What is the Problem That Privatization Seeks to Solve?

In the 1980s, privatization became a new word that rapidly came into popular usage despite its awkward sound (Savas: 1989). Today, privatization has "come to symbolize a new way of looking at society's needs . . . privatization is the act of reducing the role of government, or increasing the role of the private sector, in an activity or in the ownership of assets" (Savas: 1989, p. 3). The modern impulse toward privatization seeks to solve several different problems. The first is the inefficiency of public enterprises due to the absence of the profit motive. The resources obtained by managers in the governmental sector may not be related to the revenues they generate, but to the importance of the service that they deliver. The justification of costs is more important than the potential for revenues. In the private sector, operating resources and capital investments tend to be based on the potential for payout. By removing the relationship of revenues to expenditures, it is difficult to impose a downward pressure on costs, and therefore efficiency is not always rewarded. The second is the problem of over-formality--too many rules governing hiring, purchasing, budgeting and the scope of activities that may be undertaken by an organization. The third is political influence in the process of managing activities. A fourth problem, more common outside the United States than within it, is state ownership and financial losses from enterprises that did not perform traditional governmental functions (airlines, steel mills, ship yards, railroads, auto factories, phone companies, etc.) The general antipathy toward government is not so much a problem that privatization seeks to solve, but an ideological bias of some, but by no means all, of its adherents.

Of course, most scholars of public administration would assert that efficiency, organizational informality and a-political management are not the only values that organizations should be designed to pursue. Taken to an extreme, efficiency, informality and depoliticization of management would be opposed by advocates of privatization as well. Consider the following extreme examples:

Efficient law enforcement might execute presumed murderers on the spot to save the costs of legal processes and incarceration.

An organization without rules and structure would probably not have an accounting system and might simply disperse funds from a big box of cash in a drawer. They might hire staff and promote them on the basis of race or gender.

An organization implementing a program without political concerns would feel no pressure to be accountable for decisions and might be free to use impoverished, elementary school children as a labor force.

In a complex, interconnected society and economy there are in fact no purely private organizations. All firms are regulated and must be sensitive to legal, social, cultural and political constraints. Most private firms pay considerable attention to their public image and customer relations. Conversely, government organizations are not immune to considerations of efficiency. Local governments are
the functional matching approach assumes that public policy must sometimes pursue values other than efficiency. Want to build and maintain distinctive competence in this area or is this activity outside of our core functions? In making this choice, the classic business organization “make-or-buy” decision: Should we do this ourselves or should we buy it from someone else? Do we With a functional matching approach to privatization organizations involved in formulating and implementing public policy must make for compassion, that must be taken into account during these production processes. Best performed by competing, profit-seeking organizations. There is no particular sensitivity, such as individual liberty or the need such individuals and infusing them with a strong sense of mission. Lastly, manufacturing and certain service support functions are assignable accountability, and therefore, should be implemented directly by government. Nursing care, on the other hand, requires the exercise of police authority might result in the loss of an individual’s life or liberty. This requires a high level of clearly ineffectiveness occurs in both sectors and stems from habits born of monopoly.

The goal of Donahue’s book “is to develop and illustrate a set of principles to guide the allocation of publicly financed tasks between governmental and nongovernmental organizations.” (P.10). In order to succeed at this task, one faces the difficulty of distinguishing the operational properties of governmental organizations from nongovernmental organizations. In the real world there is a great deal of overlap, and in the end one must fall back on the fact that in the U.S., government organizations have a formal authority relationship to officials whose leadership role is obtained and legitimized through democratic elections. This allows them to do things that private organizations should not do, such as incarcerate people. It makes government organizations more sensitive to political pressure and when deemed necessary, somewhat insulated from some considerations of price and efficiency.

The Functional Matching Approach to Privatization

Out of the historical and political environments from which privatization originates, three distinct streams of privatization theory have emerged. The first stream holds that the private sector is superior to the public sector. Some privatization advocates argue that private organizations tend to be more efficient than government organizations due to the influence of the profit motive and the bottom line. In this view, the more private organizations are involved in the delivery of government services, the more efficient and cost effective those services tend to be. For instance, in a ten year longitudinal study conducted by the International City and Management Association (ICMA), Jeffrey Greene examined the levels of privatization in American cities. According to Greene, the basis of privatization stems from public choice theory whereby public choice theorists argue that the competitive marketplace produces goods and services efficiently. These theorists argue that "inefficiency is an inherent characteristic of municipal bureaucracies because of the incentive structures that encourage empire building and overproduction" (Greene: 1996, p.633).

A second approach to privatization was put forward by David Osborne and later termed by Don Kettl, “the competition prescription”. According to this view, the key factor that inspires efficiency is not the sector in which an organization operates, but whether or not it must compete for market share, functions and resources. From this perspective, the problem of organizational waste and inefficiency occurs in both sectors and stems from habits born of monopoly.

The third stream in privatization theory is what might be termed functional matching. According to this notion, assuming the absence of monopoly, certain functions are most efficiently and effectively performed by the private sector, others by the non-profit sector and others by government. For example, police functions are properly governmental; nursing care is often best delivered by non-profits; and private sector firms often excel in construction and other manufacturing functions. In the case of police functions, for example, the exercise of police authority might result in the loss of an individual's life or liberty. This requires a high level of clearly assignable accountability, and therefore, should be implemented directly by government. Nursing care, on the other hand, requires personnel motivated by high levels of compassion rather than by the profit motive. Non-profits have a particular expertise in recruiting such individuals and infusing them with a strong sense of mission. Lastly, manufacturing and certain service support functions are best performed by competing, profit-seeking organizations. There is no particular sensitivity, such as individual liberty or the need for compassion, that must be taken into account during these production processes.

With a functional matching approach to privatization organizations involved in formulating and implementing public policy must make the classic business organization "make-or-buy" decision: Should we do this ourselves or should we buy it from someone else? Do we want to build and maintain distinctive competence in this area or is this activity outside of our core functions? In making this choice, the functional matching approach assumes that public policy must sometimes pursue values other than efficiency.
This paper accepts the functional matching approach to privatization, but then seeks to address the following central issue: What criteria does one use when matching functions to organizational sector? The purpose of this paper is to develop a conceptual framework for assessing and evaluating the decision to privatize government functions. It will begin by delineating distinguishing characteristics of government, non-profit and private organizations. It will then assess the degree to which those characteristics impede and/or facilitate the performance of a carefully defined set of typical public functions. The functional matching approach is difficult to implement. It is an effort to develop a non-ideological and situation-specific approach to privatization.

**Distinguishing Characteristics Among the Three Sectors**

The debate about distinctions between the public and private sector is a long-standing one in the field of public administration. Seventy years ago, Wallace Sayre of Columbia University was fond of saying that "public and private management are fundamentally alike in all unimportant respects" (Allison: 1982). Twenty years ago, Graham Allison sought to focus public management research on this issue (Allison: 1982). In a classic 1976 piece in *Public Administration Review*, Hal Rainey, Robert Backoff and Charles Levine identified points of consensus in academic literature on the similarities and differences between the two sectors. (Rainey et. al.: 1976) In that piece Rainey and his colleagues examined:

- **Environmental factors** such as appropriations as a source of resources, legal constraints and political influences.

  **Organization-Environment transactions** in which government organizations tended to involve an increased possibility of coerciveness due to the possibility that "customers" have no choice but participate and only one vendor to buy from (eg. Department of Motor Vehicles). They pointed to the greater impact and public scrutiny of government activities.

- **Internal Structures and Processes** which they found in government to have more complex and possibly conflicting goals. They found government managers to possess less autonomy and decision making authority and weaker control over subordinates. They found government to be more formal, cautious and less innovative than the private sector. Government incentive systems seemed unreliable and relied on financial rewards less frequently.

  - In the twenty-three years since Rainey and his colleagues wrote their piece, our society's focus on public management has brought some degree of change in these three areas-- public organizational environment, environment-organization transactions and internal structures and processes. Some governments have ended their monopolies on certain public services such as garbage collection and some have contracted out other functions. An anti-government sentiment has dominated the political environment of public sector organizations. We see more governments delivering public services through private firms that are permitted to operate on a fee-for-service basis. In those instances government in effect obtains resources in a less coercive manner than through taxation. In the third area of analysis, internal structures and processes, we have seen significant change as government has moved to deregulate itself, while private management paradoxically finds itself in an increasingly regulated environment. Private firms find their human resource practices increasingly subject to litigation on grounds of bias, harassment or other violations of civil rights and occupational health and safety rules. However, the relative differences between the public and private sectors remain; Government remains unique because government actions still require legal authority and will always require such legitimation.

While nonprofit organizations can be defined as private organizations that are simply incorporated under a different section of the tax code, they are distinct from government and private for-profit organizations. Typically, like private for-profit organizations, non-profits are governed by a self-perpetuating board of directors. However, unlike for-profit private firms they tend to be mission driven and their property and excess revenue belong to the organization and are not distributed to shareholders as permitted in private firms. Still, nonprofit employees do not necessarily take vows of poverty. These organizations can pay high salaries and bonuses and provide lavish fringe benefit packages as well. They also distribute excess revenues to endowments which have the effect of increasing their financial stability and the security and salaries of their employees.

**The Effect of Distinctions Among the Three Sectors**

We can safely conclude that public, private and nonprofit organizations have distinguishing characteristics. Do these differences matter? Or can public policy be implemented in any sector one chooses? Two fundamental questions that must be addressed to answer these questions:
Do the sectors differ in ways that affect the implementation of public programs?

- If they tend to differ, in what ways and under what conditions?

It is an obvious premise of this essay that these sectors differ in ways that matter and that those differences should be taken into account when developing a program's management strategy. Nevertheless, understanding these sectoral distinctions is an essential step in developing a framework for deciding when and where to privatize.

One place to begin this discussion is with two types of governmental functions that private organizations seem poorly suited to perform: those that regulate or remove the freedom or free movement of individuals, and those activities that have no obvious customer with the resources to provide a profit to the organization that performs it.

**Police and Regulatory Functions**

In many respects the police function is as central a governmental function as one can imagine. The irreducible purpose of government is to provide rules and means to enforce the end -- what Hobbes termed the war of all against all. (Sabine: 1961, p. 464) Still, governments hire mercenaries and the provision of private security forces is currently a growth industry in the United States. Additionally, some prisons are managed by private firms. It is certainly possible to imagine a range of police and judicial functions that private firms could be used to perform. However, I would argue that these functions are a poor match for private sector capabilities. For one, decisions to apply force and incarcerate individuals must be the responsibility of public officials. When private parties perform these tasks we call it assault and kidnapping. The time and labor requirements of due process are not served well by an organization concerned with productivity and efficiency. In fact criminal and civil justice may be one area where it is clear that efficiency is not as important a value as justice or fairness. In the end, the pursuit of these values is not what private for-profit organizations are designed to do.

Therefore, while it is possible to imagine some niche roles for the private sector in criminal justice and policing, these are functions that require extreme levels of public accountability and are better suited to government. In my view, regulatory functions are a variant of this police function which again are best suited to government. On the other hand, there is a role for the private sector in regulation. I have written elsewhere (Cohen and Kamineiecki: 1990) about the use of private insurance as a method of self-regulation. Insurance companies refuse to insure risks unless the facility has been inspected by a specific type of certified professional. Apartment boilers in New York City are an example of such self-regulation. At the beginning of the twentieth century, boiler explosions caused numerous apartment fires. Insurance companies required boiler inspections as a condition of issuing insurance. Soon thereafter, boiler explosions became a very rare occurrence. This form of private self-regulation reduced fire losses and had the positive public outcome of saving lives. No government role was required. Owners insured their buildings out of enlightened self-interest and insurance companies required safe boilers for the same reason. When interests align, government's role becomes insignificant.

But what if the firm decides not to take out insurance? What if the danger is not to one's own property, but to someone else's? While a firm's concern about the impact of liability law might lead it to want insurance, sometimes firms do not bother to insure or constrain risks. The example of underground gasoline tanks comes to mind. In the mid-1980's, over one-third of the nation's underground gas tanks--the ones at the neighborhood gas station--were leaking. Valuable gasoline product was leaking into ground water, soil and basements all over the United States. One would have thought that the companies insuring these commercial establishments against property loss and liability judgements would insist that the tanks not leak, but they did not. Government regulation was required to make such leaks illegal. Of particular interest, the EPA attempted to learn from the New York City apartment boiler example and required that gas stations carry insurance that specifically covered damage from leaking tanks. The EPA thought that insurance companies would insist that the tanks be inspected and replaced if leaking. While some insurance companies insisted on inspections as a pre-condition to issuing insurance, in other cases, the price of insurance increased and many insurance companies refused to insure underground tanks. The risk was greater than the payoff. Here is a clear example of a police function that the private sector was being asked to take on and was unable to perform.

**Services without Paying Customers**

What about non-police functions for which there is no obvious customer to provide resources to the organization that performs the work? In New York City, government delivers services to homeless individuals and families through shelters run by both the government and nonprofit contractors. While some for-profit private firms, such as Lockheed, Maximus and America Works have entered the business...
of providing welfare services, it tends to be a functional area that resists privatization through for-profit firms. However, as cost pressures increase in government, private firms are beginning to compete in this area and are pressuring nonprofits to develop more business like methods of operation. (Ryan: 1999)

Nonprofit organizations can provide competition to government bureaucracies. They are also valued for their ability to recruit staff that are motivated by mission and do not demand high levels of pay. In my view, private firms are rare in social service delivery because customers must be subsidized by government and because of the sheer political sensitivity to the issue of poverty profiteering. When governments seek to privatize in this program area, they typically contract with nonprofit organizations. In Indianapolis, for example, Goodwill Industries manages a great deal of the local welfare-to-work program. In New York City, we have a relatively large, well-funded nonprofit called Homes for the Homeless that uses private sector financial controls and management systems to deliver efficient service to homeless families. Revenues that exceed expenses are reinvested in new services or endowment, and the contracting agency does not run the risk of a scandal over “excess” profits. This provides the government with some of the advantages of privatization, but also provides the benefit of a staff that is mission-driven and an organization that has a positive public image.

Then there are programs that have both paying and nonpaying customers such as education. Some taxpayers do not have school age children and some tax payers send their children to private schools. Some public school students are children of poor people who either do not pay taxes or whose taxes do not cover the full cost of education. In March, 1999 there was a major controversy in New York City as the Chancellor of the city’s one million student public school system resisted the Mayor’s effort to conduct a pilot experiment with school vouchers. In the Chancellor’s view, public education was threatened by the potential public funding of private education. (I note that the “private” education is always delivered by a non-profit rather than for-profit organization.)

The case of vouchers raises issues of public policy rather than issues of public management. It is certainly possible to believe, as I do, that public education is an important civic investment that serves important public purposes and that vouchers might be a threat to the public education system. If you support the policy of universal public education, vouchers can be seen as a threat to that policy and can be opposed as bad public policy. However, unlike the previous argument about police power, there is no reason to believe that a private school cannot play the same education and socializing role as a government-run school. Private schools could be regulated to require diversity and are now regulated to ensure that government-imposed standards of learning are achieved. There is a benefit to competition as a method for keeping school administrations and teachers sharp and open to new ways of educating children.

Nevertheless, even if private schools can be made to perform some of the integration and socializing roles played by public education, they cannot perform the symbolic role played by the public schools. Public education might be valued as an expression of our society’s values and even as an element supporting a democratic political system. A similar policy argument has been made about the value of a universal draft requirement for military service. A professional, all-volunteer army may be a better managed, perhaps a more capable organization than one comprised of conscripts. However, the political impact of a citizen army is its ability to increase the visibility of the issue of war and peace -- a goal that might transcend the goal of managerial efficiency.

It is possible to define borders between the three sectors and their characteristics, but it is clear that these boundaries are porous and there tends to be overlap among the sectors. It is possible to separate value and policy issues from management and operational issues, but these often tend to contain overlap, as organizational capacity is affected by the value preferences of those called upon to provide services. The distinguishing characteristics of the sectors can provide some help in deciding where and when to privatize, but will not provide anything resembling neat answers.

**Privatization and Management Strategy**

What does this mean to the government manager seeking to decide whether to use government or private sector staff to perform a function? First, it means that the decision to privatize is situational and must be considered as an element of organizational strategy. A framework for making those decisions must illuminate the strategic choices at issue and the potential impacts of particular choices. John Donahue utilizes principal-agent theory to express the variables that affect the “make-or-buy” or “hire vs. contract-out” decision. Under this theory the “principal” enters into a contractual relationship with an “agent” who then is expected to carry out the actions needed to produce the outcome desired by the principal. According to this framework, there are two fundamental problems with contracting:
1. Adverse selection- picking the wrong contractor- one who is not able to produce the desired outcomes, and; 2. Moral hazard- since the agent’s behaviors cannot be observed at all times it is possible that even a capable organization will shirk from its responsibilities and divert resources to other tasks or simply to profit. According to Donahue:

“The relative appeal of employing people, as opposed to contracting with them, increases (1) the more the task at hand is uncertain
at the outset and prone to revision, (2) the harder it is to measure the value of production, (3) the more disruptive it is to switch agents in midstream, and (4) the more the principal knows about the best means to accomplish his task. Conversely, arm's-length contracts with outside suppliers are more attractive (1) the more precisely requirements can be specified in advance, (2) the more the principal cares about ends over means, (3) the more difficult it is to monitor fidelity to instructions (or the easier it is to measure results), and (4) the more readily incompetent or unfaithful agents can be replaced." (Donahue: 1989, p. 45)

Donahue's work begins to suggest some of the issues relevant to the privatization decision. However, other issues lie outside the principal-agent framework. One is the symbolic value of a public resource for purposes of equity, fairness and community building. The public school example again comes to mind. It may be expedient to privatize schools in order to break up a moribund and poorly performing monopoly, but what is sacrificed is the socialization role played by public schools. A common school experience for people of all backgrounds can be of great benefit to a society that stresses merit and class mobility. Even a private school that has a large scholarship program does not educate rich and poor together as a matter of right, instead these opportunities are provided as an act of charity. While one can say this is simply a case of the principal caring more about means than ends, it is in part, a concern for issues beyond the instrumental relationship of ends to means.

The issue is not one of interorganizational relations but a broader set of issues that includes the way we define ourselves as a society and touches on public morality, public and governmental ethics, collective, shared sacrifice and community building. These are concepts that are beyond the reach of principal-agent theory because the public and its institutions are both principals and agents. Tasks cannot be contracted out because doing the work and participating in decision making is part of the output and outcome of the program.

The privatization decision should be seen as situational and context laden. Some services such as policing are difficult for private firms to perform successfully. Other services such as education and military service may be better managed by private organizations, but due to the importance of other values should not be privatized. This leads to the conclusion that a strategic framework is useful for analyzing the privatization decision -- where the issue of privatization is included within a broader framework that includes history, and other contextual factors in an analysis that relates ends to means in designing a program. In an earlier work William Eimicke and I observed that:

"A strategy attempts to delineate the resources that will be used to pay for specific activities designed to accomplish specific objectives. Strategy formulation begins with the identification of objectives and the determination of methods for reaching objectives. These objectives and activities are then scaled to fit within resource constraints. Each element of a strategy (objectives, activities and resources) is constrained by political, social, economic and environmental variables. The objectives and activities of public organizations are constrained by the formal authority provided by statute." (Cohen and Eimicke: 1995, p. 196)

A strategic orientation requires that we relate means to ends and ask how might our goals best be achieved given the fiscal, political, social and economic context we must operate within. It might begin with principal-agent considerations, but then tempers it with an explicit consideration of the real world context that constrains economic and all other rationalities. It must include a discussion of the purpose and goals of the community. Government programs have production functions and can be seen as having principal-agent relations, but they also have other objectives beyond task accomplishment.

A Strategic Framework for Making the Privatization Decision

How then might we develop a strategic framework for addressing the issue of privatization? I have found it useful to present a framework in the form of a set of questions that should be asked by government organizations faced with the decision of whether or not to privatize. While other questions could certainly be asked, I would begin the privatization strategy formulation process by raising the following issues:

1. What are the goals of the program we are planning?

1.a. Are there any political or social/cultural constraints on contracting with private for-profit firms to do this work?

1.b. Are there any political or social/cultural constraints on contracting with a non-profit organization to do this work?

1.c. To what degree might this goal and its associated activities be considered a mission, or an aspect of a mission?

1.d. Can the goal of this program be used to motivate staff? If so how?
2. What are the tasks that must be performed to achieve the program's goals?

2.a Who designs these tasks?

2.b Who is permitted to provide input in program and task design?

3. Does the government currently have the capacity to perform these tasks?

3.a Are there other organizations with more experience in performing these tasks?

3.b Which organizations have demonstrated the most efficiency in performing these tasks?

3.c How well developed is the technology needed to implement these tasks?

3.d How risky is the technology used to perform these tasks?

4. How measurable are the outputs and outcomes of the activities we are seeking to undertake?

4.a Is data collection feasible and simple?

4.b Can data be verified? How easy is it for those carrying out these activities to lie about work performed, the outputs produced and the impacts obtained?

5. How capital intensive is the activity?

5.a Are the costs and availability of capital an issue?

5.b If so, are private or public sources of capital more or less available and expensive?

6. How much risk is involved in performing this activity?

6.a What risks are involved?

6.b Could private providers obtain insurance to cover personal risks and third party liability?

7. What is the impact if the activity is performed poorly?

7.a Are the impacts irreversible? At what price might they be reversed?

7.b What is the potential political, social and economic impact of failure?

8. Is there a competitive market for the activity we are considering privatizing?

8.a How deep is the market? Does it operate in this locality?

8.b Would privatizing this function help create such a market?

8.c What might be done to stimulate such a market?

8.d Are there efficiency gains that might be obtained through privatization?

9. What is the output expected from this activity?
A Conceptual Framework for Devolving Responsibility and Functions

9.a Can it be measured?

9.b How difficult is it to measure and report the accomplishment of this output?

10. What is the outcome or impact expected from this activity?

10.a Can it be measured?

10.b How difficult is it to measure and report these impacts?

To provide an example of how this framework might be applied, I will use it to examine a privatization issue that might be faced in New York City's homeless program.

The Case of Privatizing Homeless Services in New York City

New York City's Department of Homeless Services is the agency in the city responsible for providing housing and other social services to homeless individuals and families. The Department is divided into two program divisions: (1.) Adult Services and (2.) Family Services. Adult services provides services to homeless single adults. It manages 44 shelters that provide beds to about 7,000 people. In 1998, 36 of these facilities were operated by nonprofit organizations and eight were run by the city. The division also manages contracts with nine nonprofit outreach centers and six nonprofit outreach teams. The Division of Family Services manages or operates 68 family shelters (mostly run by nonprofits), ten hotels, five specialized residences and three reception centers. Entry into the entire family services system takes place in a single location in the Bronx at the government-run Emergency Assistance Unit.

Homelessness is a very visible and emotional issue in New York City. During cold weather months, people without shelter are in danger of dying from exposure and other illnesses. Housing is expensive and the low end of the housing market is underserved. Due to living and transportation patterns, even wealthy New Yorkers can not avoid seeing homelessness and the media continues to cover the issue extensively.

Most of the homeless services provided by New York City have been successfully privatized and could be completely privatized if the government chose to do so. The one service that remains completely government-run is intake for family services. The following analysis examines the issue of privatizing the city's Emergency Assistance Unit. It addresses the relevant questions of those listed above.

The goal of the Family Services Division is to ensure that homeless families have shelter without creating long-term dependency on public resources to provide that shelter. The goal of the Emergency Assistance Unit, the Division's intake center, is to screen applicants and then send them to an appropriate and available facility. The administration of the intake function necessarily requires the refusal of service. In my view, any refusals would still require a government-staffed appeal process. If a family was rejected, and subsequently harmed and highlighted by the local media, the political reaction might be intense. However, while an arms-length contractor relationship might not insulate public officials from accountability, if a contract were properly drawn, it might provide for a mechanism for penalizing or terminating a contractor who performed poorly.

The difficulty for any organization undertaking this intake function is determining when to refuse service. While a nonprofit organization could inspire people around the mission of helping homeless people, it would be difficult to get such an organization to be tough minded about refusals. On the other hand, while a for-profit private firm might be better doing the work, it might have a tin ear for the politics of refusing aid to families claiming to be homeless.

The tasks involved in homeless intake are fairly straightforward. The central task is to determine eligibility for services and assign those eligible to particular shelters. While the criteria are determined by law, the staff of the Emergency Assistance Unit must design the specific tasks required to apply those criteria. Presumably, some of the service providers must be involved in the process, at a minimum providing data on current capacity. One problem with the current Emergency Assistance Unit is that homeless families waiting for placement or arriving too late in the day to obtain one have taken to sleeping on the floor of the Unit's offices. Despite these problems, government workers in the Department of Homeless Services currently have the most experience to perform these tasks. However, there is no reason that a competent private organization could not quickly learn these fairly routine tasks and do this work. There is no technological expertise needed to perform these tasks. Knowledge of some fairly simple standard operating procedures and modest security presence is all that is needed to safely undertake this work.
The outputs and outcomes of this work are fairly straightforward. How many families come in for service? How many are referred? How many are rejected? What is more difficult is measuring people who are discouraged from coming in for service and unfortunately end up sleeping on the street. Given the large network of nonprofit providers, it is difficult to know how many families find permanent housing and leave the system. While it is fairly easy to lie in reporting these data, it is also very easy to audit and spot check the accuracy of reporting from a single intake unit.

The capital needs of the intake function are quite minor, while the shelters themselves can be large facilities requiring substantial capital for construction and renovation. The intake center can be a rented office, or if contracted could be located in a city building as it is now. The risks involved on site are fairly routine, and the only potential liability concern might come if a court decided to assign liability to the organization if it denied benefits and the claimant was injured.

The impact of poorly performing this intake services is significant. If eligibility is made too easy, the shelter system could be overwhelmed. If eligibility is administered too stringently families could suffer from exposure, hunger and other injury. Moreover, if a pattern of poor decision making was uncovered and exposed by the media it could damage the political standing of the administration supervising the contractor. While most mistakes could be corrected over time, the death of any rejected applicant would obviously be irreversible.

There are a large number of nonprofit organizations in New York City with the capacity to perform these tasks. The private for-profit market for performing such a service is difficult to measure. It is unlikely that a large national firm or a strong local market could be developed from privatizing a single intake facility. However, if a request for proposal was carefully constructed, or linked to the provision of homeless services, it might be possible to attract several large nonprofit organizations into a competitive bidding process.

Would it be worth it? Are their efficiency gains that might be obtained through privatization? Could a nonprofit vendor do a better job of delivering this service than government? Certainly overhead and administrative costs could be lowered through contracting out. We would need to do a detailed analysis of labor costs and productivity to determine if operating costs could be reduced. The output expected from this activity is to ensure that families with no place to live are given temporary shelter. Other programs are responsible for permanent housing and dealing with employment issues. Important measures would include number of families processed, number housed and number refused. These outputs can be easily measured and the number of families housed can be verified when cross checked against actual housing sign-ins at family shelters. While some families might never make it to the shelter, over time the no-show rate should be measurable and possibly consistent.

The impact of this service is that families in true need of shelter would receive housing and those not in need would be denied housing. However, a negative impact of this service would occur if people in true need were denied housing and ended up with no place to live. This is a very difficult impact to measure. Often homeless families have been evicted from sharing arrangements with families and friends and it is difficult for them to know if they will have a place to stay if they are denied help by the government.

Having completed this cursory strategic analysis, what advice would I give the New York City Department of Homeless Services? If the cost analysis indicates that a contractor could run the Emergency Assistance Unit for less money than the government, I think the function could successfully be contracted to a large nonprofit organization. To be successful, the Department of Homeless Services would need to develop a performance measurement system and a strong audit and evaluation unit. It would also make sense to have a government employee on hand to review all service refusals and adjudicate on-the-spot appeals of refusals. In my view, the greatest risk potential to government comes from harm resulting from refusals. If a problem of too few refusals developed, it could be remedied gradually with new procedures and training.

**Conclusion: Deciding to Privatize**

A new element has found its way into government decision making in the United States, as public officials are asked to justify government funding of services and direct government provision of services. The policy issue of whether a job belongs outside of government or within government was not the main focus of this essay. Instead, my focus was on developing a method for deciding whether or not a function that was considered the responsibility of government should be done by government organizations or by private for-profit and non-profit organizations. This is a decision that government managers must make every day. The purpose of this essay was to begin the process of developing a framework and a method for making those decisions. My aim is to move beyond ideology to an effort to match functions to organizational capacity. The functional matching process outlined here requires strategic thinking. It is not a straightforward, formulaic set of tasks. It requires decision makers to ask a number of critical questions and then to use their judgement and experience in framing a decision. It is critical that government managers resist bias and easy assumptions in making this decision. Data should be collected about operations, and the political and social context of the program area must be
well understood before making the "make-or-buy decision."

**SOURCES**


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