

## **8 The United States: The Privatization of Real Estate Related Public Goods and Services in the United States**

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***Abstract.** During the last three decades the privatization or outsourcing of what has traditionally been considered public goods and services has become commonplace. Privatization, however, is not a monolithic concept, and encompasses many different and some newly emerging delivery systems. This study provides an overview of the current status of privatization in the U.S. as we move into the new millennium. Although the survey data discussed in this paper reveals that privatization is continuing to expand, the rate of privatization activity in the U.S. appears to have slowed from the levels reported in earlier studies. While the principal motive for outsourcing remains cost containment, there is increasing concern being expressed about the true cost of privatization. While past experience with outsourcing suggests that government officials are relatively satisfied with the results, the surveys also reveal room for improvement. Insuring the quality and the effectiveness of privatization will probably require greater monitoring and compliance activities on the part of government authorities, which will raise costs. Studies of outsourced public housing projects suggest that operating costs can be reduced without a significant loss in the quality of services. This does not mean, however, that citizens always benefit from privatization or that outsourcing is always the best course of action. This study also suggest that the quality of public service delivery systems can be improved when government agencies compete against the private sector for the right to continue delivering governmental services. In other cases, franchising, vouchers, and subsidies may prove more effective.*

### **8.1 Introduction**

During the last three decades the privatization or outsourcing of what has traditionally been considered public goods and services has become commonplace. Many claim that privatization originated in the U.S.; some say that it started in Great Britain. Wherever it began, the forces and factors contributing to the devolution of public services to the private sector are common to all countries. Governmental budgetary constraints and the need for greater cost containment,

along with calls for greater governmental accountability continue to fuel interest in outsourcing and facilities management.

The accelerating pace of privatization is not without controversy, however, though the debate has shifted from philosophical discussions of whether privatization is good or bad to more pragmatic concerns. While privatization is now an accepted delivery system for public goods and services, the issues now being raised are aimed at assessing the quality of the goods and services provided by non-governmental entities, the true cost and effectiveness of outsourced programs, and the impact of outsourcing on both public and private sector employees.

Privatization is not a monolithic concept, and encompasses many different and some newly emerging delivery systems. The purpose of this study is to provide an overview of the current status of privatization in the U.S. and Finland as we move into the new millennium. We assess the extent of governmental outsourcing as it is currently practiced in the U.S. and Finland and the types of services being outsourced. In the process we hope to gain some insight into the cost effectiveness of different privatization techniques. Because our principal concern is the privatization of facilities management functions, this study focuses special attention on real estate related outsourcing activities.

This article examines the American Experience with privatization. Alternative delivery systems for services that have been traditionally supplied by government are enumerated and discussed and the types of services being privatized by government entities and agencies are examined. The text also assesses the impact of privatization on public service delivery costs and citizen satisfaction with these services.

## **8.2 The Current Status of Privatization within the United States**

Within what is commonly referred to as the American federalism approach to governing, the national government is looked to for the provision of pure public goods like national defence, while state and local governments are generally responsible for providing those public goods and services that most directly impact the citizens within their respective political jurisdictions. During the last two decades state and local governments have increasingly looked to the private sector for the provision of goods and services that have been traditionally supplied by governmental agencies.

A number of factors have contributed to the devolution of public service functions to the private sector. Increased state and local government budgetary constraints and the need for greater cost containment, along with calls for greater government accountability continue to fuel interest in privatization and the outsourcing of additional public sector programs. Although most of the privatization activities still take place at the local government level, the states, and even the federal government, have increased their participation in outsourcing programs.

### **8.3 Alternative Delivery Systems**

Rather than being a single technique, privatization encompasses an array of alternative delivery systems. In the U.S. the most common outsourcing modalities include contracting, franchises and concessions, grants and subsidies, vouchers, and voluntarism.

#### **8.3.1 Contracting**

The most commonly used method of outsourcing is contracting. With contracting a federal, state, or local government agency pays a private firm or not-for-profit entity to deliver goods or services to the public. In so doing, the governmental unit defines the amount and quality of the services to be provided. In most cases the private provider is determined by competitive bidding, a process which increasingly allows governmental agencies to compete for the right to continue delivering governmental services. This last point is worth emphasizing. A number of surveys and studies cited in this report reveal that the level of citizen satisfaction with public service delivery systems is higher when government agencies compete against the private sector.

#### **8.3.2 Franchising and concessions**

This technique also involves a governmental entity giving a private organization the right to provide services to the public. Here, however, citizens make payment for goods and services directly to the private provider. In many cases, this involves a governmental agency granting monopoly privileges to the chosen private provider, who becomes the only source of the service within the government's political jurisdiction or facility. Cable television is an example of a service frequently provided by an exclusive franchisee. Snack bars and gift shops at public parks and recreational facilities are common examples of concessions.

#### **8.3.3 Vouchers**

With vouchers the government sets standards for the level and quality of the services to be provided. Private firms that meet these standards are allowed to sell these services in the open market directly to citizens. Government provided vouchers are used to pay for the goods and services consumed by the citizen. The number or value of the vouchers a citizen can obtain is generally based upon the level of need and ability to pay for services in question. Although the government pays for these services, consumers can choose the provider. Food stamps are an example of this type of delivery system. While most of the activity in this area involves the federal government, there is evidence that state and local governments are becoming more favorable disposed to the use of vouchers. (Auger, 1998 and Eggers, 1993.)

#### **8.3.4 Grants and subsidies**

These are financial or in-kind payments and contributions made by governmental entities to private organizations and individuals to encourage the delivery of public goods and services at reduced cost to consumers. Public transportation systems (Amtrack at the federal level, state highways, and numerous municipal bus and rail systems), works of art, and cultural events are examples of services that are commonly subsidized by federal, state, and local governments. The Federal government provides a number of direct and indirect subsidies through various local government entities that are aimed at encouraging home ownership for low income and first-time homebuyers as well as rent subsidies (Section 8 housing program) for families and individuals that could not otherwise afford clean and safe housing. Federal tax credits encourage the construction of low cost single-family homes and apartment complexes.

#### **8.3.5 Volunteerism**

Another delivery system, whose use may be under-reported, is the use of volunteers to provide public services. State and local governments use volunteers in a number of capacities, especially in the areas of health services, education, food for the needy, programs for the elderly, and counseling.

#### **8.3.6 Other alternative delivery techniques**

Other alternative service delivery systems include private donations where a governmental unit relies on private sector financial contributions to help in the provision of public services. Private providers may loan personnel, facilities or equipment to government agencies, which allow these agencies to provide a higher level of resources than their budgets would otherwise allow. For example, between 1991 and 1996, IBM loaned full-time staff to help with neighborhood rehabilitation in the city of Atlanta, Georgia. (Austin and McCaffrey 2002)

Another "reinventing the way government operates" technique that is gaining in popularity is public-private partnerships (PPP) (Osborne and Gaebler 1992) The American public is increasingly looking to the business sector to participate in urban development and community betterment projects. Businesses are often motivated to get involved because they perceive such activities will promote business objectives, influence legislation or tax and regulatory policies, as well make the communities where their businesses are located better places to live and work.

Partnerships between state and local governments and private sector business organizations to achieve specific civic goals such as neighborhood crime reduction, community redevelopment, and job creation, are particularly effective when public and business agendas coincide.

A lesser-used technique is asset sales. Here a state or local government sells its buildings and other public assets to private, for-profit companies. In exchange

the governmental unit receives cash to finance other public service initiatives as well as enlarges its property tax base. Generally such sales occur as a result of governments outsourcing the provision of public services, thereby eliminating the need for public facilities.

#### **8.4 Degree of Privatization**

How much state and local governments rely on different methods to deliver public goods and services is illustrated in Table 8/2. The information for this table was taken from four closely timed, but not totally compatible surveys (Dilger, Moffett, and Struyk 1997) of state and local government privatization activities. The use percentages are approximate as they reflect the combined results from all the surveys.

As can be easily seen from Table 8/1, contracting is the predominant form of privatization. The principal reasons offered for the heavy reliance upon contracting include the ease of application to a broad spectrum of services and activities. In addition, contracting can quickly and easily be adapted to changing governmental needs.

The second most popular privatization strategy is grants and subsidies, followed by public-private partnerships. Volunteerism and vouchers are the least relied upon delivery systems.

*Table 8/1. Alternative Delivery System Used by State & Local Governments (Chi & Jasper, 1998)*

Contracting	80.0%
Grants & Subsidies	5.7%
Franchising & Concessions	5.0%
Public-Private Partnerships	4.3%
Volunteerism	1.8%
Vouchers	0.7%

It is important to point out, however, that the delivery systems used to provide particular types of service vary with the type of services being provided. For example, between 1992 and 1997, approximately 80% of surveyed local governments reported contracting for vehicle towing and storage (for illegally parked vehicles). In contrast, grants and subsidies are targeted almost exclusively to health and human services, public transportation, and cultural programs. Even in these areas, however, somewhat less than 10% of the surveyed cities and counties indicated the use of grants and subsidies in 1997. The use of volunteers as an alternative delivery system is also seen most commonly in the provision of

health and human services and cultural and arts programs.

Reliance upon particular delivery strategies also varies over time. Morley's (1999) summary of International City/County Management Association (ICMA) surveys conducted between 1988 and 1997 indicates that there was a noticeable increase in privatization between 1988 and 1992, but the rate of privatization has slowed markedly between 1992 and 1997, in some cases actually declining for provision of specific types of services. There is also some evidence to suggest that local governments are becoming more interested in volunteerism and vouchers as alternative delivery strategies.<sup>2</sup>

### **8.5 The Types of Privatized Services**

In a 1995 survey of the 100 largest American cities conducted by Dilger, Moffett, and Struyk (1997), the 10 most privatized services in the 66 cities that completed questionnaires were:

Vehicle Towing	53 to 80 percent of surveyed cities
Solid Waste Treatment	33 to 50%
Building Security	32 to 48%
Street Repair	26 to 40 %
Ambulance Services	24 to 35%
Printing Services	23 to 35%
Street Lighting/Traffic Signals	17 to 26%
Drug Treatment Centers	16 to 24%
Employment and Job Training	16 to 24%
Legal Services	16 to 24%.

These results are very similar to the responses found in the 1988, 1992, and 1997 ICMA surveys that were sent to all cities with populations of 10,000 or more inhabitants. Other privatized services noted in the ICMA surveys included operation of homeless shelters, prisons, animal control, day care facilities, and programs for the elderly.

Not surprisingly, there was a commensurate reduction in the exclusive reliance upon public employees to provide these services. As the next section indicates, however, this was not a reason cited for privatizing services.

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<sup>2</sup> Comparison of the 1992 and 1997 surveys indicate that the use of volunteers has declined. This is at odds with anecdotal evidence that suggests that just the opposite is the case. In part, this may be due to some confusion on the part of local government officials in their survey responses and ambiguity in the questionnaires. It may well be that more volunteers are being used, but by the private firms contracting with governments and, hence, are not being counted. See Morley for a much more detailed discussion of changes in the use of alternative delivery systems over time. Augur (1999) also presents evidence that volunteerism is gaining wider acceptance among the state governments.

### 8.6 Factors Contributing to Privatization

As mentioned in the introduction of this paper, there are a number of reasons for the increase in privatization over the last decade. Different surveys asked different questions of respondents, some of which are not comparable. The ICMA surveys contained 7 non-mutually exclusive categories seeking information on the primary reasons for privatization. Examining responses from the ICMA surveys indicates that the most common reason given for privatization, mentioned by 89% of respondents, was cost reduction. Forty four percent of the respondents cited budgetary and fiscal pressures as a reason for privatization, 25% indicated changes in the political climate (wanting a decreased role for government), 21% cited unsolicited proposal by potential vendors, and 12% cited legal liability concerns.

The 1995 Dilger, Moffett, and Struyk survey contained similar reasons for privatization, but also included improving the quality of services as an additional motive for privatization. Table 8/2 indicates the cities rankings of the most important reasons for privatization. The numbers indicate the number of cities citing particular responses.

*Table 8/2. Most Important Reason for Privatization, by Service Category  
(Dilger, Moffett, & Struyk, 1997)*

Service	Reduce Costs	Improve Services	Reduce Employees	Limit Liability	Employee Skills Inadequate
Public Works/ Transportation	32	14	0	0	2
Health/Human Services	13	10	0	0	4
Public Safety	17	14	3	3	1
Parks/Recreation Culture	16	12	0	4	3
Support Functions	25	5	3	1	2
<b>Overall</b>	<b>103</b>	<b>55</b>	<b>6</b>	<b>8</b>	<b>12</b>

This survey, as is the case with the ICMA surveys, indicates that the primary motive for privatization is cost reduction. Here, however, improving the quality of governmental services was the second most important reason offered for outsourcing; a category not included in the ICMA surveys. All the other motives for privatization included in the survey proved far less important.

**8.7 Privatization’s Impact on Delivery Costs and the Quality of Public Services**

Responses from the 1988 ICMA survey indicated that approximately 40% of the local government officials responding to the survey reported that outsourcing had saved their municipalities more than 20% compared to the cost of previous, governmentally supplied services. Another 40% of the respondents reported that their cities saved from 10 to 19% of previous outlays.

In their 1995 survey of America’s 100 largest cities, Digler, Moffett, and Stuyk asked respondents to indicate the degree to which privatization had reduced service costs in the five service categories listed in Table 8/2. The average estimated cost savings was 20.7% in the public works/transportation sector, 16.3% for public safety, 17.3% in health and human services, 16.6% in parks and recreation, and 16.1% in support functions.

The same survey also asked city officials to indicate their degree of satisfaction with the 10 most privatized services (Table 8/3). Ratings were based upon a scale of 1 to 5, where a 5 indicates very satisfied. The results are reproduced below.

*Table 8/3. Satisfaction with 10 Most Privatized Services, 1995  
(Dilger, Moffett, and Struyk, 1997)*

Service	Very Satisfied	Satisfied	Neutral	Very Dissatisfied	Overall Dissatisfied	Rating
Vehicle towing	6	30	12	3	0	3.76
Solid Waste Collection	9	16	4	1	0	4.10
Building Security	0	15	11	2	0	3.46
Street Repair	3	18	2	1	0	3.95
Ambulance Service	4	12	8	0	0	3.83
Printing Services	4	13	4	0	0	4.00
Street Lighting	5	8	2	0	0	4.33
Drug Treatment	1	7	7	0	0	3.33
Employment & Training	2	7	7	0	0	3.43
Legal Services	1	9	4	0	0	3.78
5 = Very satisfied						



It is important to note that not one of the most frequently outsourced services received an overall rating of 5 for very satisfied. Street lighting, solid waste collection, and printing services, however, had satisfactory ratings with overall rating scores in the low 4's. Street repair and ambulance services had reasonably satisfactory ratings. The problem areas seem to be in the drug treatment and employment and training service sectors, both of which received near neutral ratings. It is also important to note that no service sector was rated 1 or as overall dissatisfied.

### **8.8 Oversight and Control Issues**

A common argument by opponents of privatization is that when private companies contract to provide public services, concerns over profitability may encourage them to reduce the quantity or quality of services provided. Even where outsourcing reduces governmental costs, long run, true cost savings to a community may be overstated. A number of researchers (Hatry, 1988; Shanker, 1995) have argued that the reason private firms can provide services at lower cost is because they rely more heavily on part-time employees, who do not receive the health care and pension benefits full-time workers generally receive. This not only represents a hardship for displaced public employees and the part-time employees who replace them, but it can also increase the health care costs of government. When privatized employees without benefits need medical attention state and local governments may pick up the cost through higher Medicaid expenses and higher operating costs for public hospitals. The Dilger, Moffett, and Struyk study reported that 16 cities reported that their employee total compensation and benefits package was significantly better than those received by privatized employees. Another 26 cities responded that their benefit package was somewhat better than that received by comparable private sector employees providing the same services, while 8 more cities indicated that the compensation and benefit packages were about the same. Only two cities said that their total employee compensation and benefits programs were inferior to what privatized employees received.

There is also some evidence that government oversight and monitoring systems needed to insure that the quality and availability of outsourced services are lacking. The ICMA surveys suggest that slightly more than half the respondents had not undertaken any activities to insure effective implementation of alternative public service delivery systems. Even in those governmental jurisdictions that do try to facilitate effective delivery of outsourced services, the most common activities were directed at identifying successful privatization programs in other cities and municipalities. The 1992 ICMA survey of city officials indicated that when respondents did evaluate alternative delivery systems they generally limited the evaluation to provider compliance with contract cost and delivery standards. Only 16% of the respondents reported surveying citizens regarding the quality

of outsourced services, while 23% indicated they maintained in-house complaint systems. More promising is that the most recent survey indicates that more governments are allowing their departments to compete with the private sector for the delivery of services.

Although the questions were not directly comparable to those in the ICMA surveys, somewhat similar results were obtained by Dilger, Moffett, and Struyk in their study. Only five of the 66 cities in their survey indicated they did not monitor the quality of their privatized services. Nine monitored only customer complaints, while the remaining 52 jurisdictions stated they used more than one monitoring system, with 37 reporting that they used formal inspections, and 19 reporting that they surveyed citizens receiving privatized services. Their findings of these researchers also suggest, not surprisingly, that larger cities have more comprehensive monitoring systems than smaller municipalities.

Obviously, it costs more to implement multiple monitoring systems, but if effective provision of outsourced services is the goal, then such systems need to be in place. However, it may be that when such costs are added to other the explicit and implicit costs of privatization, outsourcing may not save as money as is commonly thought. At the state level the research (Eggers, 1993) by the pro-privatization Reason Foundation asserts that privatization can produce cost savings in the range of 20% to 40%. Globerman and Vining (1996) argue that when service production costs and compliance, monitoring, and governance costs are taken into account, outsourcing does not generate any savings. Overall, the evidence indicates that outsourcing does reduce government costs, but not by as much as some of the surveys suggest.

This may well explain why administrative and support services, in contrast to core governmental services, are more commonly outsourced.(Augur 1999) Since the governmental unit is the customer, it is easier and less costly to monitor and control the quality of services purchased. Similar cost effectiveness and compliance concerns may be driving the move away from direct and exclusive contracting with private firms to public-private competition. Such arrangements not only encourage government employees and managers to compete on the basis of cost for the right to continue delivering services, but creates incentives for innovation in the provision of public services. Where the public sector successfully retains delivery contracts, there is the added benefit of not displacing public employees. All the survey data has shown that one of the principal factors limiting outsourcing is opposition from public sector employees, their unions, and their elected politicians.(Augur 1999) Public-private competition initiatives also reduce the likelihood that private monopolies will displace public ones.

### **8.9 Facilities Management of Publicly Owned Real Estate Assets**

Although not listed as one of the major areas where privatization is occurring, outsourcing the management of publicly owned real estate is none the less a

significant and growing activity among public agencies at all levels of government. As was the case with our previous overview of privatization in the U.S., most of our information on the outsourcing of public real estate management comes from survey data. In this case, the principal data source is a 1998 survey jointly conducted by *American City and County Magazine* and MBIA & Associates Consulting.

Outsourcing of publicly owned real estate is occurring at all levels of government within the United States. At the federal level the Department of Defense is privatizing of family housing on military posts. The Defense Department reportedly (Cochran 1998) owns 300,000 residential units that are currently being occupied by civilian employees, military personnel and their families.

Most of this outsourcing takes the form of negotiated ground leases which require the private contractor to either build new military housing or rehabilitate existing residential units. Successful contractors will, in turn, rent housing units to the residents residing on military bases.

The General Service Administration (GSA), in an attempt to improve efficiency and cut costs, has recently initiated outsourcing of its leasing and property acquisition activities to private firms. Because the federal government, through the GSA, rents large amounts of space, this represents a potentially very large market.

At the state level, a few states have begun to outsource the disposition of obsolete or surplus properties to real estate brokers. Newer drug treatment regimes and more out-patient treatment facilities have resulted in a surplus of state owned and operated mental health hospitals. Many of these facilities are very large and encompass large tracts of land and sizeable acreage. Because such properties are difficult to value and market state officials are increasingly turning to the private sector for such property dispositions.

There are over one million public housing units currently in operation in the United States and only 9% or approximately 100,000 of these residential units are under private management. (Nelson 1999) Outsourcing the management of these properties to the private sector represents a vast, and as yet, a mostly untapped, market. Over the years privatization has been recommended by a number of commentators as a way of reducing the costs of operating the public housing stock and overcoming other real and perceived problems with locally administered public housing programs. The Office of Management and Budget has asserted that privatizing the management of public housing could save \$200 million annually. (Ibid., Page 13.)

In response to a Senate Subcommittee request the General Accounting Office undertook a study of 1,200 housing agencies. There are approximately 3,200 public housing agencies in the United States. The GAO concluded in a 1999 report that public housing programs that were administered by private facilities management firms were operating more efficiently and offered greater operating

efficiencies and better quality of services than was the case in housing programs managed by local government agencies.

The GAO study also concluded that there was not quantitative support for the OMB claim that privatizing public housing would save tax dollars. While there have been a few other studies that have examined the effects of outsourcing public housing, we still do not have definitive, generalized answers as to whether privatization of public housing will save citizens money and raise the quality of housing services. One of the better, more comprehensive of these studies is cited in the next section of this report because it does provide an empirical assessment of the effectiveness of private management of public housing. Reviewing this study will also give readers a sense of how difficult it is to evaluate the effectiveness of outsourcing public housing.

*Private Management of Public Housing: A Case Study Summary*

A recent article by F.W. Becker, M.J. Dluhy, and J.P. Tppinka, "Private Property Management of Public Housing" which appeared in the *American Review of Public Administration* (Volume 31, No. 2, June 2001) seeks to determine the consequences on the costs, the quality of housing, the delivery of related social services, and tenant satisfaction if the remaining 91% of the public housing stock is shifted to the private sector.

This study employed data from the Miami-Dade County Housing Agency, the public housing agency in the Miami Metropolitan Area, an area which is made up of 2.1 million residents. In 1994 the Miami-Dade Housing Authority privatized the management of 1,700 of its 12,000 public housing units. All property management functions were outsourced to for-profit firms.

The MDHA paired public housing developments with privatized developments controlling for differences in neighborhoods (the level of social distress), the type, and the size of housing developments. The study encompassed 3,253 housing units.

The authors compared operating cost effectiveness, quality (exterior and interior quality conditions), and level of social services provided across the paired housing developments. The study period covered the 1995-96 through the 1998-99 fiscal years, although information on quality and social service measures were only available for the first two years of the study period.

### **8.10 Cost and Operating Efficiency**

Over the four-year study period, average unit operating costs in the publicly managed housing developments increased by 2.8%. For the privately managed housing developments, unit operating costs fell by 20%. The researchers attributed the cost differences to three factors: 1) Lower maintenance costs from economies of scale; large property management firms were able to get lower prices on bulk items (nails).

Second, private managers were not subject to rigid procurement procedures;

private managers could seek competitive bids by phone, which was not an option for public managers. Third, lower personnel costs. Maintenance employees in the public sector had rigidly enforced roles; painters could not perform general maintenance. Private sector managers had greater flexibility in assigning roles and individual employees could be employed in many different tasks.

### **8.11 Effectiveness of Outsourcing**

The researchers tried to evaluate the effectiveness of outsourcing by looking at four indicators of service quality:

- Exterior of Dwelling Units
- Interior Condition
- Resident Survey
- Social Services.

#### *Exterior Appearance*

Three local evaluators, who were trained in housing management, rated 19 different external characteristics (lighting, walkways, lawns, windows, roofing, recreational areas, etc.). The evaluation form was developed by Abt Associates for the U.S. Dept. of Housing and Urban Development.

The evaluation team noted very few qualitative differences between the publicly and privately managed properties, although the privately managed properties received a slightly higher overall exterior rating – 3.193 vs. 3.145 score for publicly managed properties.

There was significant variation within groups and it was extremely difficult to attribute differences in exterior building condition to management because of age differences among the properties and the renovations that these properties had been subject to over their operating histories.

#### *Interior Evaluation*

Inspectors used quality standards established by the MDHA and recorded the number of violations of each standard a unit received. The privately managed units had a lower average number of violations than the publicly managed units – 22 vs 19 for privately managed units. Here again, differences in renovation dates appeared to play a much larger role in explaining differences in interior conditions than did the type of property management.

#### *Resident Survey*

The resident survey, however, did not support the results from the quality assurance reports. Each resident was asked to rate the condition of the kitchen, bathroom, and the overall interior quality of their dwelling unit on a scale of 1 to 5, with 5 representing excellent. For all three areas, the publicly managed units ranked higher than the privately managed units.

### *Social Service*

Evaluating social services received by the resident of the developments was the least satisfactory part of the study. The researchers did not develop an inventory of the social services received or provided at each development. Instead, residents were surveyed about 6 types of social services – job training, alcohol prevention, child care, family support service, recreational programs, and after-school programs.

Because the social services received by residents were provided by a separate governmental agency, management was really only responsible for informing tenants about the availability of these services, not providing them. Although a higher percentage of residents in publicly managed housing indicated they were aware of these services than was the case for privately managed units, most of the differences could be attributed to the fact that private managers were not as familiar with the availability of social services as were public managers.

### *Importance of the Findings*

Despite some serious problems encountered by the researchers when they attempted to compare quality differences between publicly and privately managed developments, there was no question that privately managed developments were more cost efficient. If there is little difference in the quality of services and the conditions of the dwelling units of publicly and privately managed developments, then the cost effectiveness of privatization of the property management function can be realized without a serious loss of service quality.

## **8.12 Concluding Comments**

Goods and services that were once provided exclusively by governmental entities are now increasingly being provided by the private sector. Of all the alternative delivery systems, contracting still remains the most common method of outsourcing in the U.S. and Finland. There is, however, growing evidence that governments in both countries are more willing to experiment with other alternatives such as public-private partnerships, volunteerism, and subsidies.

There is no question that many of the principles and ideas associated with “reinventing government” such as public-private competition models, treating clients more like customers, and results oriented delivery systems have taken firm hold in both the United States and Finland. It is also true that public administrators and elected politicians do not view privatization as the cure all for all the ills that afflict government.

Although the survey data discussed in this paper reveals that privatization is continuing to expand, the rate of privatization activity in the U.S. appears to have slowed from the levels reported in the 1992 ICMA survey. While the surveys do not reveal any direct explanation for this slowdown, response data does allow for

some enlightened speculation as to causative factors.

While the principal motive for outsourcing remains cost containment, there is increasing concern being expressed about the true cost of privatization. While past experience with outsourcing suggests that government officials are relatively satisfied with the results, the surveys also reveal room for improvement. Insuring the quality and the effectiveness of privatization will probably require greater monitoring and compliance activities on the part of government authorities, which will raise costs. There is also some evidence that while many government officials express strong support for privatization their actions do not coincide with their rhetoric. (Feldman 1999) The reluctance to implement "reinventing government" policies sometimes reflects resistance from public employees, but it is also grounded in concern for the effectiveness of outsourcing.

Whereas in the past much of the privatization activities were ad hoc and implemented on a case-by-case basis, government officials seem to be giving alternative public service delivery systems much more study as part of comprehensive plans to improve the public sector. This certainly seems to be the case for public housing and housing related services. Studies of outsourced public housing projects suggest that operating costs can be reduced without a significant loss in the quality of services.

This does not mean, however, that citizens always benefit from privatization or that outsourcing is always the best course of action. Studies also suggest that the quality of public service delivery systems can be improved when government agencies compete against the private sector for the right to continue delivering governmental services. In other cases, franchising, vouchers, and subsidies may prove more effective.

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