort in FY 2000 (by Budget Function for Selected Budget Functions)

* Regulatory Costs are the mid-point of a range estimate for annualized costs. Direct Loans are measured by loan disbursements, and guaranteed loans are the face value of the loan guarantee.
Shift in Public Management

- From program/agency to tools and actors
- From hierarchies to networks
- From public vs. private to partnerships
- From command/control to negotiation
- From management skills to “enablement”
- From internal controls to design
Rebuilding Involves Networking Among Sectors: Government Stakeholders in Louisiana

**FEDERAL**
- HUD
- USDA
- DOC
- DOD
- VA
- SBA
- DHS
- EPA
- TREAS
- DOI
- DOE
- DOT
- HHS
- DOJ

**OFFICE OF THE FEDERAL COORDINATOR FOR GULF COAST REBUILDING**

**STATE**
- Louisiana Governor
- 22 Executive Departments
- Boards/Commissions
- Councils/Programs
- Louisiana Recovery Authority

13 Task Forces/Recovery teams

**LOCAL**
- 64 Parish Governments
- Louisiana Speaks
- Orleans
- Unified Neighborhood Planning

19 affected parishes
State and Local Fragmentation

Current Disaster Planning Efforts:

39 cities, 30 fire districts, 19 school districts, 16 sewer districts, 32 water districts, 19 hospitals, Port of Seattle, American Red Cross, Freight Mobility Roundtable, utility providers, private sector, etc.
Advantages of Indirect Governance

- Expands reach of government
- Access skills and technology
- Leverage additional financing
- Promote efficiency
- Access to clients
- Reflect diverse local values and interests
- Gain legitimacy
Public Managers and Budgeters Need Help

- More demanding context for policy design and oversight
- Little knowledge of networks
- Poor understanding of tools
- Ambiguity in defining and measuring governmental budgetary implications
Unique Accountability Challenges

- Accountability to multiple constituencies
  - Multiple actors empowered to bargain
- Third parties enjoy leverage
  - Political resources
  - Voluntary participation
  - Monopolies over beneficiaries
  - Information asymmetries
- Complex implementation chains
Unique Performance Problems

- Goal diversion
- Fiscal windfalls
- Rent seeking
- Moral hazards
- Adverse selection
- Incentives for inefficiency
- Opportunistic partners
- Less public transparency – “too many hands”
Privatization: A Multi-Faceted Concept
Privatization Pressures

- Supplant monopolies with competition
- Increase financing for public initiatives
- Improve technical capacity
- Promote greater flexibility
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Case Study: Australia

Figure 1.6. GBE Reform Strategies and Timing: Australia

National Competition Policy
- extension of trade practices law
- competitive neutrality/corporatisation
- access regimes
- legislation reviews
- compliance schedule and payments.

Restructure & Privatisation in Natural Monopolies

Sales of GBEs in commercial markets, banks & insurance offices

Corporatisation

Commercialisation

1980 82 84 86 88 90 92 94 96 98 2000 2004
Types of services outsourced

- Support services – non critical to mission and easily measured. Examples including building cleaning, guard services

- Information technology and other back-office functions – economies of scale,

- Traditional core government activities – prisons, food inspection, audit office, welfare administration, education, health care.

- Infrastructure assets – public private partnerships
Outsourcing of government services
Purchase of goods and services vs. in-house provision

- United Kingdom
- United States
- Norway
- Switzerland
- Sweden
- New Zealand
- Australia
- Finland
- Netherlands
- Iceland
- Germany
- Canada
- Denmark
- Austria
- Luxembourg
- Belgium
- Ireland
- Spain
- France
- Italy
- Portugal
Benefits gained from private provision

- Savings considerable. 33 percent savings in U.S. federal government from 2000 outsourcing initiatives.
- UK – 20 percent savings, 15 percent in Australia
- US - $6 billion savings achieved over four years
- Economies of scale through shared services
- Enhanced capacity and access to technology
- Improved public sector productivity when they compete with private firms
Public Private Partnerships for Assets

- B = Build
- D = Design
- F = Finance
- L = Lease
- M = Maintain
- O = Operate
- P = Purchase
- T = Transfer

- DB – contracts with public for design and construction
- FDBOM – private role in all phases
- BOT – private transfer to public
- PMO – sale from public to private
- LDO – private lease of public facilities
- LO/LPO – public lease/public lease-purchase
Public Private Partnerships

- Classic PPP – Design, build, finance, maintain and operate over many years
- Different from traditional outsourcing
  - Private responsibility for multiple phases of project
  - Long term nature of contract
  - Relationship between public and private collaborative rather than arms length
  - Competition limited due to high capital financing and long term nature of commitment
  - Budgetary treatment tends to annualize costs, rather than recognize up front
Public Private Partnerships: Rewards

- Private Sector Brings Capabilities
  - Financing
  - Capitalize underutilized assets
  - Technical expertise
  - Market efficiencies
  - Integrated management across all phases of projects including maintenance

- Benefits include greater efficiency and savings
  - UK – 90% on-time completion, compared with 30% for public projects
  - UK – 75 percent of projects meet or exceed performance expectations
Risks from Private Participation

- Public values and support – concern over fees
- Budgetary control
- Contingent Liabilities – how much risk is government responsible for?
- Oversight and Accountability
- Truncated Competition
Public Private Partnerships: Budgetary Issues

- Budgetary control
  - Asset acquisition eludes up front control
  - Potential loss of revenue stream
  - Potential for contingent liabilities
  - Eurostat 2004 decision results in classification of PPP’s as private reflecting private risk for construction/availability

- Cost assessment involves tradeoffs
  - Potential efficiency of private provision
  - Transfer of risk to private sector
  - Potential rationalization of demand through user charges
  - Lower cost of capital of public sector
PPP Success Factors

- Political leadership support
- Legal frameworks to ensure enforcement of contracts
- Effective governmental analysis and monitoring
- Competitive procurement
- Performance based contracts
- Explicit risk allocations
- Guaranteed revenue stream
- Support from stakeholders including unions, public clients, other interests
Lack of competition reduces rationale for private over public
- Exclusivity at outset - sole source
- Overdependence over time - indispensable
- From competition to monopoly - entropy

Accountability and principal agent issues
- Difficulty in specifying outputs
- Competition not always available
- Low balling and overpromising
- Risk shifting to government through cost plus contracts

Capacity of government to oversee contracts
- Exodus of government employees to contractors
Cost shifting and cherry picking

Inherently governmental functions
- Public ensures we get right things done
- Private ensures we do them right

Transparency – assigning credit and blame
- Private contractors’ information not publicly accessible
- Laws on public accountability and redress may not apply
Tool selection – are tools selected to reinforce each other or do they work at cross purposes?
   ▪ Determination of public vs. private should be based on full cost-benefit analysis
   ▪ Permit public and private to compete

Tool design – are incentives built in to encourage ownership and accountability by third parties?
   ▪ Fixed price contracts
   ▪ Capitation and closed ended grants

Third party networks – are the incentives and interests aligned?
   ▪ Selection of “principled agents

Oversight – does government have the capacity and authority to effectively oversee the variety of third parties?
   ▪ Performance based contracts
   ▪ Too big to fail?

Public Transparency – Are roles and responsibility clearly delineated?
The role of the budget process

Does the budget process encourage reliance on indirect tools of governance?

- Shared costs with other sectors lower budgetary costs
- Transparency is often less pronounced for indirect tools
- Budgetary treatment often fails to capture full costs and risks up front
  - Public private partnerships
  - Government corporations
  - Tax expenditures
  - Loan guarantees
  - Insurance
- Role of limits on full time employees
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“Public and private sectors are alike in all unimportant respects”

“We don’t want workout coaches to take over from surgeons just because their clients are healthier”

Isadora Duncan to George Bernard Shaw
  - “If we had a child together, it would combine my beauty and your brains.”
  - Shaw declined, horrified at the prospect that their union might produce the opposite- a child with her intellect and his looks.