



Public Policy Forum
Privatization in the
Public Sector:
Is It Worth It?

Presented by

E.J. McMahon, Jr.,

J. Robert Port, and

Mildred E. Warner



October 16, 2006

Richard P. Nathan:

I am proud to be here along with Tom Gais, the co-director of the Rockefeller Institute, which is the public policy research arm of the State University of New York. We conduct periodic policy forums, where we have good speakers and good discussions.

Today we have a subject, which if I'd read about it I would have thought, "Well, I'd never expect a big turnout for that." And to our delight, there's a lot of interest, evidenced by the turnout and the people who are here to participate.

This is a subject that cuts across government and involves lots of services and organizations. I'm going to introduce our three speakers in the order in which they are going to speak.

I'd like to tell you a little bit about Bob Port; he has a really wonderful story of things he has done. He is new to Albany and still can't believe it. He is a senior editor for investigations at the *Times Union*. He's had a distinguished career as an investigative reporter at the *New York Daily News*. He's won awards for research he's done on financial disclosures for campaign finances and he has been a special assignment editor at the AP. He led a team of national reporters on investigative projects; one project won a Pulitzer Prize and a George Polk Award, so he must be pretty special. He worked for 12 years at the *St. Petersburg Florida Times*, which is a well-known paper, and he is an adjunct professor at Columbia in the graduate school of journalism, where he teaches courses on investigative techniques. We're delighted, Bob, that you could be with us today, and I'm going to let you go first.

J. Robert Port:

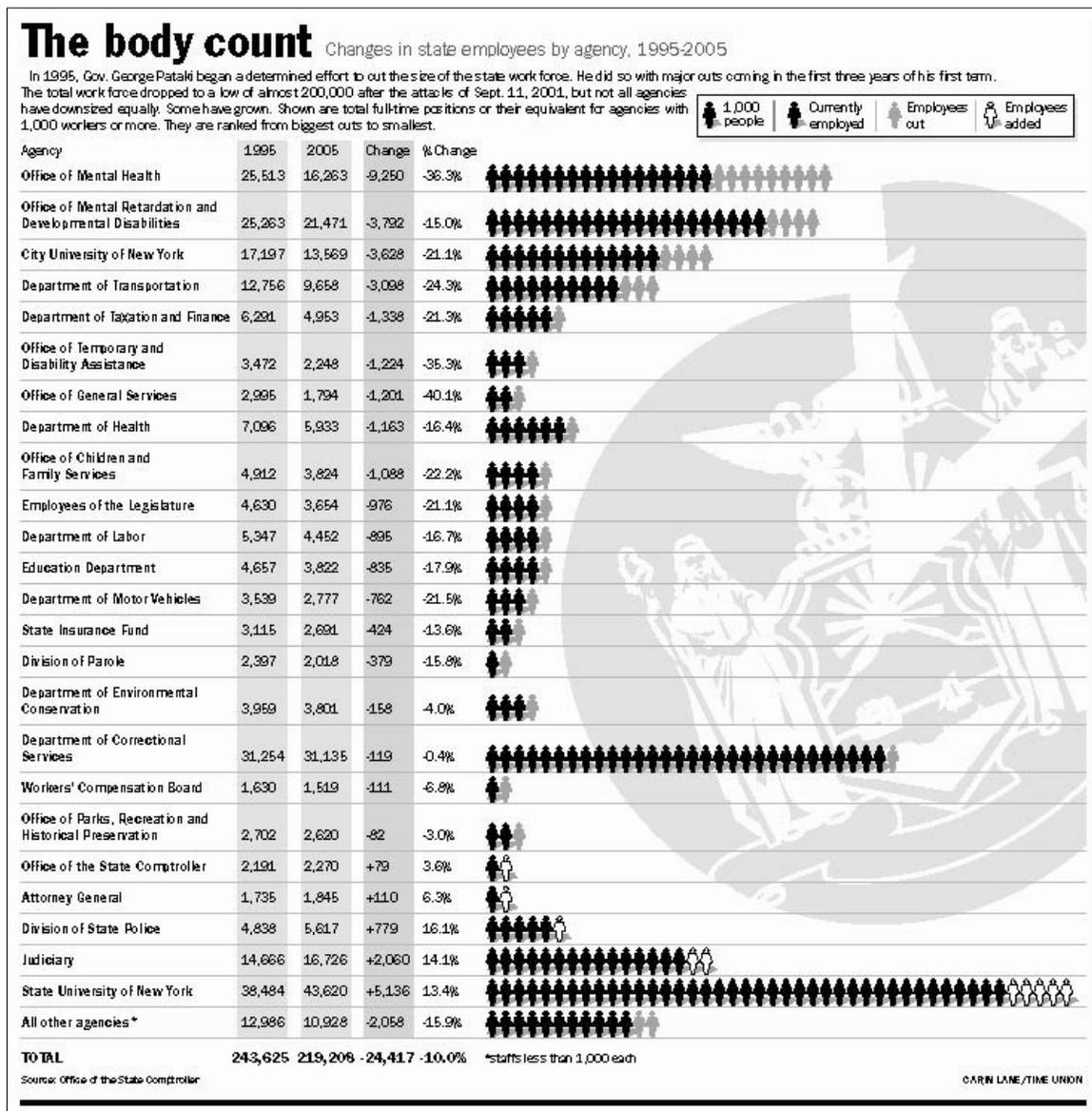
Thank you very much. I am new to Albany. I arrived here a little over a year ago, a year and a few months, and one of my first encounters was with one of the public employee unions, Public Employees Federation (PEF), this is probably best known to all of you. They called me up and they were irate, and they wanted the *Albany Times Union* to take a good look at privatization, which they said was occurring all over state government and ravaging many of their ranks, and subverting in many ways the idea of civil service.

So we began looking at the question, and I want to share with you today from the standpoint of a journalist, somebody who is going to set aside any personal opinions I might have. I don't particularly have any strong opinions about privatization, ideologically or otherwise; but we made an attempt, as a newspaper, to take a look at what had been happening in New York State government.

What I have to report to you is if you ask me the question, "Does it work?" the answer is, "We don't know." It isn't because we don't want to know, it's because the information that might answer that question has not been made available to us as journalists or the general public, I would argue.

One of the pieces of information we were able to get was simply how many state employees there are and have been every year going back to when our current government assumed office in 1995. This chart was in our newspaper a little over a year ago, agency by

agency with the body count; “body” being an full-time equivalent (FTE), not necessarily a full-time person, but in general a full-time person. And you will see this list sorted simply by the size, the sheer size of the agency. The Office of Mental Health being huge, and the little gray figures show the loss of employees. So, you see that Mental Health, in general, has over the past decade plus seen massive cuts in positions. And we go down to City University of New York (CUNY) and the department of transportation (DOT), very significant cuts, Department of Tax, and so on down the list.



If we went further down this chart, what you'd see is that there are a few agencies that have actually added employees during the Pataki years. One of those would be the judiciary, not

simply judges, but employees in the Office of Court Administration. State Troopers, their ranks have increased, and a few others, the Office of the Attorney General and the Office of the State Comptroller have also enjoyed significant increases in their personnel.

But the question is: Privatization, does it work? And to me that means, does it save the taxpayers money? And when we set out to answer that question the answer we got from the Pataki administration was, “We’d like to help you, but we wouldn’t like to help you.” Or in some other context, “We’d like to give that information, but we don’t have it.” And in some cases we believe where they had it, they weren’t willing to share it.

We asked the governor’s office how many private workers he’d hired through state contracts, contractual labor, consultants, and so on. “I can’t answer that question,” said a governor’s spokesman from the Division of Budget. And no one in the Pataki administration has really been keeping track of privatization, quantifying it.

There are some people who delved into the subject and typically they come from a certain point of view or they are financed by organized labor, let’s say. I’m thinking of Frank Mauro and his group, which did, I think, a very clever and a very careful study of the use of consultants and saw the increases that were being described by a lot of labor anecdotally. And where there was some way of measuring cost, he detected increased cost; a privatized work force doesn’t cost more, it costs less.

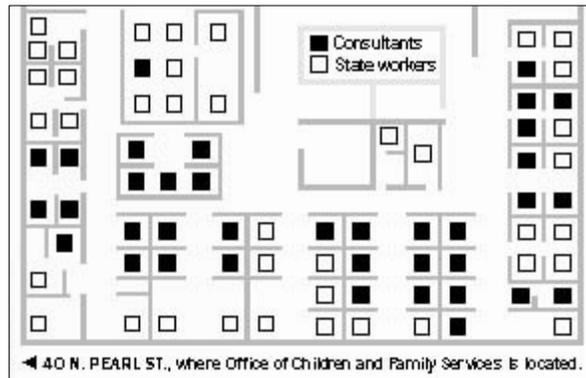
We’ve seen two audits from the State Comptroller’s Office over the last decade that have attempted to deal directly with this question, and it’s the DOT that seems to attract the persistent attention. During Carl McCall’s term, he conducted an audit and found that privatization, privately employed labor within DOT, was costing more than public employees and civil service employees.

The governor’s office privately sought to challenge that conclusion and hired the auditing firm of KPMG to do its own study of that question, and they set to work on their study. They looked at 96 separate projects, 48 pairs of similar projects, ones that were essentially all civil service employees and others that were all private, and found that 85 percent of the time in-house design, road, and bridge projects were less expensive. Ten percent of the time the consultant projects were less expensive and five percent of the time they were equal.

An interesting piece of work by KPMG and it all ended with some of the very early drafts that were shared with the DOT and with the governor's office. They simply shut down the contract. And we only know that this audit, this study if you will, began because PEF requested it under the Freedom of Information Law (FOIL) and didn't get it, sued, and a judge ordered the administration to release the information. So we finally all had a chance to see it.

I don't know whether privatized workers pay off for the public or the taxpayers in the long run. I can only tell you that when our reporters have looked at this question, the answers tend to be, "No," or "We don't want to discuss it."

In our story we published the anecdotes of four people from the Criminal Justice Services, Children and Family Services, Office of General Services (OGS), DOT, and each of them described how they have witnessed over the past decade plus an infusion of consulting labor, labor that is doing essentially the same work that they have done in years past at a higher wage with sometimes somewhat better benefits.



Let me show you one other graph. We see a little chart here. It's a floor plan. This happens to be the floor plan of the Office of Children and Family Services, 40 Pearl Street, and the black squares are private employees, consulting labor, the white squares are state workers. Sometimes, state workers told us, they can't tell which one is which. People will arrive at the office and they don't know, "Are you private or are you civil service?"

The particular employee who shared this information with us after this story ran was subjected to pretty severe harassment, I would say. And although we never wrote about that particular matter, it was, I think, eventually resolved, but it did take a lot of pressure and a lot of complaints to the governor's office for that situation to be rectified. So what we found was when

we published the accounts of state employees they often suffered retaliation, angry notes sent to them, crude remarks, etc.

I think the problem with answering the question is getting a good answer. Getting hard information is the same problem that I have encountered in Albany since I came here, and that is what I believe are weaknesses in our Freedom of Information Law and our system of financial disclosure.

Very often, when we attempted to study state contracts, to look at the phenomenon of privatization, we ran into a brick wall. You might think that state contracts in New York could easily be reviewed by the public. They often, after all, involve millions, even billions of dollars. But just simply getting a copy of or getting a chance to sit down and read an actual state contract is not an easy thing at all. The Office of the State Comptroller warehouses all these documents and they are constricted by the trade secrets exemption, I call it, to our Freedom of Information Law, a very common exemption to public access to go into the records.

But no attempt is made in the preparation of a state document to segregate the elements that clearly are, at least arguably, trade secrets from the other information we ought to be able to see. What are we getting for our money?

So that was the brick wall we hit. We can't look at state contracts without an incredibly laborious process where, essentially, a lawyer in the Comptroller's Office has to sit and review every page of documents that sometimes fill bankers' boxes, and we never could get to the bottom of it. I think if you're looking for reform in Albany, a good place to start would be strengthening the Freedom of Information Law by requiring that our state contracts segregate information that arguably ought to be kept private, proprietary, and the fact that it's not.

There was an attempt made by the Legislature to rectify this by requiring contractors to disclose with their contracts how many private employees they hire and at what cost. That bill, which passed both houses, then sat in the Senate (where it began its life) until the very last day of the year when Senator Bruno sent it up for a signature. It was vetoed by the governor, and in his veto message, Governor Pataki said, "Sponsors contend it's necessary because consulting contracts are subject to relatively little public disclosure or oversight." And he went on to say that this information is reviewable and is available under the Freedom of Information. Well, no it's

not; not as a practical matter. I wish we did have this law, simply so I, as a journalist, could learn more.

Richard P. Nathan:

Thank you very much, Mr. Port. Our next speaker is E.J. McMahon. E.J. is the director of the Empire Center for New York State Policy, which is a project of the Manhattan Institute. He is also a senior fellow at the Institute for tax and budgetary studies, and he has worked extensively on pension reform, competitive contracting of public services, which is why he is here today, and the fiscal record of the Pataki administration. He has written many articles in the *New York Times*, *Wall Street Journal*, *Barron's*, *The Washington Post*, *The Daily News*, and *Newsday*. E.J. is out there, out and about. He's been here a lot at the Institute. He's a person we know well.

He spent 25 years in New York State government as deputy commissioner for tax policy in the Department of Taxation and Finance, in the Legislature as director of minority staff for the State Assembly Ways and Means Committee. He was a vice chancellor of SUNY for External Relations and worked at the Business Council. Not only has he had, compared to our last speaker, a long record in Albany, worked as a columnist for the *Times Union*, and for some of you who can remember way back, the *Knickerbocker News*. I welcome E.J. to be our next speaker.

E.J. McMahon:

Well, thank you. Good afternoon. Thank you, Dick, for remembering the *Knickerbocker News*. Too bad more people don't remember it.

The best way to begin at any event like this is, I suppose, is to answer the question posed by the title of our event. My problem with today, though, is that I think the question misses the point, or at least misses my point, and I think the point of what has been going on nationally. If you insist on asking, "Privatization in the Public Sector: Is It Worth It?" I can only respond, "Well, that depends. What do you have in mind?" I don't know. That's not a very promising start.

If you amend the title by one word and ask, "Competition in the Public Sector: Is It Worth It?" then I think we've got a conversation going, because my answer is, "Yes."

I'd like to go through some ideas now that are the foundation for what might be called the competitive contracting movement, which, contrary to some criticisms, is not an ideology but an approach and a practice that elected officials in both parties have been implementing in various degrees around the country for quite a while now. It's not even necessarily something new. It's certainly not new elsewhere in the world. And then I'll do a little bit of a critique of what's been going on in New York, and I'll touch on some of the same subjects Bob touched on.

This will probably shock you. I'm going to open with a defense of public employees. It's pretty common, but simply unfair, for people to assume that the inefficiency often associated with state government and bureaucracies is due to some innate inferiority on the part of the people who work in them. Of course this is not the case. The problem with the traditional public sector model here in New York, and elsewhere I'd suggest, is not public sponsorship of services, basic services to be sure. The problem is the virtual monopoly of public sector providers.

So what we're talking about is bringing market forces into the provision of public services, and that focuses on the virtue in the value equation, which is competition. Wherever it's feasible, private and public entities should be encouraged to compete for the right to provide government services. That's the idea anyway. This is potentially the most effective tool a government has for arriving at a true market price for its services and for, among other things, encouraging innovation on a scale and at a level that doesn't occur in cocooned public sector bureaucracies. That also requires that we raise two other related concepts, however.

The first concept, which Bob will be glad to hear, is transparency. The entire process of sorting through competitive sourcing options needs to be open to public scrutiny in every way.

The other concept is performance measurement. Expectations need to be crystal clear. The winner of a contract in competition, whether it's an in-house existing government unit or a private firm, should be held accountable for delivering on cost and performance expectations over the life of the contract.

These three concepts that I've just gone through — competition, transparency, and performance measurement — have to be accompanied by a commitment to communicating goals and objectives to the public, and to all stakeholders in the process, including current public employees. This requires a whole new management approach, obviously. Since saving money is

the goal and improving performance, as a closely related goal, the reliable cost comparisons are a crucial starting point for the contracting process. This requires something virtually unheard of, certainly here in New York State, which is an estimate of the fully allocated expense of providing services, including direct full-time and part-time personnel costs, materials, supplies, equipment, capital and equipment depreciation, rent, maintenance, repairs, etc. You get the idea. Many of you who are in the business know what I'm referring to.

Now, in keeping with these principles, both Republican and Democratic chief executives around the country, at the federal and state levels, have initiated reforms that I think are worthy of emulation; for example, there's the federal government's Federal Activities Inventory Reform Act, also known as the FAIR Act of 1998, and the sourcing policy set forth in the A76 Office of Management and Budget (OMB) circular, which implemented FAIR, and which is going on to this day.

There's the Virginia Government Competition Act of 1995, and its implementation by something called The Commonwealth Competition Council, which began under a Republican governor and continues under a Democratic governor.

Most recently and perhaps one of the best models of all, there's the Florida Efficient Government Act of 2006 now being implemented by that state's council on efficient government, which brings us to New York.

In 1995, George Pataki took office as governor with a strong commitment to the concept of privatization. That was just the problem, I think. Because like our title today, his focus was off. He was pursuing privatization as an end in itself, rather than competition as a tool for improving and saving money. Most of what passed for privatization in New York State government, most of what the administration liked to talk about, involved privatization of assets.

Now, implicitly a lot of what we're going to talk about today, what Bob Port just talked about was privatization or competization of services. The administration was focused largely on some very complex divestiture deals, most of which were good ideas, I strongly believe, involving very high profile assets, such as Stewart Airport, the New York Coliseum, and the World Trade Center.

By contrast, the contracting out of services unfolded sort of slowly, incrementally, under the radar, and on a relatively small scale, although it all adds up. There were no head-to-head competitions that I'm aware of between in-house employees and private firms. There were quite a few instances of competitive contracting of state services early in the administration. Those of us who were here then remember these fairly vividly: janitorial and custodial work, facility design, warehousing, bakeries and warehouses, park concession stands, and the like.

Ironically though, to this day the largest single outsourcing of services by New York State is a project that dates back to the Cuomo administration, and that is the outsourcing of income tax forms and their processing by the Department of Tax and Finance, which was underway when I arrived at the department in early 1995. This operation used to require the seasonal hiring of thousands of temporary state workers, most of whom had passed through the Albany County Democratic headquarters. This was transformed by Fleet Bank, then Fleet, into an automated state-of-the-art process employing many fewer people. The process of where they would be located when they did that was politicized in its own way, but that's another story.

So, how goes it? How much have we saved? Bob Port told the story, "Who knows?" My intuition, which we can argue about, and we can all argue our intuitions, is that we have saved money, net, without hurting the quality of services and, in some cases, improving them. This is anecdotal; this is my hunch.

Unfortunately, in its zeal to privatize, the Pataki administration failed to make a systematic commitment to competition, transparency, and performance measurements across government operations. So, after nearly a dozen years, we still can't accurately measure the unit cost of doing anything, that I'm aware of. And so we can't answer the question that Bob and his reporters went into.

Now I want to tell you, quite honestly, I thought that *Times Union* series was remarkable to the extent in which I found it very one-sided. On the other hand, having been a reporter, I sympathize, because it's not their job to do the administration's job for them. The deafening silence with which you, Bob, were met was all the testimony we need to justify how ineffective and fumbling the administration's process was. I really fear that it has done a disservice to us, because I think it's set back the idea of competition for private services possibly for years to come. Again, I think good things happen, but I think the administration made no effort to

embrace this concept in a systematic way, to require performance measurement or to overhaul the accounting standards and the metrics of determining what it actually costs to provide public services.

You'll be glad to hear, Bob, one bill was signed into law. After the veto you referred to, the governor signed Chapter 10, which requires from any consulting services that firms file and that the Comptroller's Office keep on view a report of the number of employees by employment category within the contract employed to provide services, how many hours they work, and what their total compensation is. All of which tells us really, not much. But, it does allow PEF — to whom I tip my hat, by the way — to campaign around all of these issues and to say, "Those guys make more than we do. You can't possibly be saving money."

So you are going to get sort of a one-sided, partial piece of information that would be easier to highlight now that this bill has been passed. This bill is relatively harmless compared to the earlier bills that the union had embraced, some of which would have effectively outlawed contracting out of services and turned back the clock, probably, 20 years.

What ought to be happening in New York? Well, I also strongly agree with you on the need to strengthen the Freedom of Information Law in New York in all sorts of ways, but I don't think that's the issue here. I think if the administration made everything an open book and if FOIL were stronger and allowed you to obtain more information sooner, the basic problem is there's no information for you to obtain. There's nothing you can make sense out of even if you had access to all the file drawers for decades to figure exactly who is doing what and how much is being saved or not.

We need to overhaul our practices and our process in the way I suggested. We made recommendations in a report — I've left copies up here — a few years ago, which I'd be happy to discuss. Basically, it set up what would be an administrative framework, a competition council in New York, that would be charged with inventorying services and activities that New York State provides, as well as local governments, and determining and distinguishing between those that are inherently governmental and those that are commercial. That tends to be the concept with which all good competitive contracting programs begin.

Steve Goldsmith, the former mayor of Indianapolis, now at Harvard, who's also been a senior fellow at Manhattan Institute, called this the "Yellow Pages test." If you can find people in the Yellow Pages who are doing the same thing as government agencies, if there are enough of them, it was his first hint that maybe he should be thinking about contracting it out, or at least creating competitions between public employees and private contractors. So that inventory is important.

The second piece would be to establish priorities for outsourcing of services and managed competitions based on what is determined in step one.

Step three would be all-important, developing the accounting models to determine the fully allocated and unit cost of commercial activities, which is a pivotal concern, obviously.

We also suggested the state create a sunset review commission to recommend ways the government can cut costs, reduce waste, and improve efficiency by looking at state programs every year and assessing the importance of functions, and recommending whether programs are no longer necessary or can be consolidated. That's also a related concept.

I think the bottom-line challenge is to root out government waste so that taxpayer dollars can be used more efficiently. And so, to that end, I think all the processes I've talked about would be very helpful. Unfortunately, I think that for whatever has been accomplished over the last 12 years of expanding the use of private sector firms, consultants, and contractors to provide public services in New York, with that step forward, we've also taken a step backwards for the very reason that we heard about, of course, in Bob's remarks at the beginning of our session.

So, to return to the question as I would rephrase it, "Competition in the public sector: Is it worth it?" Of course. It's about time we actually tried it. Thanks.

Richard P. Nathan:

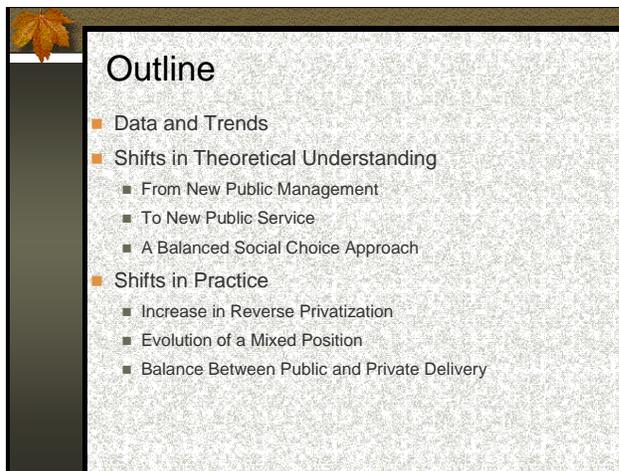
Our third speaker is Professor Mildred Warner; she's an associate professor of city and regional planning at Cornell, where her work focuses on local government service delivery and community development in human services. Her work shows a potential, as she described it for

us, for a market-based solution in public service delivery, but raises caution flags that she is going to talk about.

Let me tell you a little bit about her background. Her Ph.D. is from Cornell, her BA from Oberlin College. She has authored many refereed journal articles, and directed research projects related to devolution and privatization and their effects on local governments. Her research has included studies of childcare programs, and she has been supported in her research by the Kellogg Foundation and other, particularly, government resources. She is research associate with the Economic Policy Institute, and she served for three years at the Ford Foundation. She is associate director for the past nine years of the Cornell Community and Rural Development Initiative, which many of us here follow and know about. We're very pleased that she can join us today as our third speaker. I welcome Professor Warner.

Mildred Warner:

Thank you, it's a pleasure to be here today with you. I am titling my remarks, "From Reinvention to Public Service," and I'm going to talk about local government trends in privatization at the national level. I've been studying this at the national level for about the past eight years, and what I want to do with this conversation is set it both in theoretical perspective, as well as in what the empirical data show.



First, in terms of theoretical understanding, I think we have a shift, moving from the new public management that was popularized by a book called *Reinventing Government*, that came out in 1992 and was written by Osborne and Gaebler. Local government officials read this book and really attempted to try the reforms that it promoted. Its reforms, E.J., were really about competition. It wasn't

about privatization per se; it was about competition and local government.

More recently there has been academic debate about the need to serve citizens, rather than steer a government process. That's captured by some work by the Denhardtts at the University of Arizona, and they are calling it "The New Public Service." So, as opposed to managing a process, it's steering citizen engagement in a deliberative democracy process. So, there's been a shift in the academic debate with regard to theory.

There have also been some shifts in practice, which I'm going to show you from the national data. First we see an increase in reverse privatization. This is bringing previously contracted work back in-house. Second, we see an evolution of a mixed position of governments both engaging directly in service delivery and using private contracts. I argue that what we're seeing is the emergence of not an either/or position of pro-privatization or pro-government, but rather a balance between the relative merits of public versus private delivery.

The shift in theory: The new public management argues that we have an oversupply of public goods by government, because we have budget maximizing bureaucrats, we have an inflexible and unresponsive government, and this monopoly of government provision gives us consumers a lack of choice. That was the problem prescription. The solution was that markets could

**Shift in Theory and Practice:
From New Public Management**

- Problem:
 - Oversupply of public goods, budget maximizing bureaucrats, inflexible, unresponsive government, lack of choice
- Solution:
 - Markets Can Provide Public Goods
 - Competition (Privatization) Promotes Efficiency
 - Market Provision Enhances Consumer Choice/Voice
 - Private Sector Management can be applied to the public sector

provide public goods; that competition, particularly in the form of privatization, would promote efficiency; that markets would actually enhance consumer choice because you wouldn't have the single government monopoly provider, you would have a series of private providers; and that private sector management could be applied to the public sector, like performance-based measures.

To New Public Service

- Public goods result from market failures.
 - There are limits to market solutions for public goods
- Competition is costly
 - Government must structure the market, ensure stability and security
- Citizens are more than customers
 - Collective needs are not the simple summation of individual desires. Deliberation changes preferences
- Democracy ? Markets
 - Privatization raises challenges of accountability and blurs the line between public and private

But we also must remember that the very definition of a public good is that it

results from market failures. So it shouldn't be a surprise that there will be limits to market solutions for public goods, because we are really pushing on the edge of a theoretical impossibility. We actually have moved a fair distance into having markets provide public goods, but obviously you are going to run into some limits.

The second is that competition is costly; particularly at the local government level, which is the level I study, there rarely is competition for public services. Local services markets are, by definition, local, and particularly for rural areas and for dense and highly congested cities, you are less likely to find a competitive market of alternative suppliers.

There are also problems with the stability and the security of competitive, market-based service delivery. Citizens expect fail-safe delivery, markets are dynamic, and unevenness occurs when firms come in and out of production.

Third, and this is the key point the new public service makes, is that citizens are more than customers. Collective needs are not the simple summation of individual needs across the marketplace, and deliberation through a democratic process can change preferences. It is also the case that citizens care about issues other than efficiency. I've met with many local officials who innovated too fast and too far and got unelected by disgruntled citizens who were upset at the loss in community identity when their local hospital was shut down, were upset at the loss in local employment when a service was contracted out and the private contractor brought in workers from outside, and those guys lost their jobs. So there is a politics to the process.

Bob Port and E.J. McMahon talked about the politics of nondisclosure and lack of information, but there is also a politics to what citizens want, and it's not at all clear at the local level that efficiency is their primary concern.

Finally, there are real issues of accountability and this blurring of the line between public and private. You've heard about that today from both our first two speakers, who have talked about problems with the Freedom of Information Act. So what are the data that I can bring to shed light on this?

Just like E.J. and Bob, I can't tell you data on cost because those data are very hard to find and practically don't exist. But, I can give you data on what local governments are actually doing all across the country.

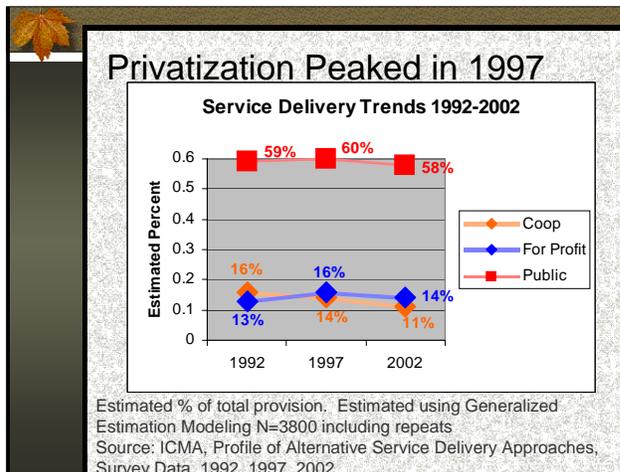
The International City/County Management Association is the professional association of city managers. It runs a survey every five years of local government use of alternative service delivery for about 64 different local services. It looks at several service delivery options: public, mixed public, and private, and then of the private options: for-profit, intermunicipal co-op



Data

- International City County Management Association Surveys of Alternative Service Delivery 1982, 1988, 1992, 1997, 2002
- Scope:
 - 64 specific services
 - 6 service delivery options (entirely public, mixed public/private, for profit, non profit, inter-municipal cooperation, franchises)
 - Factors motivating restructuring
- Sample Frame:
 - All cities over 10,000, All counties over 25,000.
 - Response rate 31% (N=1400 municipalities 1992 and 1997, 24% N=1100 in 2002).
- Supplement with US Census of Government Finance Data for same years

arrangements, franchises, nonprofits, and the like. They also ask the officials about their attitudes toward restructuring. I add to this data from the U.S. Census of Government Finance files, which fortunately, come from the same five years. Both of these surveys happen twice each decade in the years ending in two and seven. And with that, I'm able to track trends over time. So, we can get beyond the case studies, which have successes and failures, and look at what is happening on average across the entire country. So, let's look over the last decade and what do we see?

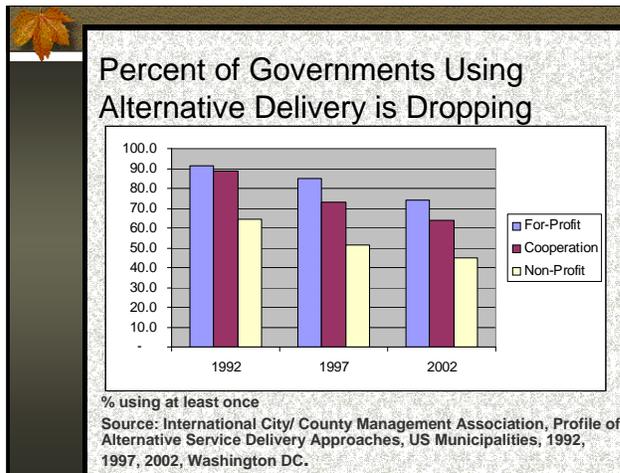


The first thing you will notice is that these trendlines are remarkably flat. The top line is showing public delivery by local governments by public employees entirely, and what you will notice is this is about 60 percent of all service delivery in 1992 before local government officials read Osborne and Gaebler, and it still is today in 2002. Statistically, those numbers did not change.

The blue line is the one of interest to today's discussion and that's the privatization to for-profit alternative deliverers. What you will notice, and these are statistically significant

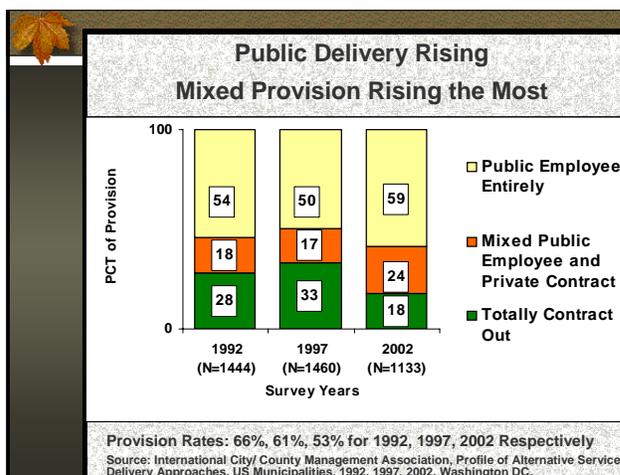
differences, is that privatization did rise from 13 percent of all service delivery to 16 percent between 1992 and 1997, as local governments attempted to experiment with the ideas represented in the new public management in the reinventing government revolution.

What you will also notice, though, is that it peaked in 1997, and by the 2002 data it has dropped back down to 14 percent, almost at the level it was in 1992 when we started. That is a statistically significant difference.



move through the decade, and now we are down to about three-quarters of all governments. So, a quarter of governments have opted out of the privatization game, where it was over 90 percent who privatized a decade earlier. Why would this be?

You can also look at the data by the percent of governments that are using for-profit privatization for at least one service, and you will notice that it drops from over 90 percent in 1992. See, contracting out isn't new, we've always been doing it; it's just that we were encouraged to do a little bit more of it with the reinventing government revolution. It actually drops off as you

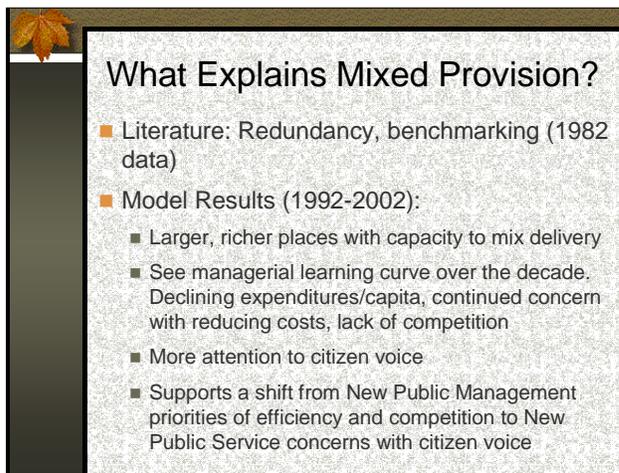


I also want to cut the data a different way. You can look at three exclusive options: providing the services entirely in-house, providing them with a mix of in-house and external contracts, or totally contracting out (complete contracts and government steps away).

What you will see is, again, between 1992 and 1997, local

governments increased their use of these complete contracts, but it drops off again by 2002; it drops off almost to half. What rises is direct public delivery and this mix of both public and private delivery in the same place for the same service area.

So, we decided in our 2004 report to the International City/County Management Association to look at this mixed delivery phenomena a little bit more closely, because there seemed to be something going on here.



What Explains Mixed Provision?

- Literature: Redundancy, benchmarking (1982 data)
- Model Results (1992-2002):
 - Larger, richer places with capacity to mix delivery
 - See managerial learning curve over the decade. Declining expenditures/capita, continued concern with reducing costs, lack of competition
 - More attention to citizen voice
 - Supports a shift from New Public Management priorities of efficiency and competition to New Public Service concerns with citizen voice

Earlier literature back in 1982, had noticed this mixed phenomena and it didn't make sense, because redundancy is supposed to be inefficient, and yet redundancy also gives a government the opportunity to benchmark costs and processes, and to create some competition in the local marketplace. We updated that study from 1982 data and looked at it for the decade of data from 1992 to 2002, and

that's coming out in a paper in 2007 in *Public Administration Review*. What we find is that larger and richer places with the capacity to mix public and private delivery in the same service area do so; again, they believe competition matters.

But we see a managerial learning curve over the decade. There are declining cost pressures. Expenditures per capita in real terms have actually fallen over the decade, but there is continued concern with reducing cost, and there is concern with lack of competition in public service markets. We also see rising attention to citizen voice, again, suggesting that this new public service theory has some legs in practice. So we see a slight shift from the new public management focus on competition and efficiency to a new a public service focus which brings in attention to citizen voice.

Let me talk about one other trend: reverse privatization. I said at the beginning that reverse privatization had risen and you all were probably wondering, "What is reverse privatization?" Well, back when we started with the survey in 1995 with local government officials in New York, Andy Goddell, who was county executive at Chautauqua County, said,

“Be sure to ask about the other side of the coin, reverse privatization. We both contract out and contract back in.” And so, we asked about that and that New York survey was the first one to ever ask that question directly, and we found it was 8 percent of the action.

Since no national survey measures it directly, what we’ve done is paired the survey responses for the ICMA data for the 1992-1997 period and the 1997-2002 period. Only about 40 percent of the sample is the same in any two survey years, and this is why our number of observations is smaller. By pairing responses over time we can tell you a little bit about what’s going on.

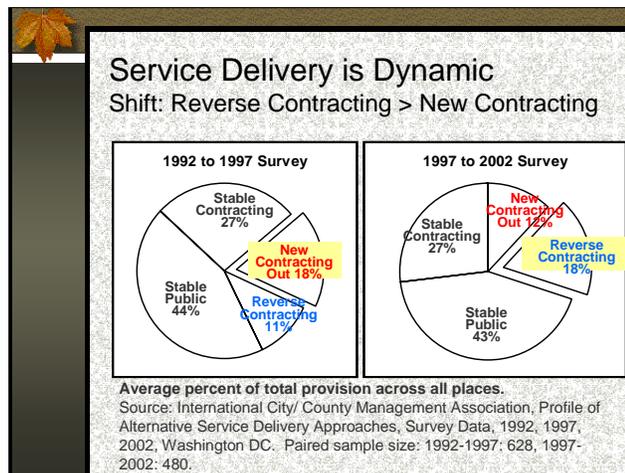
From 1992 to 1997, basically most of the story is that most government service delivery is stable. Stable public delivery, services that are provided directly by government, are 44 percent of the action between 1992 and 1997, and it is 43 percent of the action between 1997-2002. There is a fair amount of contracting that has always been going on and it’s also pretty stable, at about 27 percent of the action.

What’s interesting is what’s happening at the margin between new contracting out and reverse contracting. What you see is that new contracting out, at 18 percent, was 50 percent larger than reverse contracting in the early 1992-1997 period. Those proportions flip in the 1997 to 2002 period, where reverse contracting is now 50 percent larger than new contracting out.

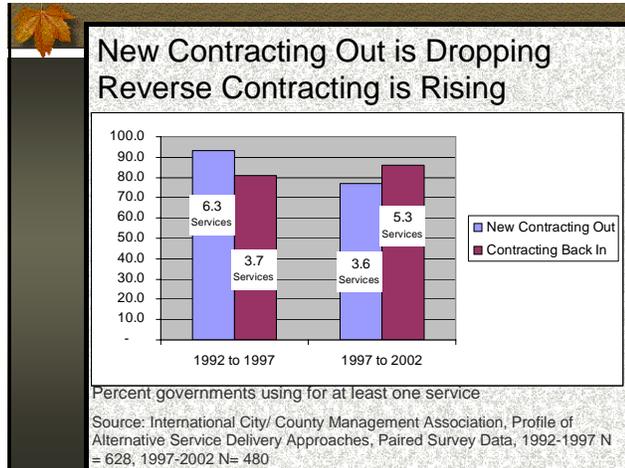
I always tell my students that public sector reforms are cyclical, and you roll out to the end of a reform, and then you will start moving back. I won’t know until I see the 2007 survey whether this is just a little needle wiggling at the edge, or whether we are really actually coming back off the trend of privatization.

Understanding Reverse Privatization

- Governments Contract Out and Contract Back-In
- This question is not asked directly. So we paired samples from adjacent survey years
 - 1992-1997 (628)
 - 1997-2002 (480)
- What do we know about the stability of contracts, of public delivery and the level of new contracts and reversals?



We can look at it another way through the average government, what percentage of them were newly contracting out. Between 1992 and 1997, it was about 90 percent. That drops to around three-quarters, and the number of services newly contracting out drops by almost half, that's the blue bar. The reverse contracting was done by about 80 percent of the sample in the first period, rises to about 86 percent of the sample in the second period, and the number of services increases by about one and a half.



So, again, a lot of ways to measure it, but we're seeing some kind of shift in what is going on.

New Contract "Top 10"	Reverse Contract "Top 10"
*Legal Services	*Fleet Management
*Fleet Management	*Street Repair
Traffic Sign	*Park Landscaping
*Building Maintenance	*Recreation
*Data Processing	*Public Relations
*Recreation	Data Processing
*Park Landscaping	*Building Maintenance
*Street Repair	Emergency Medical
*Tree Trimming	Snow Plowing
Sludge	Animal Control

Top ten services 1997-2002 *top ten 1992-1997

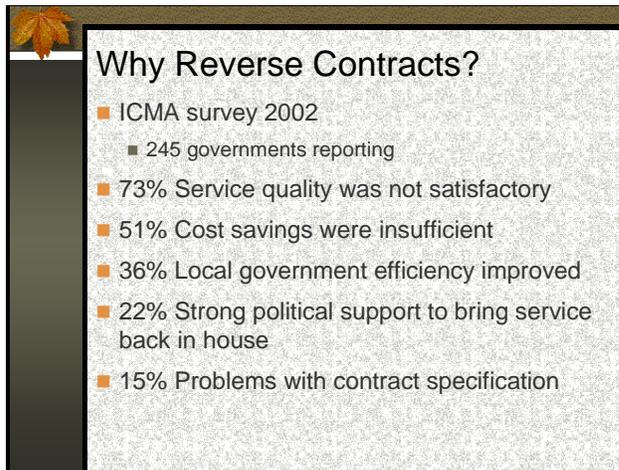
Source: International City/ County Management Association, Profile of Alt. Service Delivery Approaches; Paired Survey Data, 1997-2002 N= 480

Some of you might be interested in, "Well, what kind of services are you talking about?" So, we looked at the top ten new contracted services, and the top ten reverse contracted services, and the interesting thing is the yellow indicates services that sit on both sides. So, recreation services are as likely to be a highly new-contracted service among all governments nationwide as they are likely

to be in the top group of reverse-contracted services.

There is some theory in public administration that says service characteristics ought to determine whether a service should be contracted or not. Is it easy to measure, easy to specify, easy to write a contract about? Think about building maintenance, which ought to be pretty easy to write a contract about. What you see here, is you have as many governments trying out contracting, and as many turning around and reversing it.

So, it's something about the choices made in different places, and I think this has to do with the level of competition in local service markets. It also has to do with public preferences. In recreation services, for example, people get really concerned when control in it involves their kids. They really care about citizen control and local voice, so governments have learned to franchise recreation services with care.

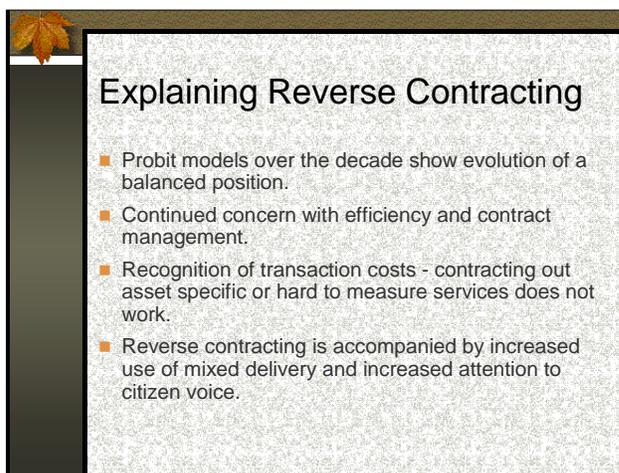


Why Reverse Contracts?

- ICMA survey 2002
 - 245 governments reporting
- 73% Service quality was not satisfactory
- 51% Cost savings were insufficient
- 36% Local government efficiency improved
- 22% Strong political support to bring service back in house
- 15% Problems with contract specification

Why reverse contract? We asked the ICMA to add a new question to its survey in 2002 asking about this phenomenon of reverse contracting, and asking why local governments did it. And you'll see that the primary reason was problems with service quality. Secondary was concern that cost savings were insufficient, but that was over 50 percent of the sample.

We also see a tremendous amount of improvement in local government efficiency. Again, Osborne and Gaebler, when they encouraged us to do performance management in government, they didn't insist that you had to privatize to get there; you could work on it through internal process reform. What you don't see as being major causal factors of reverse privatization is political support or problems with contract specification. It's mostly about quality, cost, and internal process improvement.

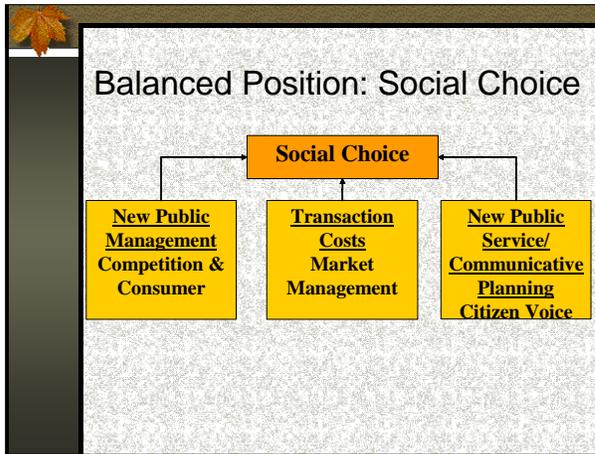


Explaining Reverse Contracting

- Probit models over the decade show evolution of a balanced position.
- Continued concern with efficiency and contract management.
- Recognition of transaction costs - contracting out asset specific or hard to measure services does not work.
- Reverse contracting is accompanied by increased use of mixed delivery and increased attention to citizen voice.

So, we also did some probit models looking at what explains this reverse contracting over the decade, and we continued to see concern with efficiency in contract management; but we also see recognition that you need to pay attention to the transactions cost of contracting. Asset-specific and hard-to-measure services are not good candidates for contracting out. Places that did that

have reversed those contracts because they didn't work well. And we also see increased use of this mixed delivery option and increased attention to citizen voice.



So, I want to end with a suggestion that we move beyond the debate, which I think is a rather tired debate, between new public management which argues for competition, and new public service which hasn't been well articulated by the unions, but to one which is arguing about citizen voice and accountability. Both of those things are important.

We also need to pay attention to the cost of contracting, which is what the whole field of transaction cost economics does. If you bring all of those together, you could actually think of it in terms of a social choice model. We in the planning profession have been working on social choice models that try to take the benefits of markets with the challenges of managing those markets, and the need to

give primary attention to a deliberative democratic process that includes citizen voice. I think that's where our local governments are heading with their practice, while we continue with our debate. And I'll just end with some of the articles that I've described in this little handout to you that you can get off my web site.

Richard P. Nathan:

I want to thank all the speakers for being very well-behaved. Each one used 15 minutes, and that leaves about a half hour for your questions and reactions. The gentleman here, first question?

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Joel Margolis:

I'm a private citizen. This is for Professor Warner. One of the last tables shows that reverse contracting was led by client service quality and increased cost. So, I'm just wondering, do those communities, the city managers, actually have such data? Theoretically, they are saying that they are doing a better job evaluating service quality and cost of programs than, say, New York State.

Mildred Warner:

I actually think local governments do a better job in this sense: If my community privatizes waste hauling, and my garbage doesn't get picked up, I'll call my local official this afternoon and say, "There's a problem with service quality." When New York State privatizes something, it's very hard for the average citizen to see what's going on with the process and demand accountability. So, I think that we think of local government officials as being pragmatic managers, because citizens can see the results of a lot of their choices.

In terms of cost, monitoring has improved slightly among local governments; but, still according to ICMA's own figures, less than half of the local governments monitor their contracts at all. So we have a big monitoring and accountability problem. But what we hear in the case study evidence is that, "We weren't satisfied with the contract," "We weren't satisfied with the quality," and "The costs weren't lower than what we spent last year, so we brought it back in-house." But they don't actually have proof of that; they have a gut feeling about that.

The cost data are really hard to come by. I've done a study with a colleague looking at all the published studies on water and waste privatization that could be found in the published academic literature, and what you find is that there were costs savings in the studies from the 1970s, but since then there aren't. It's the rare study that finds them.

So, as an academic, I can conclude that it's not clear that there are cost savings from privatization. There's not empirical research to support the claim that privatization saves money.

Bob Freeman:

I'm with the Committee on Open Government. My job involves advising with respect to the Freedom of Information Law. I'd like to make a comment and ask Bob Port two questions. First, so as not to mislead the group, the Freedom of Information Law does require that agencies segregate those aspects of records to the public from those that can justifiably be withheld.

Now my questions, number one: Would you expect that the amendments to FOIL recently enacted that greatly expand the court's ability to award attorneys' fees will help? And number two: If, for example, you continue to meet with resistance and blanket denials of access, would you expect the Hearst Corporation to shell out the money to sue the bastards?

J. Robert Port:

You know, we were surprised to find that even though FOIL does require segregation at the Comptroller's Office, for instance, just standard state contracts, they weren't doing it. And people said many contracts weren't necessarily complying. So, whatever the law or any regulation might require of them, the actual practice is that these are huge documents and no one in government, even Alan Hevesi and his staff, who are actually very forthcoming with information across the board (that's our experience) felt safe about giving us access to the vault where all these documents were located.

Your other question was the recent change to FOIL, which strengthens a requester's ability to win legal fees, I think that will have a very positive effect. As it stands right now, the dynamics of a Freedom of Information request in New York favored the government. They favor withholding; in fact, an official in government could simply disregard or ignore the law and say, "We're not giving it to them." You could win at the trial level and then all a city or government agency really has to do is file a notice of appeal. They get one year to perfect their appeal, they can stall, and stall, and stall and in New York there is an automatic stay of essentially any order of the court, a civil judgment against a government agency. So, it takes two years to win your case and that's a lot of legal fees, especially appeals.

I think the law will go a long way. I am disappointed that in the debate over this law, it was a very good drafting of legal fees for New York FOIL and the Assembly passed it. It

essentially said that if you win, you shall get legal fees. I'm leaving out some important words, but that was the essence of it. Unfortunately, Senator Joe Bruno, my sources tell me, saw to it that this was watered down, and essentially the word "shall" was changed to "may." So, it's within the discretion of the trial judge whether or not you win legal fees.

We think most judges will, in many cases, award fees where in the past they felt they could not; the law did not authorize them. But there is nothing to stop a judge, for example, a judge in Saratoga County, whose appointment was essentially orchestrated by Senator Bruno, to say, "No, I don't think you deserve your fees." And then our only recourse is to argue abuse of discretion and then it takes another two years.

Legal fees, really, is a powerful hammer. So, we took two steps forward and one step back through the legislative process, but I think we're better off. Will the Hearst Corporation sue the bastards? Yes, we will, and we intend to. We're working on a number of things. We're going to have to be very judicious about who we sue, and when, and over what, just because it takes so long. And, at the moment, the federal government has the Hearst Corporation tied up in knots, as we try to prevent two of our reporters in San Francisco from going to jail for writing about Barry Bonds' use of steroids, something I think we can all agree was a good revelation.

I'll just add there is something I'm working on right now I'm not hesitant to share with you. The experience of trying to look at privatization spurred this effort on. We are buying some very large-scale computer equipment, database servers that can hold a lot of information, a couple of terabytes of data and processing. It's my ambition within the next two years — and it will be a hell of a FOIL request when we ask for this — for us to acquire the entire state finance and accounting system from the Comptroller's Office, as well as the entire state payroll system. These are large databases, but there are actually computers — computers have gotten cheap enough if you consider \$100,000 cheap — for a newspaper, a mere newspaper, or a think tank to do that.

And then, just as E.J. pointed out, a lot of the data that we would really need to answer this question won't be in there, but a lot will. And that's another approach we're going to take, is we're going to use technology to know everything the government knows.

E.J. McMahon:

Two comments; one is when you get it, good luck making any sense of it. One way to strengthen the Freedom of Information Law also is that if we ideally had an actual statutory framework for competitive contracting in New York. That statute would make clear that all of the documentation that's provided in connection with a contract competition would be available on a media basis and in a particular format from a particular agency, which is another way to strengthen the Freedom of Information Law. As you know, one of the dodges that's used now is, "Well, we don't really have that. We don't have that in the form you are looking for."

Bob Freeman:

But what you are really saying is that you need to strengthen the process as a means of enabling the Freedom of Information law to be more valuable?

E.J. McMahon:

Well, yes, because right now a lot of information the government ought to keep, it doesn't keep. And I don't mean confidential information. I mean there's a lot of stuff not put in the record for the reason that they don't want to put it in the record: "What were your reasons for doing the following thing?" "Well, I don't know, it just occurred to us because some day we were going to do it."

I mean, in my experience, having been on both sides of this, the single most common dodge — and you are the person who can most relate to all of this — is "But we don't keep that information in the form you have requested." I think that is another way to strengthen the law.

J. Robert Port:

If I could just add one thing, you're right, E.J., it is hard to make sense of what's in there. But we do think we could know a great deal simply by seeing who is on the payroll or not as it shifts through time.

Something I neglected to mention in my remarks. We did not get into this in the story we published because we couldn't prove anything substantive. But in a lot of cases of privatization where we saw what people in government agencies were arguing or pointing to as a privatization effort, what we thought we really were seeing was "pay-to-play." And we saw a lot of evidence of that with engineering firms, a lot of large contractors in the state. You could go through campaign finance donations and if you could spend weeks and months piecing together names of just individuals, who they really are, which is an employee of a particular company, then we just felt we saw it, smelled it, sensed it, that there was a nexus between the political giving and the awarding of the contracts, especially where there is no bidding system involved.

So, a lot of what we are doing is aimed at being able to uncover those things that may have nothing to do with privatization, but we will know when that is not really what is at work.

E.J. McMahon:

Without defending pay-to-play or denying that it even exists, the unions also are involved with pay for play. You don't need to FOIL documents to know that. So, let's be honest. Ultimately, the extent to which any sort of system is corrupted, if you will, or tainted by pay-to-play and political factors depends on just how open, and honest, and forthright the administration and other elected officials want to be.

Richard P. Nathan:

Very interesting discussion. Question in the back, the gentleman, you had your hand up?

Jeff Waggoner:

My name is Jeff Waggoner, I'm with PEF. Number one, I don't recall any case where the unions have given money to candidates to get a contract. If you know of one, please let me know. Secondly, the question I have, and this is just anecdotal — I was the one who called Bob in a very high rage — was the fact that the very people who benefit the most from getting the contracts are the ones who are fighting us the hardest, preclude us from getting the information. Now on the one hand, the businesses, I'll use an example of design engineers, who wanted access to state contracts were the ones who were fighting us against disclosure. Now, you want competition, but

you don't want disclosure. Where has the Manhattan Institute been on disclosure bills? Where has the Business Council been on disclosure bills?

One other point, E.J. mentioned Stephen Goldsmith, another professor at Harvard, who is a big advocate of privatization. But he doesn't disclose until I called the *Boston Herald* and blew the whistle, that he was employed by a company that does EZ Pass here in New York. So, he was very much benefiting, he was getting paid for privatizing, while making himself a sort of imperial, legal, unsullied advocate for privatization. I mean, the point is that time after time, as Bob points out, we see a clear connection between the contract and the contractee. At the same time, the unions, as evil as they are, we're the ones who are fighting for disclosure, for transparency, and the Manhattan Institute is dragging its heels. They would not come out, I think, advocating the kind of bills for disclosure or audits.

E.J. McMahon:

Well, a couple of answers to that in no particular order. Steve Goldsmith was not employed by any of the people contracting with the City of Indianapolis when he pioneered competitive contracting there — in defense of him.

Secondly, the Manhattan Institute is not an advocacy group or a lobbying organization representing groups of businesses; it's a think tank.

Third, anybody you ask in town will tell you there is no bigger advocate than me of complete transparency across the board on everything.

Jeff Waggoner:

Can you explain to me why the people who support your institution, support your group, are the ones who are the very people we're fighting against?

E.J. McMahon:

I don't know who you have in mind. I'm not aware of any design consultants who support my group. But the main point is that transparency requires a review of information concerning what

things actually cost. The fact is, I think, PEF has, in fact, succeeded by promoting a legislative agenda based on the argument that we need transparency and accountability. Nobody can disagree with that. You wouldn't have succeeded as well with that agenda if you said, "We need to protect our jobs and increase the size of the state operations budget." You were talking about transparency and accountability, and that rang true, because it was true, because the administration has done a very poor job of actually systematically explaining what it is doing and why. And I basically was agreeing with much of what Bob Port said about the shortcomings of the administration and its approach to this issue. The whole murky story around the KPMG report and the reaction of previous audits is just an example of how poorly this has been handled.

So, I actually don't disagree with you to the extent you think I do. When I'm talking about pay-to-play by unions, I'm not talking about pay-to-play on particular contracts; I'm talking about in the overall political balance of power. The way the town works is that governors and legislators are very mindful of who their contributors are out there and who the bases of political support are.

The unions are one very big, important base of political support; in fact, one desires not to be battling openly with PEF, which is, again, a tribute to the political power you exert on behalf of your members, explains why the governor has been so half-hearted and inconsistent in his approach to this issue, quite frankly. And I think again, I'm sure you need to be aware of that at some level. I mean, the reason the Legislature passes bills with significant impacts on state contracting, they passed a bill that would virtually outlaw competitive contracting and they did it, I think, almost unanimously; now that is a tribute to union pay-to-play on a broader scale.

Again, that's what the union is formed to do and what it is supposed to do on behalf of its members. That doesn't surprise me; I don't object to it. What disappoints me is the extent to which the contracting side of this equation, in terms of the Pataki administration, in particular, such a poor job has been done of systematically laying out a programmed approach to this and, basically, there is no push-back. The union, PEF, and other unions are advocating the viewpoint, doing it quite well which is what you are supposed to do, and you are doing it based on principles that we all agree with, transparency and accountability. There is no push-back.

Jeff Waggoner:

The business community does not want to reveal the contracts. That's where we're fighting.

E.J. McMahon:

I don't care what they want to reveal. I think everything should be revealed, so I have no problem with that.

Kay Wilkie:

I deal with international policy for the New York State Department of Economic Development. My question is, as the panel has looked at these issues, have you seen other connections with the government's right to regulate and regulatory reform, and asking either what is the core mission of government? Because I think that is sometimes missing from the conversation. We've talked about market failure a little bit, but I think there is a lot of murkiness there.

And then the second question is: Are you seeing people thinking about workforce issues going forward? We're facing in this state a globally competitive context and the risk of shortages of some key staffers. And with the way some state agencies and work forces have been eviscerated, a real risk of having enough people to provide quality services that the citizens need, and are we looking at embracing policies relating to them, etc.?

Mildred Warner:

Another piece of my work, which you can find on my web site, is looking at the impact of the governance protocols in the North American Free Trade Agreement (NAFTA), which have been copied almost verbatim in the new agreement, the General Agreement on Trade and Services (GATS), which covers most local government services and requires them to be open to competitive international bidding.

Written into those governance agreements is a fundamental assault on the notion of government's right to regulate. While our Constitution says that we only pay for government takings if they are takings of the entire value of the property, the NAFTA and the GATS argue

that governments will have to reimburse private, foreign investors for any regulatory taking that undermines their potential, future profit or market share. So, what this does is undermine the whole notion of the regulatory state, and the GATS is due to be approved this coming year.

Congress has actually never debated this point, and it's a fundamental shift. You know, my daughter's fourth grade civics textbook is now going to be rendered obsolete. This new definition of takings basically says if you want to have an environmental regulation or you want to have a subsidy, you can have it if you pay all potential foreign private investors for their loss of potential market share or profit. To know how real this is, the U.S. Postal System (USPS) is currently suing the Canadian Royal Post for subsidizing rural package delivery in Canada, a country that has a large rural expanse and uses its postal system as a way to maintain some sense of national identity. The way I read the NAFTA, that case will likely be won by USPS.

So, these are things that are on the horizon in the international arena that relate fundamentally to public values and our need to sit down and have a discussion about the values that I think we all do agree on. We need to put back into balance the public, citizenship, and democracy concerns with these interests in opening up public markets to private services so that we can create a balance.

Richard P. Nathan:

What I'll do is ask each of the speakers if they would like to make a comment about the discussion, now that all three of you have had a chance to make your presentations. I'll do that by starting with you, Mildred, and going the other way around if that's all right?

Mildred Warner:

I guess a final comment I would make is this isn't about competition. I think to say it's all about competition is too naïve. In the market, firms right now are very interested in trying to maintain market share. And we're seeing Europe, like the U.K., which was a leader in early competitive approaches, is now stepping back. Australia and New Zealand, which were also leaders in privatization, have been stepping back. We're also stepping back, but we're five years to a decade behind them. I think the research doesn't support the notion that competition is that effective.

The issue with using market delivery is to think about how government is going to manage and structure those markets, and how we are going to preserve public values and private property rights. For example, how do we balance the public right to information with the contractor's right to privacy about his production practices?

E.J. McMahon:

I am not entirely convinced that some of the numbers that Mildred has put up today are exactly compelling on that point, but I would say in suggesting that it's naïve to think that competition is the actual goal — I'm not quite sure whether you're saying it's naïve to say that competition is the goal of these programs, or that competition will result from these programs, or that competition is positive? Because I would suggest that one element that's missing from your analysis, to the extent I reviewed it, is the role of politics in determining the extent to which competitive contracting is pursued.

Politics is the explanation for the shortcomings in New York State's system of contracting out, I would suggest. I think that politics explains to a certain degree why privatization per se was pursued for its own sake, that being the governor's politics at the time he took office, that politics explain why there was a half-hearted and inconsistent approach to the issue throughout the Pataki administration, and that politics is a great deal of the explanation for the Legislature's response. It's very hard to come up with a metric for measuring what I mean by what I just said; but I think anybody who is here and has seen it play out can attest to the fact that there is a great deal of truth in it.

One interesting issue that Mildred cited, was that the second or third leading reason for a reverse outsourcing was that efficiencies had been achieved. That is, more than a third of the governments, and these were largely local governments, had achieved efficiency by contracting out. In fact, I think there is a good body of research and work done in this area that shows how individual competitive contracting projects do achieve efficiencies, and I think that that's the most promising area, or one of the areas in which competition can achieve the most in innovation.

J. Robert Port:

As someone who functions in the world as an observer, someone who tries to learn information, I guess I wish we all had more answers to these difficult questions. I'm looking forward to a new administration in Albany that is promising a lot when it comes to transparency. We really have had politics of impasse all over the map in our state government for a very long time.

I actually agree very much with E.J. McMahon about the inordinate power of organized labor politically in our state government. It may not be directed at getting a state contract, but I've never seen a state until I moved to New York, where essentially the teachers' contract is written into statute automatically without question each time it's renegotiated.

Common sense tells us that privatization, competition in the pricing of services and goods, make some sense. I think there are a lot of areas of government where it can save the taxpayers money. What we will need to see is a better job being done and some more leadership that is directed at assessing whether, in fact, that is occurring. And a lot more disclosure that lets the press and advocacy groups of all sorts put everything under a magnifying glass to determine that it's being done fairly, and decisions are made fairly. And I hope Eliot Spitzer can give us a little bit more of that. Thank you.

Richard P. Nathan:

I want to make one comment and then we'll all thank our speakers. I want to mention Lucy Dadayan, who is a policy analyst here at the Institute; she and I are interested in what we call "nonprofitization," the fact that so many social services — childcare, job programs — have been increasingly contracted out. We are using the quinquennial economic census of service industries, which separately identifies taxable and tax-exempt service providers. I tried to write a paper on this. I think it's one of my worst papers, but it does try to unravel another part of this, which is if you look, as we do, at many uni-service programs and community development programs, that it is hard to use the data. But as we look at the best data we've got, and that's continuing to grow, it is only part of the story but a notable and, to us especially, interesting part of it.

I want to thank our three speakers; they all did a wonderful job and I'm very glad to have had them here.