

Beyond the Market vs. Planning Dichotomy: Understanding Privatisation and its Reverse in U.S. Cities¹

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Abstract:

City service delivery requires planners and city managers to move beyond the public-private dichotomy and explore the benefits of interaction between markets and planning. Using International City County Management survey data on U.S. local governments from 1992, 1997 and 2002, we find a shift where reverse contracting (reinternalisation) now exceeds the level of new contracting out (privatisation). We model how a theoretical shift from New Public Management to New Public Service in public administration mirrors a behavioral shift among city managers. Results confirm the need to balance economic concerns with political engagement of citizens and lend empirical support to a theory of Social Choice that links Communicative Planning with market management.

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Introduction - Dynamic Public Service Delivery Reflects New Public Administration and Planning Approaches

There have been several waves of reforms in public administration, and public service delivery. Since the early 1980s the new public management wave has captured the attention of city managers and public administration theorists (Hood, 1991; Kettl, 1997; Osborne & Gaebler, 1992). New public management argues local government can become more efficient as a consequence of both market competition and adopting business-style management (Dunleavy & Hood, 1994; Megginson & Netter, 2001; Osborne & Plastrick, 1997). However, empirical evidence does not always support the superior efficiency of market delivery (Bel & Warner, 2007; Boyne, 1998b; Hodge, 2000), and city managers exhibit a more pragmatic and dynamic use of markets by contracting out some services and bringing other previously privatised services back in house through reverse contracting or reinternalisation (Entwistle, 2005; Hefetz & Warner, 2004; Sclar, 2000; Warner & Hebdon, 2001).

New public management reform stresses that markets could be superior, whereas current trends in public administration and planning urge the public sector to interact not only with markets, but also with communities to encourage democratic deliberation and enhance local quality of life (Denhardt & Denhardt, 2000; Frug, 1998; Nalbandian, 1999; Nalbandian, 2005). This alternative reform has been coined the 'new public service' in public administration (Denhardt & Denhardt, 2003) and 'communicative planning' in the planning field (Healey, 1993). The result is a dynamic decision making process which integrates market mechanisms with citizen deliberation and voice (Allmendinger, Tewdwr-Jones, & Morphet, 2003; McGuirk, 2001; Rashman & Randor, 2005).

The new public management has achieved broad acceptance, both in theory and practice, across the world (Kettl, 1997). The new public service, which shifts emphasis toward public values and service quality (deLeon & Denhardt, 2000), is gaining interest among deliberative democracy theorists, but has not yet effectively challenged the hegemony of market based approaches to public service delivery. Communicative planning, by contrast, has obtained wide acceptance across the field of planning (Fischer & Forester, 1993; Healey, 1997). This has led some planners to articulate a theory of social choice which moves beyond the either/or dichotomy of markets or planning and argues for a balanced position where both markets and citizen deliberation can lead toward near-optimal solutions (McGuirk, 2001; Sager, 2001). By bringing together theoretical streams in both public administration and planning, we outline an ideological shift in theory. Using local government service delivery data from municipalities across the U.S for the last decade, we are also able to demonstrate a shift in practice.

Most research has followed the privatisation decisions of local governments (Boyne, 1998a; Hirsch, 1995; Savas, 2000), but relatively little attention has been given to reverse privatisation with the exception of Warner and Hebdon (2001) in New York State, and Hefetz and Warner (2004) who studied this phenomena across U.S. municipalities from 1992 to 1997 using International City County Management Association (ICMA) data. No national survey directly measures reverse contracting. To

do so, they paired ICMA survey responses over time. They found, surprisingly, that the level of reverse contracting was two thirds the level of new contracting. In this paper, we follow their methodology and look at the most recent data available for the period 1997-2002. In the earlier period 1992-1997, new contracting out was 50 percent larger than the level of reverse contracting (18 percent vs. 11 percent). In the most recent period, 1997-2002, the proportions flip and reverse contracting is preferred (at 18 percent of all service delivery) over new contracting out (which falls to 12 percent). We find that stable public delivery over the two paired time periods, 1992-1997 and 1997-2002, remains the most common form of service delivery at 44 percent, and stable contracting, at roughly 27 percent of all service delivery, is also unchanged. What is interesting is the dynamic behavior at the margin.

Figure 1 about here

To understand the dynamics of this shift, we build models for new contracting out and reverse contracting for each of the two paired time periods. Our explanatory variables provide empirical proxies for various conceptual concerns of new public management, new public service and communicative planning. We find the theoretical shift from new public management toward new public service and communicative planning mirrors a shift in practice. However, our empirical analysis provides evidence of a managerial and political learning process over the decade that moves beyond the market vs. planning dichotomy of the theoretical debate and embraces the more comprehensive approach of social choice that balances attention to both market management and citizen voice.

Shifts in Public Service Management – A Theoretical Framework

In this section we outline the shift in theory. Frustration with market failure arguments and the promise of market approaches offered by public choice theory (Savas, 1987) led to the new public management and its enthusiasm for market competition and a customer focus in public service delivery (Osborne & Gaebler, 1992). As experience with new public management grew, however, frustration emerged on two fronts. First, recognition of the challenges of contract management led to new research on service characteristics and greater attention to the importance of insights from transactions costs economics (Stein, 1990). Second, concern over the loss to citizenship in the consumer focus of new public management led to the elaboration of public deliberation in the new public service (Denhardt & Denhardt, 2003). Likewise, planning shifted from a technocratic management focus to give greater attention to deliberative democracy in decision making (Forester, 1999). The last decades of the 20th century have been characterised by a debate among academics over the relative importance of market vs. deliberative approaches (Savas, 1987; Sclar, 2000). But social choice theory moves us beyond this dichotomy toward a balanced position that recognises benefits from both markets and citizen engagement (Sager, 2002). We argue that the shift in local government practice toward more reverse contracting is, in fact, a rebalancing that reflects the emergence of a social choice position which values both markets and citizen voice.

Market Failure and Market Possibilities - When markets fail to meet optimal economic welfare, government intervention is necessary to provide goods and services. Reasons for

markets not to function optimally relate to monopoly, information asymmetry, lower supply level, and myopic use of economic resources by short-run self interested citizens (Alexander, 2001; Bozeman, 2002; Lowery, 1998).

Market theories and market failure theories are based on the economic rationale believed to motivate individuals. This rationale is challenged by new planning theories that presume a broader set of motivations influences individual and group behavior (Allmendinger, 2002). In dense and congested metropolitan regions a simple private market is not enough (Hirsch, 1995). The larger and more variable the community is, the more important role local governments have in providing these market-failed goods and services (transportation, recreation, health etc.) (Frug, 1999). In rural peripheral regions, on the other end of the scale, markets for public goods are limited so the market mechanism is less reliable (e.g. government may be the only available provider) (Kodrzycki, 1994; Warner, 2006; Warner & Hefetz, 2003).

However, concern with over production of market failed public services by government, led to the notion of public choice theory which argued a competitive mechanism for public services could exist – at least at the local level (Tiebout, 1956). This provided the foundation for further elaboration of market based competitive service delivery through the new public management (Osborne & Gaebler, 1992) and led to increased support for the notion of privatisation (Savas, 1987). But markets for public services were found to be at best quasi-markets with limited competition and serious principal agent problems (Lowery, 1998).

Practical experience suggests that markets still are not adequately recognised for the many spontaneous ways in which they may organise urban life. Although cities face the challenge of congestion that creates public goods problems, they also enjoy the potential of market solutions based on agglomeration economies and voluntary bargaining (Webster & Lai, 2003). Thus, for example, both private shuttle buses and public transit exist side by side in most cities.

Transaction Cost Theory - Transaction cost economics acknowledges the governance structure of markets and the need to frame the ‘make’ or ‘buy’ (contracting) decision in the context of market structure and principal agent problems. To evaluate the advantages and disadvantages of out-sourcing public services (Williamson, 1999), one must look at both the nature of the government organisation and the nature of the market (Williamson, 1987). As public administration scholars recognised the importance of transaction costs, they tended to divide this concept into two factions: the bureaucratic view and the market view which represent alternative emphases in calculating transaction costs. The bureaucratic view downplays problems with high transaction costs in the market and highlights the disadvantages of bureaucracy (Eggers & O’Leary, 1995; Osborne & Plastrick, 1997; Savas, 2000). In this case, transaction costs of government bureaucracy are assumed to be greater than transaction costs in the market. The core ideology of this view is that markets may work with the support of the right public regulatory framework, but with a limited direct delivery role for governments.

In contrast to the bureaucratic view of transaction costs, the market view argues transaction costs in public service markets are high due to complex contract specification and performance monitoring (Brown & Potoski, 2003; Kavanagh & Parker, 1999; Lowery, 1998; Sclar, 2000). This view of transaction costs builds on the rationale to

deliver services within the public sector, unless transaction costs of outsourcing are lower than internal costs of in-house production (Nelson, 1997; Pitelis, 1991). Under this view the nature of a specific service becomes very important, and the monitoring process is a key to success or failure of the outsourcing decision. For this reason, easily specified services like refuse collection are considered better candidates for contracting out than complex social services. However, empirical evidence on services such as water distribution and waste collection has not shown consistent cost savings under privatization (Bel & Warner, 2007; Domberger & Jensen, 1997). This failure is not simply due to transaction costs; it has to do with the industrial organisation of the market itself (Warner & Bel, 2007). Similarly, research on reverse contracting finds lack of cost savings, difficulties in contract specification and monitoring and problems with market concentration (Warner & Hefetz, 2004).

From Public Choice to Social Choice - Public choice theory focuses on the political motivations behind managerial decisions in the public sector and their source of influence (e.g. the effect of powerful groups on government regulation and subsidies) (Tullock, 1997). Public managers, within the framework of public choice, are credited as self-interested agents who try to maximise their political utility through longer terms or larger budgets (Niskanen, 1971). The limit to public choice is that democratic choice and rational political systems can not meet optimal social solutions, simultaneously. Contemporary planning theory emphasises communicative rationality (Fischer & Forester, 1993). Social behavior reflects social values, not just self interest. Lowery (2000) points out that public choice does not allow for inter-dependence and communication to affect individual preferences. Through deliberation it is possible to express collective desires (Healey, 1996). Frug (1999) argues that community building is the ultimate public good which reflects the option to stay and exercise voice over services.

Social choice theory takes this one step further and notes that through incremental dialogue, in an iterative process that combines both markets and planning, more socially optimal solutions can be reached. The social choice approach recognises the importance of both transaction cost theory and social communicative theory (Sager, 1998). The major assumption of social choice theory is that deliberation matters. More heterogeneous places, in which conflicting interests are present, face a higher level of constraints to specify services and a greater need for a public deliberative process. Local governments are public organisations that recognise the potential of market solutions and the need for debate to respond to diversity and resolve conflicts.

For example, our analysis of the ICMA data shows many U.S. local governments contracted out recreation services in search of efficiency gains. But citizen concerns over access and control have fueled a large reverse contracting process. These re-internalised services now benefit from more efficient market-style management (e.g. user fees) but also have built in more robust and explicit mechanisms to ensure community voice and control (neighborhood or parent oversight committees) so that a social optimum, beyond mere economic efficiency, is reached.

A key role of local government is to create the framework for a deliberative process whereby citizens develop the political capacity to engage their differences and identify solutions that do not divide the community (Nalbandian, 2005). A social choice

approach can use a combination of market incentives and public deliberation to reach a solution that is socially optimal. Planning critics have argued that markets would yield more inclusionary zoning than planning when the public review process is captured by special interests (Staley & Scarlett, 1997). But the market typically undersupplies public amenities - parks, open space and affordable housing. Several cities have combined the deliberative mechanisms of land use planning and zoning with market-based development rights trading schemes to promote land use and housing development that is more environmentally sustainable and socially equitable (Johnston & Madison, 1997).

The dichotomy between markets and planning is fading as transaction costs are used to help explain the relationships between government and market (Nelson, 1997; Williamson, 1999), and social choice brings in a dynamic view over space and time that shows how markets and planning can work together through deliberation (Sager, 2001). A social choice framework acknowledges a mixed market and planning environment better fits the needs of complex cities.

Figure 2 shows how managers in a social choice framework balance the benefits of competition (argued by new public management), with the need to structure markets (argued by transaction cost economics) and to ensure citizen voice (argued by new public service and communicative planning). We hypothesize that the shift in preference for new contracting out to reverse contracting over the 1992-2002 decade reflects a managerial learning process that recognises the limits of market competition, the need to manage markets and ensure public voice. We expect the importance of transactions costs and citizen voice will rise over the decade. These theoretical components support a theory of social choice and help explain the shift back toward public delivery as a rebalancing of service delivery to benefit from markets as well as citizen deliberation.

Figure 2 about here

Data and Methods – Longitudinal Outlook

To measure structural shifts we combine the International City and County Management Association (ICMA) surveys from 1992, 1997 and 2002 and look at patterns of service delivery over time. The ICMA data cover 64 public services in seven broad areas: public works, public safety, public utilities, human services, parks and recreation, culture and arts and support functions. The main alternatives to direct government delivery are contracts to private for-profit firms and inter-governmental contracting. The surveys also ask managers about factors that are motivators or obstacles to alternative service delivery.

The ICMA sample frame includes all counties with more than 25,000 population (roughly 1,600) and cities over 10,000 population (roughly 3,300). Roughly a third of all governments contacted respond (31 percent for 1992 and 32 percent for 1997, 24 percent for 2002) but only about 40 percent of respondents are the same in any two paired surveys. To track changes over time, we paired the surveys into two sets: 628 governments responded to the first two surveys (1992 and 1997), and 460 responded to the latest two (1997 and 2002).

The ICMA surveys ask only how the service is provided currently, not whether this is a new contract or longstanding procedure. To determine the level of new contracting out, and the level of reverse contracting we needed a method to track changes

in forms of service delivery for every service for each government. We coded the data into three exclusive categories. Our method distinguished whether a service is provided entirely by government employees, by mixed public delivery and private contracts, or by contracts exclusively. We combined these exclusive alternatives over time to create a transition matrix that allows us to track changes in service delivery choice as shown in figure 3. This matrix method enables us to compare stability in form of service delivery and to assess shifts - towards direct public delivery, or towards outsourcing. This technique is explained in more detail in Hefetz and Warner's work (2004).

Figure 3 about here

Conceptual Framework and Model Variables - In the first part of the paper we introduced the social choice theoretical framework, which uses both planning and public administration approaches. The new public management focuses on managerial capacity, while transaction costs and market failure emphasise the nature of the service and the market place. New public service and communicative planning concentrate on political interaction and voice. Social choice brings all these concerns together into one theoretical framework. We compare changes in service delivery patterns using this theoretical framework. Transaction costs are assessed with measures of service characteristics and principal agent problems. New public management concerns are addressed with management, fiscal stress and efficiency variables, and level of prior for profit privatisation. Place is used to distinguish potential for market failure. A citizen voice index is created to test for new public service and communicative planning concerns. Means and Standard Deviations for all variables are shown in Table 1.

Table 1 about here

Service Delivery Patterns - Service pattern is captured in the level of new contracting out and the level of reverse contracting controlled for service provision level. Between 1992 and 1997 on average 6.3 services were newly contracted out while 3.7 services were brought back in house on a base of 34.5 services provided by the average government. This ratio flipped in the 1997 - 2002 period. Only 3.5 services were newly contracted out, while 5.3 were reverse contracted. Although service shedding resulted in a lower number of publicly provided services in the 1997-2002 period (31.3 on average), the level of public delivery of those services that remained, actually increased. We also see a dramatic increase (from 19 percent to 25 percent of all service delivery) in mixed delivery where public delivery and private contracts are combined for the same service. This redundancy was labeled benchmarking by Miranda and Lerner who studied it in the first ICMA survey in 1982 (Miranda & Lerner, 1995), a tradition followed by Brown et al. (2007) who focus only on transaction costs. However, we find mixed delivery is a form of market management used not only to control transaction costs but also to ensure citizen voice and government engagement in service delivery (Warner & Hefetz, 2007). Thus, mixed delivery is an important part of the dynamic use of markets and planning by local government.

Transaction costs – The literature on transaction costs focuses on the nature of services themselves. Stein (1990) in his analysis of urban services and use of alternative service delivery mechanisms, characterised services by their level of asset specificity and measurability. Brown and Potoski (2003) characterised each of the 64 ICMA services by level of asset specificity (low = 1, high = 5) and difficulty of measurement (easy=1, hard

= 5) based on survey rankings from 35 city managers. We advanced Brown's and Potoski's measures with an industrial organisation framework by controlling them for provision level, and the probability to provide services by either public employees, or contracts with for profit providers.² Higher asset specificity in publicly delivered services should reduce the likelihood of new contracting out. Greater difficulty in measuring for profit contracts should decrease the probability of contracting out.

Fiscal Stress and Efficiency - Economists believe that the major motivation for reform is low efficiency and pressure to reduce expenditures. This belief is essential to new public management. However, we see a reduction in fiscal stress (as reported by city managers) over the two time periods. We also control for local expenditures using U.S. Census of Government finance data on average expenditure per capita (deflated 1992=100). We see that on average expenditures dropped from \$880 per capita in 1992 to \$830 per capita in 1997. We expect fiscal stress and efficiency measures to be significant in the first period when fiscal stress was higher, and less significant in the later period when fiscal stress fell and managers began to embrace a broader set of concerns raised by new public service. The new public management views market delivery as superior to government and we include prior level of for profit privatisation as a measure of the enthusiasm for contracting out. However, if there are problems with external contracting, we would expect to see more reverse contracting in the later period.

Market Failure/Complexity –Market failure is, in part, determined by place structure. Metro core governments, with a wider range of service responsibilities and more heterogeneous populations may have more problems with market delivery. Rural independent places are expected to face less robust or competitive alternative supplier markets. Thus, both urban and rural places may have less new contracting and more reverse contracting but for different reasons. We expect cities to reverse their contracts due to the understanding that there must be a core public force to increase flexibility and enable responsiveness to changing circumstances, while rural places may reverse contracts due to lack of a viable private market for public services.

We use Office of Management and Budget criteria to differentiate core cities from outlying suburbs. Core cities have 40 percent of their residents working in the central city of the Metropolitan Statistical Area and employment residence ratios of at least 0.75. All other metropolitan cities are classified as outlying - suburban. Rural independent municipalities are determined by the non-metropolitan status of their county (OMB, 2000). Suburbs are the reference category and are expected to be more favored by market approaches (Warner, 2006; Warner & Hefetz, 2002b). New public service concerns would be evidenced by lower levels of new contracting out in the later period, and higher levels of reverse contracting. New public management would appear as continued preference for new outsourcing.

² The construction of these variables is as follows: for asset specificity, the score is the average of asset specificity across all services provided times the percent services provided entirely by public employees. The measurability score is the average measurability score across all services provided times the percent contracted out to private firms.

Management and Citizen Voice - Council manager forms of government are assumed to benefit from more professional management. New public management argues for a managerial learning process that leads toward more private production. New public service, on the other hand, encourages increased attention to citizen voice. We construct a voice index based on managers' answers to ten questions regarding citizen engagement in the process of service delivery based on an index used by Warner and Hefetz (2002a).^{3,4} We expect a shift where voice becomes significant in the later period. If managerial learning reflects the broader social choice approach, we would expect attention to transaction costs, market failure and citizen voice all to be reflected in the managerial learning process.

Results - Modeling the Framework in a Probit Model

We tested this conceptual framework in a probit regression model⁵ where the dependent variables were the level of new contracting out and reverse contracting over the level of services provided in both time periods by each municipality. In addition we calculated marginal effects for independent variables that were found significant.⁶ The model coefficients indicate only the direction of the independent effect. The marginal effect allows us to compare the strength of different independent effects.

Several variables were found to affect the level of contracting direction (contracting out or reverse contracting) significantly, as shown in Table 2. Place structure (metropolitan status), mixed delivery, and asset specificity were significant in three of the four different models giving support to the importance of market failure and transactions cost theories. Support for new public management variables is strong in the first period (1992-1997) when fiscal stress and per capita local expenditure are significant. But these variables are no longer significant in the later period (1997-2002). The prior privatisation rate is also significant only in the first period. Support for new public service appears in

³ The voice index is the average number of yes responses to the following set of factor questions: active citizen group favoring privatization, opposition from citizens, evaluation of feasibility by service recipients/consumers, evaluation of feasibility by citizen's advisory committees, established a citizens advisory committee on private alternatives, surveyed citizens during implementation, kept the service complaint mechanism in-house, monitoring citizen satisfaction after implementation, conducting citizen surveys after implementation, monitoring citizen complaints.

⁴ One of the reviewers was concerned that the voice measure would fail to capture the role of voice among respondents who did not contract out any services. We checked the data and found 99 percent of the sample restructured service delivery. Only one percent of the sample did not externalize any services (5 places in 1992, 7 in 1997 and 5 in 2002).

⁵ In the probit model, percentages are transformed into the inverse of the cumulative normal distribution so that probabilities that range from zero to one are normally distributed all along the scale.

⁶ The marginal effect is the percentage increase or decrease in contracting out, or in reverse contracting, as a result of adding one additional unit of the independent variable. For continuous variables, this unit is the difference between the mean minus one standard deviation and the mean plus one standard deviation, while for a dichotomous variable it is the probability between zero and one units of this variable.

the second period models where the citizen voice variable becomes significant for the first time.

Table 2 about here

Transaction costs are of primary importance in explaining levels of new contracting out. An increase in prior asset specificity scale by one unit increases new contracting out by seventeen percent suggesting that managers were following new public management ideology and experimenting with contracting out asset specific services between 1992 and 1997. As a result, asset specificity of publicly provided services dropped with new contracting out in 1997. This effect disappears in the 1997-2002 period as managers learned that contracting out highly asset specific services is problematic. Managerial learning also is shown in the reverse contracting model, where asset specificity of public services is higher among places with higher levels of contracting back-in. Thus, the difficulty of contracting out asset specific services reflects a managerial learning process over the two time periods.

A similar process of managerial learning is found with measureability. New contracting out in the first period was higher when measurement difficulty was higher; this variable had the largest marginal effect. By the second period managers had learned not to contract out difficult to measure services and the relationship became negative. Measurement difficulty had no effect in the models of reverse contracting.

Fiscal stress led to more contracting out in the second period but was not significant on reverse contracting. Per capita expenditures were only significant in the second period and show that both places with higher new contracting and higher reverse contracting had lower expenditures. This implies that efficiency gains can be achieved by market management – contracting out and reverse contracting – not by contracting out alone.

Place matters and we see that core metro areas have lower levels of new contracting out in the second period and higher levels of reverse contracting than their suburban counterparts in both periods. The need to integrate planning with markets is especially important for complex, heterogeneous core cities. Rural municipalities also show lower levels of new contracting out in the later period but they also show lower levels of reverse contracting. This may reflect less capability to manage markets due to limited competition and less professional management.

The voice index was insignificant in the first period for either model (out or reverse), but it became important in the second period leading to lower levels of new contracting out and higher levels of reverse contracting. This suggests that city managers recognise new public service and communicative planning concerns and seek to balance citizen voice with market management issues as implied by social choice theory. The council manager variable was not significant in any model but we believe that the managerial learning process has been captured in the transaction costs, place and voice variables.

A high level of prior mixed service delivery diminishes the enthusiasm to contract out and encourages reverse contracting. In contrast, the current rate of mixed delivery encourages contracting out, but its effect on reverse contracting is inconsistent. In the first period it has a small negative effect, and later it positively affects the level of reverse contracting. Mixed delivery facilitates the decision to outsource services, but it also makes reverse contracting possible as government retains a position in the service

delivery process. Building on the social choice approach, we consider mixed delivery as more than the intuitive benchmarking described by Miranda and Lerner (1995), and see it as a tool to enhance citizen voice and government involvement in service delivery (Warner & Hefetz, 2007).

Current mixed service delivery complements new contracting out in the first period, but it complements reverse contracting during the later period. Reforms need a moderator and mixed delivery seems to play that role. The idea of moderating between new contracting out and reverse contracting means that managers integrate costs from both “make” and “buy” options in order to get the best value. When it is difficult to specify the contract, it is better to maintain both alternatives through mixed delivery. These results indicate a learning process motivated first by an ideological pro-privatisation push (new public management), but moderated later by a pragmatic turn which gives greater attention to market management (transaction costs) and citizen voice (new public service, communicative planning) in a combined framework (social choice).

Conclusion

In this paper we have described a shift in theory from markets over planning as argued by new public management, to a more integrated and balanced view that combines markets and planning in an attempt to answer both efficiency concerns and citizen needs (social choice). We use this comprehensive social choice framework to explain why U.S. municipalities have shifted from a preference for contracting to a preference for public delivery mixed with contracting out over the last decade.

In the 1992-1997 period, city managers were innovative and explored new public management reforms by testing the potential for more market based forms of service delivery. But something different explains the shift from market back to government delivery in the later 1997-2002 period. Managers have expanded their concerns beyond transaction costs and efficiency to give attention to citizen voice in the service delivery process. This broader set of concerns reflects the social choice approach that includes both market management and planning to create a nearly optimal solution.

We learn that reforms like other products have a life cycle (Bel & Costas, 2006). First there is the innovation (contracting out, new public management), then there is a period of wider use, and in the end the reform is replaced by another reform (reverse contracting, new public service). Innovative government, we claim, is the one that manages to fit the best mix of delivery options to each service and meet higher standards within its budget constraint. In order to find that mix, governments need to exercise alternative modes over time and develop monitoring and communicative tools that improve their control over service providers, on the one hand, and advance their responsiveness to citizens, on the other.

Although privatisation has been studied from many different angles, we still need to understand the interactions between markets and planning. In modern cities, many public services fail to meet the classic theory of market failure, but public delivery may still be required due to complexity and social demands. Governments are exploring alternative ways to deliver goods through a quasi-market mechanism. By viewing public service delivery as a planning tool, we can learn how governments use the service delivery process to improve efficiency and public engagement.

We have shown theoretically how new public administration approaches can intersect with modern planning theories. Empirically we see evidence of a more comprehensive social choice approach emerging where city managers balance market delivery with attention to citizen voice. While public administration is recognising that political capacity requires a government role to engage and resolve urban conflict, the social choice approach recognises the power in combining market approaches with planning. It is the intersection between markets and planning that creates a more robust management process to meet social objectives. The combination of new contracting and reverse contracting reflects an effort by pragmatic managers to get the balance right.

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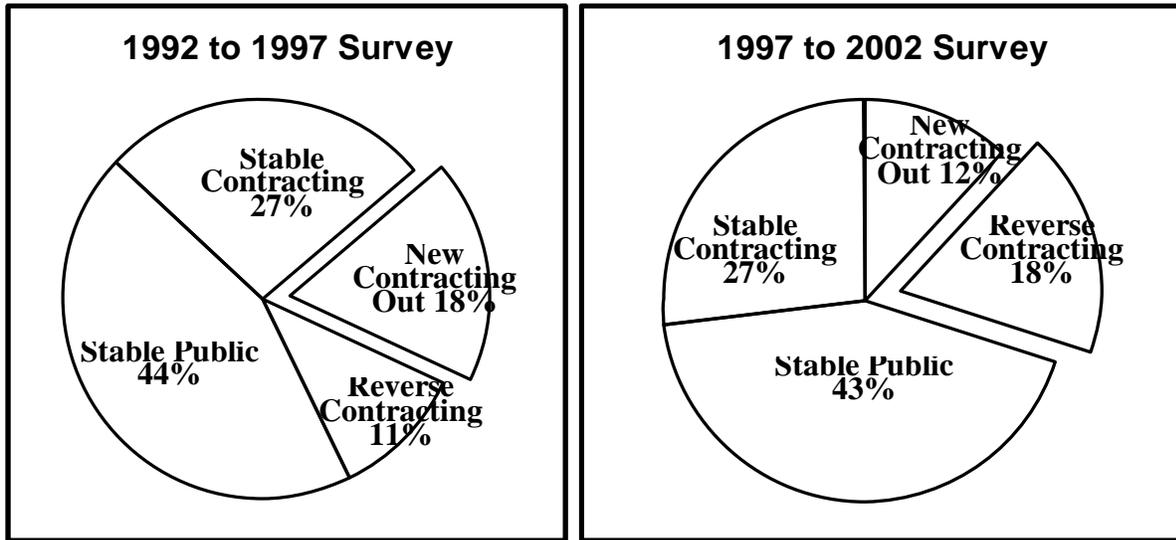
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Figure 1: Dynamics of Local Government Service Delivery, 1992 – 2002



Source: International City/ County Management Association, Profile of Alternative Service Delivery Approaches, Survey Data 1992, 1997, 2002 Washington DC.

Figure 2: A Framework for Understanding Local Government Service Delivery

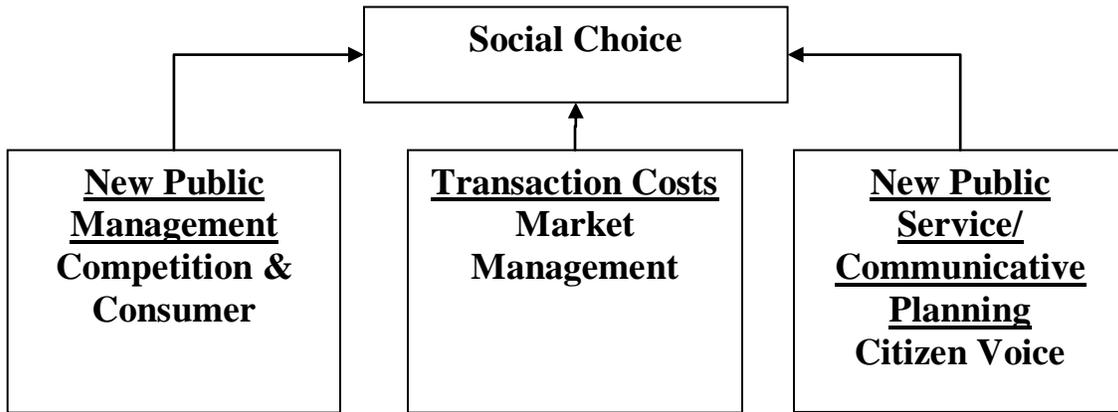


Figure 3: Matrix for Tracking Stability and Movements over Time

		Current Survey		
		1. Direct Public Delivery	2. Mixed Public/ Private Delivery	3. Complete Contracting Out
Former Survey		Towards Contracting Out →		
	1. Direct Public Delivery	1. Stable Public Public → Public	3. New Contract Public → Mix	3. New Contract Public → Contract
	2. Mixed Public/ Private Delivery	4. Reverse Contract Mix → Public	2. Stable Contract Mix → Mix	2. Stable Contract Mix → Contract
	3. Complete Contracting Out	4. Reverse Contract Contract → Public	2. Stable Contract Contract → Mix	2. Stable Contract Contract → Contract
		← Towards Public Delivery		

Based on Hefetz and Warner 2004.

Table 1: Descriptive Statistics for Variables in the Empirical Model

Variable	1992 and 1997 Paired Surveys		1997 and 2002 Paired Surveys	
	Mean	St. Dev.	Mean	St. Dev.
Number of Newly Contracted Out Services	6.3	6.1	3.5	3.8
Number of Reversed Previously Contracted Out	3.7	3.7	5.3	6.0
Number of Services Provided Both Time Periods	34.5	8.7	31.3	8.9
Percent Prior For-Profit Privatisation	0.17	0.115	0.20	0.161
Prior Asset Specificity Score	1.78	0.563	1.51	0.710
Current Asset Specificity Score	1.76	0.802	1.68	0.650
Prior Measurement Difficulty Score	0.45	0.303	0.60	0.487
Current Measurement Difficulty Score	0.52	0.420	0.47	0.382
Fiscal Pressure (dummy, 1= yes)	0.59	0.492	0.52	0.500
Prior Local Expenditure Per Capita (dfI 1992=100) ¹	878.7	611.3	828.7	578.4
Independent Rural Places (dummy, 1= rural)	0.24	0.425	0.20	0.402
Core Cities (dummy, 1= core)	0.24	0.428	0.28	0.449
Current Voice Index (% “yes” of 10 factors)	0.16	0.184	0.16	0.176
Council Manager (dummy, 1= manager)	0.72	0.448	0.74	0.440
Prior Mixed Delivery	0.19	0.132	0.20	0.162
Current Mixed Delivery	0.19	0.162	0.25	0.176
N	628		460	

Source: International City/ County Management Association, Profile of Alternative Service Delivery Approaches, Survey Data 1992, 1997, 2002 Washington DC.

¹U.S. Census of Government Finance Files 1992, 1997.

Table 2: Model Results – Explaining Shifts in Contracting and Its Reverse

Variable	New Contracting Out				Reverse Contracting			
	1992-1997		1997-2002		1992-1997		1997-2002	
	Coeff.	Marg. Effect	Coeff.	Marg. Effect	Coeff.	Marg. Effect	Coeff.	Marg. Effect
Prior For Profit Delivery	-3.475	-14.6%	-1.229		1.709		-0.135	
Prior Asset Specification Score	0.380	17.0%	-0.025		-0.524	-1.0%	-0.059	-2.2%
Current Asset Specification Score	-0.513	-10.1%	-0.078	-2.6%	0.544	27.5%	-0.025	
Prior Measurement Difficulty Score	1.359	32.0%	0.424		-0.929		-0.093	
Current Measurement Difficulty Score	0.050		-0.211	-4.3%	-0.023		0.037	
Fiscal Stress	-0.025		0.086	2.6%	0.030		-0.049	
Prior Per Capita Local Expenditure	0.006		-0.106	-3.3%	-0.012		-0.049	-1.5%
Core Metro	-0.011		-0.078	-2.2%	0.088	1.0%	0.158	4.7%
Rural Independent	0.007		-0.067	-1.9%	0.103	1.2%	-0.091	-2.5%
Voice Index	-0.046		-0.335	-3.3%	0.004		0.211	2.2%
Council Manager	-0.018		-0.003		0.016		-0.028	
Prior Mixed Delivery	-0.996	-7.3%	-0.367	-3.3%	1.779	8.4%	-0.055	-0.5%
Current Mixed Delivery	0.302	3.3%	0.125		-0.243	-0.8%	0.332	3.5%
Constant	-0.662		-0.793		-1.617		-0.839	
Goodness of Fit	$\chi^2=3671$	P<0.001	$\chi^2=2170$	P<0.001	$\chi^2=1914$	P<0.001	$\chi^2=3012$	P<0.001

Shaded cells represent significant coefficient at p<0.05

Source: International City/ County Management Association, Profile of Alternative Service Delivery Approaches, Survey Data 1992, 1997, 2002 Washington DC.