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DeHoog, Ruth Hoogland

**POLITICAL AND ECONOMIC APPROACHES TO GOVERNMENT
"CONTRACTING OUT": A STUDY OF HUMAN SERVICE CONTRACTING
IN THE STATE OF MICHIGAN**

Michigan State University

Ph.D. 1981

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POLITICAL AND ECONOMIC APPROACHES
TO GOVERNMENT "CONTRACTING OUT":
A STUDY OF HUMAN SERVICE CONTRACTING
IN THE STATE OF MICHIGAN

By

Ruth Hoogland DeHoog

A DISSERTATION

Submitted to
Michigan State University
in partial fulfillment of the requirements
for the degree of

DOCTOR OF PHILOSOPHY

Department of Political Science

1981

ABSTRACT

POLITICAL AND ECONOMIC APPROACHES TO GOVERNMENT "CONTRACTING OUT": A STUDY OF HUMAN SERVICE CONTRACTING IN THE STATE OF MICHIGAN

By

Ruth Hoogland DeHoog

"Contracting out" for public services has become a major recommendation for improving efficiency in the literature of public administration during the last decade. Yet seldom has it been fully examined from anything but the public choice perspective. Heretofore the empirical works have focused on the cost differences between traditional bureaucratic supply and contracting with outside sources for services in a few limited number of public services. Generally they have not analyzed the procedures of the contracting systems, the important factors of service quality and effectiveness, or the growing field of human service contracting. This dissertation attempts to fill these voids.

The author first examines the arguments of contracting proponents in the public choice tradition. To meet their positive expectations about contracting, three conditions are determined to be particularly critical--competition in the service environment and in the contracting procedures used by government; a rational decision-making process in which the various government actors attempt to maximize efficiency; and a review process for monitoring and evaluating contractors' expenditures, performance, and effectiveness. The likelihood of realizing these

conditions is questioned by two additional theoretical perspectives which are developed and applied to contracting situations. The economic perspective of market imperfections suggests that imperfect competition and imperfect information will inhibit the development of certain conditions, while the political perspective of cooptation indicates that relationships of bureaucrats and politicians with certain contractors will produce less-than-objective and open decision-making processes.

To evaluate the three perspectives and their conditional predictions in the complex area of human services, contracting is examined in programs of two departments (Social Services and Labor) in Michigan's state government. An extensive interview schedule is utilized with state and local contracting officials and contractors to obtain information about the actual process and procedures of human service contracting and the viewpoints of those most involved in it.

From these interviews, it is clear that only infrequently are the three conditions assumed by public choice contracting advocates realized in human services. Competition for contracts is minimal--not only because of the lack of similar suppliers of services but also because of departmental and federal regulations and procedures. Contracting awards are often made without sufficient needs assessments, wide solicitations, or fair proposal reviews. Officials have seldom been concerned about cutting costs via contracting; rather, they have used this method to supply certain types of services to clients. Objective performance monitoring and evaluations were found to be woefully inadequate since reviews were largely dependent upon information from contractors

themselves. In sum, this research affirms the relevancy of the two alternative economic and political perspectives for human service contracting. It also cautions against applying the contracting prescription to all service areas without careful consideration of the various factors and conditions that could limit its utility as a viable, efficient public management alternative to traditional modes of bureaucratic service delivery.

ACKNOWLEDGMENTS

I accumulated a number of obligations in the preparation of this dissertation. I was fortunate to have Terry M. Moe as my dissertation committee chairman. Early on in my graduate studies, he stimulated my interest in organizations and political groups, and became a crucial source of advice, criticism, and support in undertaking and completing this project. Gary Miller provided me with many helpful comments and unflinching encouragement. Charles Press, who also served on my committee, gave several useful suggestions for the work. Jeffrey Straussman of the Maxwell School, Syracuse University, first encouraged me to think critically about service contracting and to pursue an empirical study in the field of human services. Each of these men approached the subject matter from rather different perspectives. This work is better for their insights.

I am particularly indebted to the many individuals who agreed to participate in the research. In the early stages, I interviewed various officials in the Department of Management and Budget and in D.S.S. They provided much necessary background information and many leads for later, standardized interviews. Reginald Carter and the Michigan Department of Social Services gave permission for the interviews with D.S.S. employees and assisted in obtaining cooperation from providers as well. Various officials in the Bureau of Employment and Training, Michigan Department of Labor, made it easier to conduct the interviews there and with

contractors in a timely fashion. With only a few exceptions, these individuals were friendly, helpful, and insightful. I was impressed by their professionalism and dedication.

Final thanks are due to my long-suffering husband, Bernie DeHoog, who helped me through my lengthy graduate studies in many important ways.

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CHAPTER I

AN INTRODUCTION TO CONTRACTING OUT

Without having much specialized expertise or profound insight into the affairs of governments, one can safely characterize the Seventies as a decade of doubt, self-examination, and change at all levels of American government. Even though the Sixties had brought forth many new ambitious programs, services, and bureaucracies, major problems still remained as the Seventies wore on. The knotty social problems were joined by several other difficult issues--the Vietnam War, Watergate, recession, energy shortages, inflation. The obvious inadequacy in dealing with these matters helped to produce a general distrust of government and government officials among many American opinion leaders and the general public.

This dissatisfaction with government has worked itself out in many ways throughout government. Proposals for tax limitations, spending limits, a federal balanced budget, and tax reductions have been particularly popular. Tax burdens have been perceived as being too heavy, considering that the quality of basic state and local services have not noticeably improved, and that, according to many, some have even deteriorated in quality. Many ordinary citizens also have not directly benefited from the social programs that have helped to increase their tax bills. As a result, there has been mounting resistance to providing generously for the poor and near-poor. Almost all

areas and levels of government have been the object of criticism.

The government bureaucracies, however, have probably received the loudest, largest, and most vociferous criticism of that directed at government. This disapproval has taken at least two major forms. First, citizens have expressed a fear of the growing government bureaucracy interfering in and controlling many aspects of life. In particular, the private business sector has grown weary of trying to comply with government regulations being produced by bureaucrats. Secondly, dissatisfaction with the public bureaucracies' implementation of programs and their provision of services has been rapidly increasing since the late Sixties. Frequent have been the reports of wasteful and inefficient federal programs, deteriorating urban services, and ineffective attempts at solving problems and meeting needs. One is often left with the impression that there is little that government can do quickly, efficiently, and effectively.

What has been the response to these criticisms of government in general, and the public bureaucracy, in particular? Recognizing the validity of many of the charges, elected and appointed leaders in government at various levels have tried a host of different ways to deal with these issues. Not only have they attempted many policy and programmatic changes, but they have also instituted or expanded a number of innovations to alter the way in which government operates, including budgetary reforms, an overall increase in rigorous policy analysis and program evaluation, the passage of federal Civil Service reforms, requirements for long-range planning, and several changes in the organizational arrangements through which services are produced, delivered, and consumed.

While all of these innovations warrant further examination, this last type of change will be the focus of this dissertation. In particular, the process of governmental "contracting out" for the production and delivery of public services will be analyzed here in detail. The general term "contracting out" refers to the practice of having public services (those which any given government unit has decided to provide for its citizens) supplied either by other governmental jurisdictions or by private (profit or non-profit) organizations instead of being responsible for furnishing the service. Several different types of contracts and different ways of granting them have been used in many kinds of services.¹

I. The Case in Favor of Contracting Out

Given the historical and political framework provided above, we can consider contracting out as part of the effort of many governmental units to respond to critics, improve their performance, and cut costs. Contracting for services from either the private sector or outside public agencies is not, however, a new method of service delivery. For years, many local governments especially have purchased such routine services as garbage collection, road maintenance, and street lighting from outside suppliers.² Under the contract cities plan (or Lakewood Plan) several California cities for some years have contracted out for

¹I will not, however, include consideration of financial agreements that are sometimes confused with contracts, such as grants-in-aid to lower levels of government, vouchers, research grants, or subsidies.

²Donald Fisk, Herbert Kiesling, and Thomas Muller, Private Provision of Public Services: An Overview (Washington, D.C.: The Urban Institute, 1978).

their basic municipal services--in most cases, from the county government.³ And almost all government units that require roads, buildings, or military weapons have long had contracts with profit-making firms for architectural and engineering services. On the federal level in the post-World War II era, the number of contracts for scientific research, complex technical or evaluative services, and defense-related services increased rapidly.⁴ Bruce L. R. Smith, a foremost scholar on federal contracting, has stated that such extensive usage of private institutions is a central feature of any modern government.⁵

But what the Sixties and Seventies spawned was: 1) a much greater utilization of contracting for new human service programs at all levels of government, often encouraged by federal laws and regulations;⁶ and 2) a greater consideration of this practice as an alternative to traditional bureaucratic methods of service delivery for a wide variety of programs and services, particularly in the face of fiscal strain.⁷

³See especially Gary J. Miller, Politics of Municipal Incorporation (Cambridge, Mass.: MIT Press, 1981); Sidney Sonenblum, John J. Kirtin, and John C. Ries, How Cities Provide Services: An Evaluation of Alternative Delivery Structures (Cambridge, Mass.: Ballinger Publications, 1977); Robert O. Warren, Government in Metropolitan Regions: A Reappraisal of Fractionated Political Organization (Davis, Cal.: Institute of Governmental Affairs, 1966).

⁴See, for example, Clarence Danhof, Government Contracting and Technological Change (Washington, D.C.: The Brookings Institution, 1968).

⁵Smith, ed., The New Political Economy (New York: St. Martin's Press, 1975), p. 1.

⁶In the area of social services, see, for example, Neil Gilbert, "The Transformation of Social Services," Social Service Review 51 (December 1977), pp. 624-41.

⁷See especially Patricia S. Florestano and Stephen B. Gordon, "Public vs Private: Small Government Contracting with the Private Sector," Public Administration Review 40 (Jan./Feb. 1980), pp. 29-34; Jeffrey D. Straussman, "More Bang for Fewer Bucks? Or How Local

What then are the arguments in favor of contracting for public services? Why would this method of delivering services be considered by some to be superior to traditional methods? In the academic literature, one school of thought has provided much of the theoretical basis for this approach--public choice theorists in public administration who have focused on the size of government jurisdictions and the economics of bureaucracies. Although there are several differences in subject, methods, and emphasis, the major underlying arguments of scholars identified with this group are similar.⁸

Unlike other public choice academicians, this group has concentrated on analyzing and altering specific services and the structures by which they are supplied, with less concern for the voting and demand mechanisms. Using a neo-classical economic framework, they argue that the competitive marketplace produces goods and services efficiently, whereas monopolies, whether public or private, tend toward both inefficiency and unresponsiveness. They assume that few theoretical differences exist between public and private sector goods and services in how

Governments Can Rediscover the Potentials (and Pitfalls) of the Market," Public Administration Review 41 (Jan. 1981), pp. 150-7.

⁸Probably the most relevant and representative works include Thomas E. Borcharding, ed., Budgets and Bureaucrats: The Sources of Government Growth (Durham, N.C.: Duke University Press, 1977); Vincent Ostrom and Eleanor Ostrom, "Public Goods and Public Choices," in E. S. Savas, ed., Alternatives for Delivering Public Services Toward Improved Performance (Boulder, Colo.: Westview Press, 1977), pp. 7-49; Ostrom and Ostrom, "Public Choice: A Different Approach to the Study of Public Administration," Public Administration Review 31 (March/April 1971), pp. 302-16; William A. Niskanen, Jr., Bureaucracy and Representative Government (Chicago: Aldine-Atherton, 1971); E. S. Savas, ed., Alternatives for Delivering Public Services Toward Improved Performance, op. cit.; Sonenblum, et al., How Cities Provide Services, op. cit.; Gordon Tullock, The Politics of Bureaucracy (Washington, D.C.: Public Affairs Press, 1965).

they can be supplied. (On the demand side, governments act on behalf of consumer/citizens and use taxation and coercive authority to foreclose holdouts.) Since in most program and service areas, government agencies are service monopolies, the personnel are likely to behave in ways that promote their own interests at the expense of the interests of efficiency and the consumer/citizens.

The basic perspective of these theorists is to encourage the use of quasi-market mechanisms for the provision of services that are usually produced by federal, state, or local government "monopolies." For the production of mainly private goods (those that are highly divisible and packageable) that the public sector has traditionally provided, governments could try to return both the financing and production of such services to the private sector entirely (e.g., garbage collection). Or governments could provide vouchers to the consumers, thus subsidizing the consumer rather than the supplier of a service and thereby giving the consumer/citizen the opportunity for choice among various agents (e.g., education).

But these modes of privatization (sometimes called "load shedding"), according to many experts, are not as feasible and acceptable as is contracting for public services either to other government units or to private companies. Contracting out can be used for many services with either private or public good characteristics, according to public choice writers, since both types of goods need not be delivered to the public by a public agencies through its public employees, even if the service is paid for by the taxpayers through a government unit. Instead of using its own bureaucracy, the relevant government body can purchase the services directly from public or private sources through a process

of competitive bidding or competitive negotiation, thus developing quasi-market conditions and achieving a desirable degree of both flexibility and responsiveness in the process.

The essential role of the government agency or elected body would be to perform a "watch-dog" function. Not only would it deal with revenue gathering or budget allocations and the transfer of payments to the delivery agent, but the unit would also choose the agents, continue to monitor and evaluate their performance, and engage in long-range planning. The threat of the government agency contracting with another supplier (or even producing the service itself) would, it is believed, ensure that the producer is both efficient and responsive to the needs of the consumer/citizens and their representatives. Therefore, contracting out is expected to enable governments to achieve the best service performance at the lowest cost because of a direct monetary incentive--the profit motive and/or the desire to stay in business.

This is the basic argument of contracting out advocates within the public choice school, although not all who subscribe to this favorable view of contracting would spell out their reasons in the same fashion. Perhaps the best theoretical formulations directly supportive of contracting out have been written by urban service analysts,⁹ while

⁹Lyle C. Fitch, "Increasing the Role of the Private Sector in Providing Public Services," in Willis D. Hawley and David Rogers, eds., Improving the Quality of Urban Management (Beverly Hills, Cal.: Sage, 1974); Dennis R. Young, "Institutional Change and the Delivery of Urban Public Services," Policy Sciences 2 (December 1971), pp. 425-38; Savas, "Municipal Monopolies versus Competition in Delivering Urban Services," in Hawley and Rogers, eds., op. cit.

most of the public choice scholars in public administration approach this subject from a more general and often more theoretical perspective.¹⁰

Several writers have focused on the reasons for bureaucratic pathology--essentially why public bureaucracies are not as efficient and effective as an approximation of the competitive marketplace. William A. Niskanen has provided the major public choice framework for this economic critique of bureaucracy.¹¹ Claiming to develop a positive theory of the behavior of bureaus and representative government, Niskanen bases his work on an understanding of the unique demand and supply relationship in public organizations. He states that bureaus and the legislative body (or sponsor) form a bi-lateral monopoly in which the bureaus exchange a promised set of outputs for an annual budget appropriation, since the bureaus' services usually cannot be supplied at a per-unit rate. Both sides operate under a monopoly because neither has any alternatives from which to choose--no other budget sources for the bureaus and no other service suppliers for the legislature. Although it typically has only imperfect information with which to assess the relationship between the costs and the outputs accurately, the legislature is usually willing to give a bigger budget appropriation for a higher expected output. Niskanen assumes that the legislature is passive while bureaus are informed monopolies, willing to use their superior information for their own goal of budget maximization. Bureaucrats attempt to maximize their bureaus' budgets since such a strategy

¹⁰See especially Ostrom and Ostrom (1977), op. cit.; and Borchering, ed., op. cit.

¹¹Niskanen, op. cit.

is expected to lead to increases in the personal rewards of their positions--status, money, influence. As a result, some bureaus produce too much output, exceeding the point at which benefits equal costs, thus leading to larger budgets, the inefficient use of funds, and bigger government.

Niskanen offers a number of prescriptions to halt this inefficiency and unnecessary growth in government. Among his specific proposals is to increase competition in the production of public services by using private sources of supply through vouchers, subsidies, or contracts. According to Niskanen,

The primary value of the use of private firms to supply some of the activities would be to provide a source of supply that is not administratively dependent on the bureaucracy and review committee at a price known to representatives of the middle-demand group and, thus, to reduce the monopoly power of the bureaucracy and review committees.¹²

In part, this confidence in outside supply is based on empirical study, as well as deductive, formal theory. Some researchers have examined several different policy areas to determine if the quasi-market approaches to service provision are less costly or more efficient than public monopolies. In the main, what limited evidence there is supports the arguments that the privately (or outside) supplied services are at least less costly (and in a few cases, more efficient) than in-house services, in the cases of fire protection,¹³ an airline,¹⁴ a

¹²Ibid., p. 217.

¹³Roger S. Ahlbrandt, Jr., "Efficiency in the Provision of Fire Services," Public Choice 18 (Fall 1973), pp. 1-15.

¹⁴David G. Davies, "The Efficiency of Public versus Private Firms: The Case of Australia's Two Airlines," Journal of Law and Economics 14 (1971), pp. 149-65.

utility,¹⁵ and refuse collection.¹⁶ Even though the evidence is not compelling, these studies have added more credence to the suggestion that other areas of public policy could be improved if private suppliers were used.

In addition, it is often assumed that even government services that have outputs that are more difficult to measure could lead to similar results in mental health, social services, education, etc.¹⁷ Unfortunately, almost no rigorous studies have yet examined either these services or non-cost-related outcomes of contracting out. It is the major goal of this dissertation to analyze: 1) the policy area of human services, an area largely overlooked by political science theorists and researchers, and 2) the variety of political and service by-products and outcomes of purchasing such services.

In summary, what then are the major arguments in favor of using outside sources to supply government services? First, proponents believe that private supply will lead to lower government costs for at least five reasons. 1) Competition for contracts would help to reveal the true costs of production and eliminate waste, since contracts would be awarded to those offering the most or best quality services at the least cost level. 2) Substitution of the profit motive for budget maximization and empire-building would help to limit budget growth in

¹⁵Louis DeAllessi, "An Economic Analysis of Government Ownership and Regulation: Theory and the Evidence from the Electric Power Industry," Public Choice 19 (Fall 1974), pp. 1-42.

¹⁶Savas, "Solid Waste Collection in Metropolitan Areas," in Elinor Ostrom, ed., The Delivery of Urban Services (Beverly Hills, Cal.: Sage, 1976), pp. 201-29.

¹⁷Fitch, op. cit.

particular, and government growth, in general, in the long run. 3) Economies of scale could be realized in some jurisdictions through the reduction of overhead, start-up costs, or high personnel costs by spreading supply over a larger number of units or other agencies (e.g., contracting for specialized medical services). 4) High personnel costs would be reduced, primarily due to avoiding public employee unions and public personnel controls (e.g., Civil Service rules). 5) Greater flexibility in the use of personnel and equipment would be achieved for short-term projects, part-time work, specialized needs, or new problems --without a commitment to sustaining a bloated bureaucracy. This anticipation of reduced costs of public services is the most compelling reason for both scholars and government officials to favor contracting out.¹⁸

A second advantage of contracting out is seen as an outcome of competition--i.e., it is expected that competition for contracts among private contractors will also produce better quality services for the price paid, since a direct monetary incentive for good performance by suppliers exists.¹⁹ If the service delivered is judged to be inadequate by the overseeing agency, another suppliers could be granted the contract (either to another private agent or a government agency). Thus, to use Albert O. Hirschman's terms, the contract relationship has a major advantage over the usual methods, in that it allows for both exit

¹⁸Fitch, op. cit.; Niskanen, op. cit.; Savas (1974), op. cit.; Robert M. Spann, "Public versus Private Provision of Governmental Services," in Borchherding, ed., op. cit.; Niskanen, op. cit.; Young, op. cit.

¹⁹Savas (1977), op. cit.; Warren, op. cit.; Young, op. cit.

and voice mechanisms to be activated, in the event that the service quality declines or does not meet the contract's specifications.²⁰

A third factor that some observers believe is a major advantage to purchasing services is that the rapid government growth of the last decades could be slowed, if not halted, by this means.²¹ Government would have greater control over its services. The anticipated cost savings would keep budget growth to a minimum, while the size of public employee rolls could be limited. The power of the centralized bureaucracy at all levels could be somewhat reduced as well, by allowing greater participation for private actors in public policy-making.

II. Problems and Limitations of Contracting Out

Thus far, only the arguments favoring contracting for public services have been presented. But what might lead one to oppose changing the organizational arrangements for service delivery--changes which many believe will result in lower costs, good services, and a slowdown of government growth? Several different types of disadvantages and limitations of contracting out are recognized by various individuals and groups, including some who advocate the greater use of outside suppliers.

The first major problem with contracting for public services, raised by several different observers of public bureaucracies, can occur as a direct result of the relationships that develop between those

²⁰Hirschman, Exit, Voice, and Loyalty (Cambridge, Mass.: Harvard University Press, 1970).

²¹In particular, the Borchert volume addresses this issue, op. cit.

granting the contracts and the private contractors.²² Purchasing services from one or a few private suppliers on a continuing basis can produce cozy relationships which are highly beneficial for both sides, but may not be in the general interests of the taxpayers. In addition, the use of bribes, kickbacks, and other illegal activities have been observed in many municipal governments and can be a part of any contracting system. As Fitch states,

Contracts are one of the most common and lucrative sources of corruption in government. The abuse has been only diminished, not eliminated, by public bidding and other formalities designed to improve the integrity of the process. Private contractors doing business with the government are still one of the principal sources of campaign funds, and of support for shady politicians.²³

In effect, the critics argue, correct or cozy relationships can help to erode both competition and effective quality control, which, in turn, leads to higher costs and lower quality services. Public officials will be more likely to make choices about public policy, service delivery, awards, and price based on the goals and needs of the suppliers rather than the needs of the recipients and the general public. Such kinds of criticisms, for example, have been leveled against the federal Department of Defense in its creation of a "military-industrial complex" based on contracting relationships. Most critics believe that the proper relationship between the government and its contractors depends on the government agency clearly being in control of the service and the private supplier. It should set the goals, draw up the proper

²²Fitch, op. cit.; Niskanen, op. cit.; John Hanrahan, Government for Sale: Contracting Out--The New Patronage (American Federation of State, County, and Municipal Employees, 1977).

²³p. 279.

procedures to encourage competition, and make careful performance evaluations in an objective manner.

A somewhat different criticism comes from those who are more concerned about private autonomy, particularly in non-profit institutions. Their complaint about excessive government control is heard in regard not only to the general licensing, regulation, and limitation of the private sector but also to the contractual relationship.²⁴ Neil Gilbert summarizes how this problem is viewed in the field of social services:

A major concern from the perspective of voluntary agencies is the degree of autonomy they might have to forfeit in gaining access to public funds. The questions they ask are, How much constraint on private agency activities will accompany the receipt of government funds, and will private agency activities emerge ultimately as merely the instrument of government policy?²⁵

This concern does not call for the elimination of contracting for human services from private agencies, but it does emphasize that the granting of government contracts may have some negative consequences in the long run for some institutions that are now being used to deliver public, as well as private, services. One of the real difficulties for government agencies arises in delineating clear but not excessively restrictive specifications, guidelines, and regulations for private agencies to follow in implementing public programs.

A third related problem with purchasing public services can be noted--one that is related to the two previous problems and is a major concern in any area of government. The ever-present political problem

²⁴Neil Gilbert, op. cit.; Eleanor Brilliant, "Private or Public: A Model of Ambiguities," Social Service Review (September 1973), pp. 384-96; Gordon Manser, "Implications of Purchase of Services for Voluntary Agencies," Social Casework 55 (July 1974), pp. 421-7.

²⁵Op. cit., pp. 633-4.

of accountability in public administration is only magnified with the addition of non-governmental organizations carrying out the work of government. In a contracting system whose structure (if it can be said to have one) is not at all hierarchical and where clear, straight lines of authority are often absent, political and legal responsibility or accountability to a chief executive or legislative body is said to be difficult to establish and enforce. Critics have charged that in almost any type of service it is usually more difficult for the public or program recipients to hold contractors responsible and to encourage them to react responsively than elected officials and bureaucrats when the service proves to be unsatisfactory.²⁶ This problem is often complicated by the fact that non-profit agencies can be torn in several different directions because of their need to be responsive to the various demands of the government, to their boards of directors, to their clients, and to the community.²⁷

Yet a fourth difficulty with extensive contracting can also arise, particularly in human service administration, according to some public policy analysts.²⁸ Because of a growing reliance on the use of private organizations, the creation and implementation of coherent public policy may become an even more formidable task for government agencies. This difficulty is particularly great in some service areas (e.g., day care,

²⁶See, for example, Smith, op. cit.; Smith and D. C. Hague, eds., The Dilemma of Accountability in Modern Government: Independence vs. Control (New York: St. Martin's Press, 1971).

²⁷Brilliant, op. cit., in particular, makes this point.

²⁸Ibid.; Bertram Beck, "Governmental Contracts With the Non-Profit Social Welfare Corporations," in Smith and Hague, eds., op. cit.

manpower programs, home health care) that utilize a variety of different private agencies with many of the institutions being concerned about maintaining their individual autonomy and accountability to other actors. Planning for and coordinating the multitude of fragmented activities of private service suppliers, according to this view, only adds to the already confused, overlapping, and contradictory divisions within government itself.

From quite a different perspective comes another argument against contracting out. Defenders of public employee unionization charge that this method of service delivery is a way of by-passing the municipal and state unions to use under-paid, non-union labor. When governments decide to switch from public employees to private firms, union leaders accuse the offending agency of union-busting and putting public employees on welfare. A major obstruction to some municipalities in the Northeast and Midwest engaging more extensively in contracting out has been their politically powerful unions. Recently, when the city manager of Benton Harbor, Michigan proposed laying off almost all public employees in the debt-ridden city government and replacing them with contractors, the most vociferous reaction came from the municipal union.²⁹ (Needless to say, the manager and his plan did not last very long once employees mobilized opposition to contracting.) To support their interest in maintaining the traditional mode of service delivery, unionists are likely to employ some of the above criticisms in their arguments.³⁰

²⁹William F. Aste III, "Benton Harbor City Manager Proposes Laying Off Most Employees," The Benton Harbor Herald-Palladium (Feb. 3, 1981), p. 1.

³⁰See Hanrahan, op. cit.

Critics of privatization have also responded to the argument that contracting helps to limit government growth and interference, while at the same time strengthening the private sector and private organizations. They claim that the government's role in the economy, in private organizations, in people's lives continues to grow--it is just that public employees may be hired less frequently to produce and deliver the public services. Along with a flourishing government role comes a growing tax burden for services and programs which governments believe they must provide. In her critique of using private institutions for public purposes, Brilliant concludes:

Effectively, the mixing of public and private activities masks or screens the growth of government interference with the private sector and thereby makes it more palatable to average Americans. This illusion maintains the myth of less government, while government actually whittles away at the essential substance of private autonomy.³¹

These are some of the major disadvantages and limitations associated with contracting, according to a variety of analysts. This discussion does not imply, however, that contracting out for services is a uniformly undesirable alternative to bureaucratic supply. Rather, we are cautioned that the optimistic picture painted by contracting advocates within the public choice tradition may have a darker side. Many questions remain to be answered about implementing contracting, many of them revolving around fundamental economic and political issues.

³¹Op. cit., p. 394.

CHAPTER II
ADDITIONAL PERSPECTIVES ON CONTRACTING OUT:
MARKET IMPERFECTIONS AND COOPTATION

In the field of public administration, only the public choice perspective has offered a theoretical foundation for the favorable view of contracting out for services. The cited criticisms of this alternative to traditional methods of service supply have largely come from observers of public purchase, but these have not been well-grounded in theoretical approaches to the the general issues surrounding the subject. There are other intellectual traditions in the social sciences that can be brought to bear on this discussion, however. Two different perspectives--one from the discipline of economics and the other from political science--offer a useful framework for thinking systematically about contracting. They suggest various disadvantages that could be associated with its usage, and they point to underlying problems which would have to be overcome for its successful implementation.

I. Analysis of the Pro-Contracting Argument

Various public choice theorists have focused on the positive expectations of contracting out. In particular, they argue that this innovation will lead to more efficiently provided services--that lower costs (or increased output) can be realized. Additional benefits of this practice will include better quality services and a slowdown in governmental growth. But for these expectations to be realized, are

governmental growth. But for these expectations to be realized, are there not certain necessary conditions that must be present?

I. Conditions of Contracting

Contracting advocates maintain that the major benefits of contracting arise out of the market-like competition that is introduced into public service provision. When a government unit decides to purchase a service, monetary incentives are created for relevant outside suppliers to bid or submit proposals for the contract. Bidders/proposers must calculate not only the actual costs of service provision for the specified services, but also the price of services of other competing firms. According to the theory public choice scholars use, bidders will be encouraged to bid near the true costs of production for the exact set of services desired by the government in order to obtain the contract. To get a contract, in public procurement parlance, the bidder must also be viewed as responsive to the contract requirements and specifications as well as responsible--being capable of carrying through on the terms of the agreement. Given responsive and responsible bidders, contracting advocates assume that awards will usually be made to the lowest bidder, whether for garbage pick-up, tree trimming, or employment services. Only then would there exist an incentive to keep costs to a minimum.

This simple model of the contracting process, however, depends upon certain key conditions. Some of these are implied by the writers on contracting, but they must be made explicit in order to understand the likelihood of attaining the expected benefits of contracting. In particular, three major conditions appear to be critical to any contracting arrangements.

First, it is clear that competition is a necessary ingredient in the contracting system, and in particular, two aspects of competition are essential--competition in the environment and in contracting procedures. The service environment determines the alternatives which can be considered by the government unit, as well as the calculations made by potential contractors. At least two responsible and responsive independent bidders (but preferably more) are required to produce a basis for competition. If no other firm exists to offer its services, what incentives does the single bidder have to pare costs and provide high quality services? And how can the purchasing unit evaluate the proposed price and services when there is no method of comparison? (This task is particularly problematic when the government agency has never provided the service itself.)

In addition, the procedures utilized by the government unit must promote, rather than reduce, competition. Wide advertising, a clear and complete specification of the services required, and the impartial consideration of providers throughout the process are the primary methods of ensuring that purchasing services will ultimately benefit the consumers and taxpayers. Usually maximum utility will be realized when the government has an adequate knowledge of: 1) potential service providers, and their past performance; 2) the services themselves, especially as they relate to the needs of consumers; and 3) the methods of service delivery. With this information, those who write the specifications and evaluate the suppliers' bids/proposals will understand what elements are essential, practicable, and sufficient for good service provision.

The second major condition for efficient contracting that is assumed by contracting proponents is that contracting officials will be

rational decision makers who are motivated to adhere to the goal of maximizing cost savings, with adequate service performance.¹ Individual public officials first would be able to rank-order the various alternatives according to this goal, with the information they have obtained about cost, quality, needs, past performance, etc. Then they would select the best choice--the alternative that will result in the desired services at the least cost level. This outcome, however, depends on two key elements: 1) the common goal of cost minimization with adequate service provision; and 2) sufficient information to consider the major alternatives and to judge accurately the anticipated performance and consequences of each alternative in terms of this goal.

This form of rational decision making logically should be utilized in at least two critical contracting decisions--the choice between in-house service supply and contracting out, and the choice among alternative outside providers. It is obvious that cost savings via contracting can only be realized if it appears probable that outside sources would lead to reduced government costs (i.e., outside contractors should not be used simply because they are available or because politicians may benefit by it).

The third general condition required by the contracting argument is an effective "watchdog" role by the government. The contracting officials should continuously monitor contractor service performance to ensure that the activities conform to the specifications of the contract. Where contractors are reimbursed for their cost, particular

¹Admittedly, the goal of cost reduction does not necessarily require a maximizing assumption. Conceivably, the expected outcomes could be realized with satisficing behavior by officials, in the Herbert Simon tradition. But most of the theoretical contracting literature implies a maximizing principle. See James March and Simon, Organizations (New York: Wiley and Sons, 1958).

attention must be paid to verifying expenditures--to prevent illegal activities and mismanagement of funds. Opportunities should also be provided for consumers of the services to express their suggestions and dissatisfaction directly to the responsible government unit. These monitoring operations are critical for spotting potential problems, keeping contractors "honest," and providing technical assistance to contractors when problems arise. For human services (and any other types of services where cause and effect relationships are more uncertain), independent, objective evaluations are also necessary to determine if the services are effective in meeting program objectives. These reviews of cost, performance, and effectiveness constitute essential feedback information when contracts are considered for renewals. Only by these means can the government be certain that it is receiving the kinds of services it desires.

This analysis of the three major conditions--competition, rational decisions to achieve cost reduction and efficient services, and an effective government watchdog role--logically leads to this crucial question: How likely is it that these three conditions will obtain in the real world of public bureaucracy? Since the positive expectations about contracting appear to rest on these assumptions, what will occur if these conditions are not always present? Eventually these questions should be answered by thorough empirical study across a number of services in various government jurisdictions. As yet, contracting advocates have not considered the importance of these conditions, nor have they examined them in their research.

There are, however, various scholars from the disciplines of economics and political science who suggest important ways in which the

real world may conflict with the assumed, idealized world of public choice theorists. For our purposes, these scholars can be placed into two groups on the basis of certain common themes in their arguments. To facilitate references to them, I have labeled the two perspectives the market imperfection perspective (from economics) and the cooptation perspective (from political science).²

In what follows I do not intend to describe fully the analytic and historical bases of these perspectives. I will highlight their major arguments and then identify some of their conclusions that can be extrapolated to the subject of contracting out. While they have different foci, arise out of quite different contexts, and do not specifically address the subject of contracting, both of these perspectives suggest several ways in which the required conditions and, therefore, the associated benefits may not be found in contracting arrangements.

II. The Economics of Market Imperfection

The works that might be considered part of this perspective are extremely diverse, but they are commonly rooted in a longstanding effort to get away from the idealized components of classical economics and move toward a more suitable framework for describing and explaining the realities of economic behavior.³ A major thrust of these scholars has

²In doing this, I undoubtedly am placing together scholars who would not see themselves as members of a common "school," oversimplify complex arguments, and make generalizations that may not accurately represent any single scholar's contribution. This is an inevitable consequence of any enterprise which attempts to synthesize a complex, diverse literature.

³Pioneering works in this tradition are Edward Chamberlin, The Theory of Monopolistic Competition (Cambridge: Harvard University Press, 1933); Joan Robinson, The Economics of Imperfect Competition (London: Macmillan, 1933); John Von Neumann and Oskar Morgenstern, The Theory of Games and Economic Behavior (Princeton: Princeton University

been to emphasize imperfections in the traditional model of competition, pricing, information, and automatic adjustments of the market--market factors which are believed to produce an efficient allocation of society's resources. This economic model underlies much of the public choice tradition's desire for market mechanisms in the supply of public services.

For this analysis, it is most relevant to examine two areas of supposed market imperfections--competition and information. According to this perspective, competition in most industries tends to be monopolistic or oligopolistic, if it can be described as competition at all. Decision-making within them is not characterized by firms' automatic adjustments to the demands, prices, and competition of the marketplace; rather, it is marked by market control, interdependence, and interaction. Consequently, prices are too high, output is too low, and resources are allocated inefficiently. Thus, traditional claims about the virtues of private sector activity and the unhindered marketplace may not always be valid.

The perspective of market imperfections also points out that buyers in the marketplace frequently have imperfect information with which to assess the products and services they wish to purchase. Not only is information limited and costly, but sellers have many incentives to distract, obfuscate, and mislead consumers with their prices, product varieties, packaging, advertising, etc. Since consumers to a large extent depend upon sellers' information, they may frequently make unwise decisions in the marketplace.

Press, 1947). Themes developed in these early works have been elaborated on by various economists in the liberal tradition.

Certain economists take this problem one step further. They question the classical economic view that tastes for particular products and services are endogenous--that the consumer enters the marketplace with a self-defined idea of which products and services s/he requires. Instead, sellers often use selected information to mold consumer values and preferences--thus frequently creating "needs" where none existed before.

Logical extensions of this perspective to contracting out lead us to question the major assumptions of the public choice proponents of contracting. In many professional and technical fields and in services that require large initial investments for specialized equipment, there are often only one or two potential firms that could produce the desired service. The Department of Defense, for example, regularly uses sole source purchase procedures, often because only one contractor can produce the specified product or service. Competitive market pressures would certainly be minimal when the number of potential providers is so limited. There is no compelling reason to believe that outside suppliers will necessarily provide services more efficiently than bureaucratic agencies. Market control, monopolistic behavior, and the unavailability of alternatives may easily translate into higher costs for taxpayers and lower quality services for consumers. While in principle the government can replace unsatisfactory suppliers and contract with more efficient and effective ones, this option will often be absent. Sunk contracting costs and the need for service continuity may even mean that the government unit may have little choice but to utilize a particular supplier. Therefore, the problem of service monopolies cannot simply be avoided

by relying on the private sector, since the private sector itself may not be marked by competition among suppliers.

Part of the lack of competition in contracting out is due to the fact that government services often have mainly public good characteristics. The problem is not simply that this inhibits the expression of individual demand, since government can step in to perform this function. Rather, the problem is that there is often no independent free market for supply purposes--the private sector is under-developed precisely because demand is under-expressed. When the government first articulates demand for a service, therefore, it has no full-fledged industry to turn to and, as a result, can hardly reap the benefits of competition through contracting. Over time, its demand and preference for private supply encouraged the emergence of an industry which is, in effect, governmentally created and dependent. Reliance upon this kind of a "public-private" industry may produce far less efficiency and flexibility than the proponents of contracting expect.

Contracting out also requires a review process in which relevant, accurate, and complete information is essential for the government to judge costs, performance, and effectiveness. But the information it requires for wise decisions is often difficult to obtain, for various reasons, including: objective information is so costly that only a limited amount can reasonably be purchased; service quality and program effectiveness are often difficult to define and measure; information is often collected through contractors themselves and other organizations that have many opportunities for screening, bias, and ineptitude; private contractors have incentives to shape information about needs and outputs to their own advantage. Together, these sources of

informational inadequacy suggest that the government may often make unwise contracting decisions.

The main point of this application of the market imperfection perspective is that the public choice model of contracting is built on an idealized economic foundation. For various reasons, the conditions that are assumed to exist to produce efficient contracting--especially competition and adequate information--are not likely to materialize in the real world. As a result, the favorable expectations about contracting will often be in jeopardy.

III. The Politics of Cooptation

While the perspective of market imperfections has dealt with economic matters, the cooptation perspective developed in political science around political concerns. Like the economists, however, writers that can be considered as part of this political perspective also reacted to the major paradigm of their discipline--pluralism. They did not accept the pluralists' idealized pictures of politics as a means of understanding the interest group system and its relationship with government. A reasonable extension of this perspective to contracting conditions dovetails neatly with the economic perspective to produce salient caveats to the contracting model.

In particular, these political scientists challenged the pluralist assumptions that 1) interests form spontaneously and naturally; 2) that there is a natural balance of interests represented before the government; and 3) that government acts as a neutral, mechanical referee of

active interests in society.⁴ This perspective, especially as articulated by Theodore Lowi and Grant McConnell, believes that different segments of government tend to be "coopted" or controlled by those interests which are most successful in organizing and articulating their interests.

For the cooptationists, some interests have inherent advantages over others in achieving organized political expression. Voluntary associations are more likely to form around the intense material interests of relatively few producers, it is claimed, than around the more diffuse interests of many consumers. In contrast to the well-organized interests of business, labor, agriculture, and the professions, a range of broader social interests (e.g., concerning consumers, women, the environment) have long struggled to achieve membership levels and financial resources that come nowhere close to reflecting their true support in society as a whole.

These biases are compounded, cooptationists argue, by the fact that the policy-making process is neither competitive nor truly open--as posited by pluralists. Because of their preponderance of valuable resources--votes, money, information, political support, administrative cooperation--the producer groups become the favored interests in their "triangular" relationships with certain key legislative committees and administrative agencies. Relationships in the "iron triangle" tend to

⁴The major works in this tradition are E. E. Schattschneider, The Semi-Sovereign People (New York: Holt, Rinehart and Winston, 1960); Grant McConnell, Private Power and American Democracy (New York: Knopf, 1966); Henry S. Kariel, The Decline of American Pluralism (Stanford: Stanford University Press, 1961); William E. Connolly, ed., The Bias of Pluralism (New York: Atherton, 1969). The original term and phenomenon of cooptation was explained in a classic sociological work, Philip Selznick, TVA and the Grass Roots (Berkeley: University of California Press, 1949).

be cooptive--each of the insiders gains through regularized, supportive relationships with each of the other like-minded parts, and through insulation from outside interference. In the administrative process, cooptive politics is seen as even more pervasive and deeply entrenched. Specialized interest groups often have so much to offer that they are formally incorporated into agency decision making, relied upon to perform governmental functions, and essentially, delegated public authority. Noticeably absent in all of this are inputs from those diffuse social interests that have difficulty organizing and gathering resources.

From this perspective, contracting for services is likely to create more problems than it solves. To begin with, cooptationists would predict that potential or current contractors are far more active and organized than the recipients of public services, or those who pay for them--the taxpayers. Thus, the inputs from the private sector about service needs, methods of delivery, and the relative merits of private vs. in-house provision would be heavily weighted in their favor. In the "competition" to land and retain government contracts, moreover, individual agencies and firms have every incentive to employ their resources strategically with bureaucrats and legislators to exclude competitors and gain privileged, regularized roles in the contracting system. They may also try to minimize any risks of competition by cooperating among themselves. With contracting, in fact, the incentives for non-competitive politics are even greater than they might otherwise be, because many of the suppliers become dependent upon government contracts for their very survival. Unless they find a special place in the contracting system, they are condemned to a year-by-year insecurity.

For their part, bureaucrats and legislators cannot help but see the opportunities for developing mutually beneficial relationships with contractors. Legislators have strong incentives to assist those contractors that have something special to offer, either directly (e.g., political support) or indirectly (e.g., economic advantage to a legislative district). Bureaucrats can give contractors special considerations in solicitations and awards--and thereby achieve predictability, cooperation, and political support for their program areas. If desired, they can also be afforded the future opportunities of private sector employment in the very firms or agencies to which they once awarded contracts.

This incentive structure generally means that, like the contractors, public officials will prefer to eliminate true competition in the contracting process. If they can, they will not design procedures that promote competition, objectivity, and fairness. And contracting decisions will not be characterized by officials seeking to lower costs, improve service performance, and slow down government growth. They have few incentives to make these their goals; they have many incentives to promote their own personal goals through contracting. Thus, it is not surprising, as Smith notes, that federal contracts are "no longer predominantly set by competitive bidding as in an earlier and simpler day but are now to an increasing extent negotiated between the government and the contractor."⁵ Senator Howard Metzenbaum (D-Ohio) recently estimated that in the Department of Defense, approximately 90 percent of all contracts are not competitively bid--even when more than one

⁵Bruce L. R. Smith, "Accountability and Independence in the Contract State," in Smith and D. C. Hague, eds., The Dilemma of Accountability in Modern Government (New York: St. Martin's Press, 1971).

responsible and responsive supplier is available. He claimed that sole source procurement has become the standard because of friendship between DOD officials and contractors, as well as loopholes in the federal procurement laws. In his opinion, these contracts have been the major cause of waste, inefficiency, and budget growth in DOD.⁶

The cooptive environment in which contracts are awarded also conditions the review process. Officials have few incentives to scrutinize compliance and expenditures or to conduct meaningful evaluations of service performance and program effectiveness. These types of information are not utilized for most contracting decisions anyway, since government actors often may not choose suppliers primarily on the basis of these technical factors. For other reasons, inefficient suppliers can be preferred to more efficient and effective alternative suppliers. Any incentive they have to collect and employ evaluative data has less to do with truly objective evaluation than with constructing justifications for decisions that are made on political grounds. Thus, government oversight does not check cooptive politics. It simply contributes to the broader cooptive pattern.

All of this suggests that contracting can be a counterproductive response to government inefficiency and growth. Contracting authorities are not interested in promoting the goals of contracting advocates--at least not in practice in their own little bastions of power. Nor are they concerned with designing and implementing competitive procedures or thorough review methods. They are interested in maintaining existing relationships of mutual advantage and promoting new ones. These narrow

⁶Metzenbaum, NBC Television interview, Today, May 21, 1981.

interests are facilitated by more money, more programs, and resistance to any changes in funding levels, service priorities, and contracting methods.

Conclusion

Is contracting out a viable solution to the related problems of government inefficiency, ineffectiveness, and growth? Contracting supporters in the public choice tradition have generally answered this question in the affirmative. The two perspectives introduced in this chapter, however, lead to a different response. Taken together, the economics of market imperfection and the politics of cooptation suggest that the various conditions assumed by contracting adherents are unlikely to obtain in the real world. Consequently, the positive expectations of contracting will not materialize either. In this view, contracting could even exacerbate the already-serious problems of government.

Choosing between the two sides at this point is difficult to do--and may not even be desirable. By themselves, each perspective may not be an accurate model of a complex reality, both within and outside contracting systems. Each has, nonetheless, something to contribute to the study of contracting. Each offers a different way of looking at contracting, based on the assumption of certain distinctive conditions in the world. Where those conditions prevail, the corresponding perspective will be most accurate in predicting human behavior and government outcomes. To achieve the beneficial effects of contracting, at least three conditions appear necessary: competition, both in the environment and in procedures; incentives for decision makers to value efficiency and effectiveness; and an effective review process for expenditures, performance, and outcomes. The perspectives of market

imperfections and cooptation suggest the negative consequences that result when these conditions are altered or absent.

What is most necessary at this point is empirical research-- research which examines not only the outcomes of contracting, but which also addresses the conditions of contracting. Of particular importance is research which: 1) evaluates whether the three major conditions assumed by contracting proponents do occur in various service areas; 2) explores the factors associated with these key conditions; 3) examines the linkages between these conditions and the outcomes of contracting; and 4) determines if other conditions exist which promote the efficiency goals of contracting or compensate for failure in the conditions. These areas of research have not been touched on in the contracting literature. Yet they promise to allow us to identify suitable and unsuitable contexts for utilizing contracting, and perhaps in some cases, to transform the latter into the former.

In this dissertation, I attempt to study these four areas of contracting, but within a limited setting. In this way, I hope to contribute something to our understanding of a very complex subject, not only in terms of how contracting systems work in two program areas, but also how the key conditions (or their absence) help or hinder the attainment of contracting goals.

CHAPTER III

METHODS OF RESEARCH

The previous chapter has laid the groundwork for understanding public service contracting from new perspectives. This chapter explains the methods used to study contracting within a more limited focus. The intent of this dissertation is not, first of all, to "test" the three models for general accuracy of prediction. That is a far too ambitious objective at this stage of the literature. Instead, the primary purpose of my work has been to develop the three perspectives and their specific applications to the study of contracting. Next in importance is the use of empirical observation to evaluate which of the various conditions and expectations associated with these approaches are fulfilled in existing contracting systems and service areas. The question is: Do these perspectives and their expectations have any relevance to the "real world"?

I. Goals of the Research

Although any number of research designs, methods, and cases could be used, three major goals guided the selection of appropriate ways to answer this question. First, I wish to broaden the study of contracting to include services which have not yet been examined in depth by other scholars. Refuse collection especially has been quite thoroughly studied, with a few other services receiving somewhat less coverage, as indicated in Chapter One. At this point there is a great need to go

beyond this and expand into new areas to determine if contracting benefits are similar across a range of services. In addition, moving into qualitatively different service areas may shed necessary light on the applicability of contracting where measuring costs, outputs, and outcomes is more complex and formidable.

The second goal of this work, which will also expand research frontiers, is to focus on a different level of government besides that of the city--a unit which has been the site of most empirical treatments. Other governments, including states, counties, and regions, provide many services to consumer/citizens through contracts. They offer additional settings in which to study purchased services, with some interesting intergovernmental and bureaucratic features not found in most of the municipal studies.

The third goal of this research is to consider not only the financial costs of contracting out, but also other significant costs and benefits associated with the practice and its procedures. Although lower cost has been one of the major selling points of contracting proponents, other factors should be included in any thorough analysis. In actual public decision making, cost is only one of several criteria used by administrators and politicians to evaluate the utility of any given change. Some of the additional considerations are suggested by the three approaches and their expectations; others will be uncovered in the research enterprise.

While achieving all three of the goals completely in this dissertation is not possible, at least I hope to make a unique contribution to the literature--not only in the theoretical presentation, but also in the research choices and results. Consequently, the analysis of the

findings will lead to the specification of some of the conditions under which each perspective could be expected to operate, as well as those conditions under which contracting might be considered a viable public management alternative to traditional modes of bureaucratic service delivery. My overriding interest as a political scientist is not so much in any particular case or service but in the comparative study of different cases and services to produce eventually some generalizations and recommendations for public decisionmakers as well as academicians.

II. Case Selection

With the above goals in mind, I chose to study state level programs in the areas of human services. The literature of public administration and political science has largely ignored the many diverse types of human services, and this has extended to the contracting works as well.¹ Yet the human services comprise a growing and complex segment of government activity that requires rigorous examination by political scientists. Since many programs in this large policy area are administered from the state and county levels of government, the selection of a site naturally followed from the choice of services.

The selection of the state of Michigan as the site of research was less a theoretical choice than a practical one, considering the proximity of the state government to my residence. A rationale can be constructed for studying services in Michigan, however. In many respects, Michigan is a "progressive" state, particularly in its willingness to consider innovations in procedures and policies. It has seen a rapid

¹A noteworthy exception is Martha Derthick, Uncontrollable Spending for Social Services Grants (Washington, D.C.: Brookings, 1975).

growth in state services in the last decades, with much of this occurring in human services. Only recently has the state government been plunged into such a downturn due to the state's economic depression that it has been forced to reconsider some of its earlier choices to provide generously for many different human needs. Generally the state government and its employees are viewed by citizens and scholars as honest, responsive, and capable, especially as compared with some of the neighboring governments. Michigan state government is an interesting place to study human service contracting, since a wide range of services are provided, many by outside suppliers; administrators are quite professional about their work; and currently government is carefully scrutinizing what it does, how, and why. As a result, interviewees were found to be generally insightful, intelligent, and critical of the system.

Michigan may not, therefore, be considered a typical state; yet it can be viewed as a good choice to study simply because it is a large and important state. Human services affect many citizens throughout the state. The systems of contracting are usually complex. And Michigan and its officials are often seen as leaders in their policy areas--in positions to influence the spread to innovations to other states. The only claim for generalizability of Michigan to other states derives from the fact that the programs chosen for study are largely funded by federal monies, and therefore, are subject to specific federal rules and regulations, as are all other states receiving funds under these programs.

In most state and community governments, not all desired goods and services are made or performed by public employees of the particular agency responsible for provision. Many goods and some services are

purchased from other sources. An understanding of these areas of public procurement is often hampered by terminology and a lack of contextual information. Therefore, what follows is a brief explanation of the outlines of public purchase at the state level, with some application to both local and federal procurement. With these classifications, the reader should be able to understand better the uniqueness of contracting out in human services.

At least seven major types of purchases take place in state government. They are as follows, with appropriate examples from Michigan:

- 1) Goods--e.g., food, office equipment, cars
 --includes purchase for government use and for specified publics
- 2) Professional services--e.g., architects, management consultants,
 program evaluators
 --for government use
- 3) Maintenance services--e.g., painters, janitors, fumigators
 --for state buildings and property
- 4) Construction--e.g., highways, public buildings, half-way houses
 --for government and public use
- 5) Personal services for clients/program recipients--e.g., day care,
 chore services, foster care for children
- 6) Part-time medical services--e.g., physicians, speech therapists,
 psychologists
 --for clients, program recipients, convicts
- 7) Programmatic services--e.g., employment and training, money management,
 protective services
 --for clients/program recipients

In Michigan, the last three types of services are provided to clients in what is generally termed the "human services." Within this area, five primary types of outside agents are used: 1) other state agencies and departments; 2) local public agencies, such as local school districts, city and county departments, regional agencies; 3) non-profit private agencies; 4) proprietary (profit-seeking) private agencies; and 4) individuals.

The legal arrangements by which services are purchased and paid for are complex at any level of government. The terminology varies from place to place, but in Michigan, two major methods are used: 1) agreements, in which the client (service user) and approved or licensed provider work out details of service delivery, and either the client pays the provider with funds supplied by the government unit, or the government directly reimburses the provider (e.g., day care, home chore services); and 2) contracts, in which the government chooses the provider and draws up a specific document outlining its requirements--type of service, number of units to be delivered, bookkeeping system, etc. In some instances, the provider in turn sub-contracts for actual delivery of some or all services to program recipients with other agencies or individuals.

Both of these types of agreements and contracts should be distinguished from grants-in-aid in which most governments are involved. These terms have been difficult to explain precisely, even though they were recently defined by the Federal Grant and Cooperative Agreement Act of 1977 (P.L. 95-224). Unlike in the public purchase of goods and services, in grants the recipients of the funds--governments, universities, non-profit agencies--define what they will do with the money,

within the given guidelines. Thus, grants are a form of assistance for units engaged in activities judged worthwhile by the grantor. The grantee is not usually bound to a specific output of goods, tasks, or services by the source of the funds, as are contractors.

In this dissertation, the focus will be on human service contracts which state government makes with private agencies. Contracting out often takes place between two public agencies, but because of the theoretical perspectives developed in the previous chapters--i.e., public-private relationships--my attention has been drawn to the private sector suppliers, particularly the non-profit agencies, since proprietary firms in actuality deliver few services to clients for the government. Specific programs within two human service departments were chosen for in-depth examination. These programs offer a variety of services within two different departmental environments, and, as a result, have differing procedures governing the contracting process. Because of this work's attempt to suggest generalizations about contracting, some variety in the cases, services, and procedures is vital.

A. The Department of Social Services (D.S.S.)

DSS aid to the poor and near-poor may be put into three categories --cash assistance (AFDC, direct relief), in-kind payments for goods and services (Medicaid, food stamps, subsidized housing), and social services. Of these, not including administrative overhead, social services usually make up less than ten percent of the total Michigan DSS expenditures. And all purchased services from private suppliers have been approximately 50 percent of that amount. Despite the relatively small amounts of money involved, purchased social services have been a

politically and programmatically important part of welfare efforts at all levels of government.

Most of the social service programs in D.S.S. are funded through Title XX of the federal Social Security Act signed into law in 1975 (P.L. 93-647), replacing earlier, somewhat similar, titles. Title XX authorizes funding under a matching formula of 75 percent federal and 25 percent state for social services programs to low-income individuals and families for the primary purpose of reducing dependency. Since the late Sixties several of the approximately 15 general services within eight programs have been purchased from outside agencies and individuals under either agreements or contracts. Purchased services may be financed in two different ways: 1) straight purchase, in which DSS pays providers with federal and state (appropriated to DSS) funds, and 2) donated funds purchase, in which public or private donations are made to DSS for one of the services and are used as the match for the federal funds. Donated funds may come from other state and local public agencies, and non-profit and proprietary private agencies. This method is more frequently employed for contracted services, and therefore, will be examined more closely.

Although DSS has been purchasing services from various sources for several decades, during the early Seventies DSS contracting increased dramatically. Certainly the expansion of the welfare caseload and the state of the Michigan economy have contributed to the growth; but probably more important was the availability of open-ended federal funds. As long as money was put up by the states, the federal government had to

match almost any type of service at the 75 percent level.² The incentives for rapid expansion of state social services to receive such large amounts of federal monies meant that purchase was promoted, since it was the quickest way to increase federal participation. A "cap" was placed on the federal matching funds in 1972, but Michigan's DSS was not seriously affected until the 1975-76 fiscal year, with the passage of a more stringent Title XX, the implementation of HEW regulations, and the expenditures meeting Michigan's fixed limit on federal funds.

The major development in the Michigan DSS since then has been the decentralization of contract decisionmaking to the county departments of social services. In the Sixties and early Seventies the trend had been toward greater control by the state DSS to promote greater uniformity in services. This was reversed in the late Seventies. Instead of the state program offices being in charge of contracting for all areas in the state, the counties began to regain more responsibility for assessing needs, deciding which services to purchase, selecting contractors, and writing up the contracts. As a result, the changing relationship between the state and county departments (as well as those between state and federal) emerged as yet another variable in this study.

Because of the complexity of the many programs and services provided by Michigan's DSS, I decided to examine contracted services in three major areas--the Basic Adult, Family, and Community programs. This eliminates child, delinquent, and protective services which are not as frequently provided by purchase of service under contracts and donated funds.

²See Derthick for the federal political background and the effect on HEW.

B. The Department of Labor (D.O.L.)

The contracting procedures in DOL offer a necessary contrast to those in DSS, even though several important similarities exist. I chose to study one programmatic area within DOL in the Bureau of Employment and Training (BET). Under the revised federal Comprehensive Employment and Training Act of 1978 (CETA), two special state governor's and grant programs were established in Titles II and IV. Even though these grants are separate from those provided directly to local (usually county-based in Michigan) prime sponsors of CETA programs from the federal DOL, many state contracts are made with the prime sponsors to deliver or sub-contract for certain services. In addition, the private sector is designed to be an integral part of the CETA programs at all levels in both planning and delivering services. The political reasons for the governor's grants are clear. In the Sixties and early Seventies, many governors resented the federal government bypassing the states to offer assistance to local governments and specially-created organizations in many policy areas. As a result of the National Governors' Conference's Congressional lobbying efforts, the states received grants for CETA programs through which they could more readily coordinate employment policies and services.

Although the programs in DSS and DOL are both largely federally funded with the purpose of helping people to change or cope with their circumstances, the organizational environments, contracting procedures, and department goals manifest some interesting differences. In addition, the procedures for the two titles' contracts differ in certain key respects. Probably one of the most salient differences between the two departments is that BET contracts are all negotiated at the state,

rather than county, level. State officials have placed a three-year limit on most contracts, since many are for demonstration purposes. And in BET, donations are not required for most contracts. Under the Title IV youth grants, however, contractors must match some of the total amount in the second and third years of the contract. While all of these CETA funds are allocated among the states by use of a formula not requiring a match, Michigan's BET has decided to require an increasing match to encourage the continuation of successful projects with local funds and support.

III. Methods of Study

Three major types of methods were employed in studying the selected DSS and DOL programs. These were conducted roughly in the following order: 1) preliminary interviews with officials in four state departments, 2) a study of pertinent governmental documents, and 3) a series of in-depth interviews.

The first wave of interviewing established the "lay of the land"--the extent and character of state contracting, state and federal laws and regulations governing the process, major problem areas, differences among the various departments, the types of purchased services. To get this information, I interviewed about twenty state officials either in face-to-face settings or over the telephone in a very open-ended format. These officials also assisted me in the second phase of research by providing me with many documents pertaining to both contracting and the programs under investigation. Of particular interest was a legislative evaluation study of DSS contracting,³ and the current annual plans for

³House Fiscal Agency, Purchasing Social Services Under Title XX in Michigan (1976), pp. 4-5.

Title XX (DSS)⁴ and the Governor's special employment and training grants.⁵

The third research phase involved in-depth interviews with two types of individuals--state (and in the case of DSS, local) contracting officials and private contractors or service providers. The choice of the standardized interview schedule as the major approach to gathering data was largely determined by the theoretical and substantive goals of the enterprise and the lack of relevant and available information by other means.

A primary research goal is to explore the wide variety of advantages and disadvantages associated with contracting in order to evaluate whether the theoretical approaches have any application in reality. Some cost and performance data could have been compiled from department sources, but its reliability and completeness would have been questionable.⁶ Even if available and relatively complete, these data would not have answered my questions about the procedures and conditions of contracting--an important part of evaluating the extent of competition and the oversight role of government. Nor would they have uncovered the criteria used for choosing outside supply over in-house provision or for selecting among prospective contractors. In short, the interview

⁴Title XX Administration Division, DSS, Michigan Annual Title XX Services Plan 1979-1980 (1979).

⁵Michigan DOL, Bureau of Employment and Training, Annual Plan for Special Grants to Governors, Comprehensive Employment and Training Act (1980).

⁶The time period of study was marked by what I perceived as an unusual amount of paranoia by public officials, probably because of threatened cutbacks in personnel and funding. It was difficult to get any specific data about cost and performance that could have been used against programs or officials.

approach produces a rich supply of information that not only meets the research requirements of the theoretical perspectives but also suggests hypotheses that could be tested elsewhere.

In this study the interview schedule also offers distinct advantages over the questionnaire. A seasoned political researcher, Lewis Anthony Dexter, argues that the interview method is especially appropriate when trying to obtain complete information from elite or specialized individuals--particularly where the researcher is not certain of all the dimensions of the subject.⁷ In addition, according to other experts, the interview format allows the interviewer the opportunity to control the administration setting, to interpret complex questions correctly for the interviewee, to prod for further clarification or examples, to evaluate the validity of the information, and to ensure that the interviewee considers the questions seriously.⁸ The result is more relevant, accurate, and wholistic information than that obtained through a questionnaire.

The major weakness of this data-gathering method is the interviewer. Herbert Hyman points out several potential sources of bias--interviewer's political orientation, his/her beliefs about the true opinions of the population, the respondent's beliefs about the interviewer's "real" intentions, differential effects due to personal interactions, systematic effects of group membership disparities between interviewer and respondent (e.g., race, sex, age), situational determinants of

⁷Dexter, Elite and Specialized Interviewing (Evanston, Ill.: Northwestern University Press, 1970).

⁸Raymond L. Gorden, Interviewing--Strategy, Techniques, and Tactics (Homewood, Ill.: Dorsey Press, 1969), pp. 52-54.

interviewer effect (e.g., sponsorship, anonymity). In addition, the interviewer can make many errors in asking, probing, and recording.⁹

Because of the results of the interviews in most cases are only as good as the interviewer and the interview schedule, particular attention was paid to developing a standardized schedule and standardized interview style to reduce interviewer variations. I conducted all interviews myself with a pre-tested interview schedule that used the terminology familiar to all respondents. (Appendices A, B, and C) Because of prepared multiple alternatives and the complexity of some questions, the interviewees were asked to follow the questions on their copy of the schedule while I recorded their answers on a separate copy. If the use of a prepared schedule did not eliminate all possible biases due to my expectations of the interviewees' opinions, at least the schedule reduced possibilities for differential errors in asking, probing, and recording responses.

Other biases listed by Hyman were also minimized. In setting up the interview appointment and beginning the interview, I always stressed that I was working on an independent dissertation project about contracting for services in public administration--that my only purpose was to fulfill requirements for the Ph.D. I referred to my student status and my lack of department experience in other contexts at least once during each interview to dispel any notions about ulterior motives or affiliations. The need for this approach was frequently made obvious by questions about my use of information that was not complimentary about interviewees' units, other bureaucrats, or politicians. (Past exposés

⁹Herbert H. Hyman, Interviewing in Social Research (Chicago, Ill.: University of Chicago Press, 1954, 1975), pp. 150-192.

of DSS activities, in particular, explained this initial caution by DSS respondents.) I explained to both state officials and contractors that I had received approval for the research project from department authorities, but that their answers were confidential. Interviewees were promised that neither their identities, positions, and organizations would be reported to other officials or in my dissertation itself.

With only four exceptions, I considered that I was successful in achieving good, trusting relationships with interviewees. (And those who did not respond well were generally cooperative in answering the questions.) Almost all of the respondents were very friendly, open, and helpful. The customary approach to building rapport was to show interest in the individual's own position (or agency), to avoid expressing disapproval of interviewee's statements, and generally to be sympathetic to the respondents' views and problems. (The usual technique in DSS was to acknowledge their budgetary problems and the threat of the Tisch tax cut proposal.) In addition, I do not believe that interpersonal barriers were erected because of my race, sex, or age. In fact, my youthful appearance, sex, and status as a student probably aided in dispelling distrust or suspicion. To prevent biasing the results, I did not communicate anything about the theoretical perspectives, their expectations, or my working hypotheses on contracting, even though I was often asked what my personal orientation to the subject was.

The content of the interview schedule was also important in establishing credibility and rapport with interviewees. The format and questions were based on the initial interviews and pre-tests with public officials, as well as my own background knowledge. As a result,

generally little difficulty was experienced in the respondents understanding and answering the questions.

The interview schedule was designed to examine the procedures of contracting and the viewpoints of those most involved in the process--state and county officials and contractors. This information is crucial in evaluating the theoretical perspectives and accomplishing the research goal of including the significant advantages and disadvantages associated with human service contracting. The schedule itself has three parts, in the following order: 1) personal background questions (e.g., education, previous positions); 2) questions about the process of contracting (from solicitation procedures to protests); and 3) opinion and attitude questions (e.g., problems in their work, contracting in general. A variety of question formats are utilized, including open-ended questions, fixed-alternatives with probes, and graphic rating scales. Lewis Dexter has stated that biases in wording and subject acquiescence are less of a problem in interviewing elites than in most public opinion surveying; nonetheless, attention was paid to developing questions and fixed alternatives that minimized these problems.¹⁰ Many of the questions also are open-ended or include probes that allowed the interviewee to explain or restate an answer. While it was important to establish my credibility and interest in the subject, it was just as necessary to make clear to the respondents that I was open to being "taught" about how contracting really is, in their own words.

Three different interview schedules were used with three different groups in both the Departments of Labor and Social Services. The main

¹⁰Dexter, pp. 5-24.

schedule, which included all three sections of questions, was administered to the major state and county officials in the departments (Appendix A). These interviews lasted from 90 minutes to three-and-a-half hours, depending on the respondent's talkativeness. Because this time commitment could not be obtained for lesser officials, I conducted some 45 and 60 minutes interviews using a shortened form (Appendix B). Most of the more objective procedural questions were omitted, since the information could be collected from other respondents. The sections on personal background and opinions, however, were retained. Such questions can illuminate differences and similarities among the various types of contracting officials.

A third interview schedule was developed for service providers (Appendix C). Where possible, the same questions were incorporated or slightly reworded to provide points of comparison between the public officials and the contractors they deal with on a continuing basis. Several procedural questions were also used to check the answers of the public officials--to determine if contractors actually observed some regulations put into practice in the form the bureaucrats said they were. In addition, some questions were designed specifically for the contractors. These interviews took between one and two hours to conduct.

The selection of interviewees was the next pre-interview step in the research. In the preliminary interviews, I requested and received the names of the major state officials working in the relevant programmatic and contracting areas. In both DSS and DOL, most of these officials were selected for interviews (four each from DSS and DOL), plus about 20 percent of the contract specialists, whose names were provided by their supervisors during interviews (two from each department). In

DSS, the selection process was complicated by the significant role of the counties in contracting. To ensure that county perspectives were included, I chose to interview seven contract supervisors in counties where private contractors are used to deliver services. Of the 83 counties, only some contract for adult, community, or family services, and only about six employ someone full-time to coordinate these activities. As a result, only the larger, contracting counties were included in the sample.

Private service contractors were also selected for interviews on a non-random basis. A list of current contracts and providers was obtained from almost all the DSS and DOL state and county officials during their interviews. I usually selected agencies from these lists and told the public officials I wanted to interview them, as a matter of courtesy. I also asked officials for the names of other contractors who either had not had their contracts renewed or had never been successful in getting a desired state contract. (The list of these agencies in DSS was rather short, and only a couple of them would grant me an interview.) The purpose of this was to obtain the views of past or potential contractors as well as the current ones. The resulting contractor sample with ten providers associated with each department may not have been representative of the population, since they were not actually randomly selected. However, I did attempt to get some variety in the types of services, the target groups, and the location of the agencies.

In contacting public officials and contractors for interviews, I met with moderate success. Bureaucratic run-around, delay, and mistakes were frequently evident, but usually I was granted an interview with the desired individual. Having the approval of the evaluation division head

in DSS and BET's deputy directors helped to open doors, as did my status as a graduate student (rather than a journalist, for example). But I was unable to talk to all the people I had wanted to because of department-imposed limits on the numbers. For example, in DSS and DOL I had asked for more program and contract specialists than I was finally allowed to interview.¹¹

IV. Data Analysis

One of the obvious problems with this research plan is the lack of random sampling. The choice of respondents was determined by their available time, departmental approval, and my own criteria for services and service providers. What may allow me to claim some representativeness in analyzing the chosen programs is that such large percentages of the population were usually interviewed. The lack of a large or random county sample in DSS was dictated by the fact that only some counties contract out with private sources for many services. As a result, those county contract supervisors interviewed are actually a sample of a limited population of contracting counties.¹²

An additional difficulty was encountered in choosing appropriate research and statistical methods as well as the size of the sample. The unit of analysis under examination is not entirely clear. Is it the individual respondent, the contract, the program, the service, or the

¹¹Partly this was due to the workload of the bureaucrats, and partly because they did not believe that I needed to talk to so many people to get the information they thought I wanted.

¹²I limited my interviews to counties with at least two relevant contracts. I included three of the four largest counties in the sample because they had so many more contracts. However, two smaller counties with only two or three contracts were included.

department? Very little quantitative research has been done in similar areas, probably in part because of this issue. A related problem in this type of research is that all individuals cannot be analyzed equally regarding more objective procedures, because of different levels of knowledge about contracting. In both respects, then, employing quantitative methods to add up, compare, and analyze responses will not produce a thorough, in-depth analysis of contracting out.

In some respects, two different areas are being examined here--first, the more objective procedures of contracting, in which the department (county or state level) is the unit of analysis; and, second, the backgrounds and viewpoints of the various contracting actors, in which the individual is the unit of analysis. Consequently, the following analysis of the two departments will have both qualitative and quantitative aspects. Qualitative approaches will be used in reviewing the methods and process of contracting, while some reporting of frequencies and percentages will be employed in examining respondents' backgrounds and viewpoints. Because of the exploratory nature of this research, these methods appear to be most appropriate.

Most of the problems of using the interview schedule have already been discussed, and minimized. One additional problem which will affect the analysis of the data is that the schedule is only a means for getting information and opinions that respondents are willing to express. Even though the interviews were generally relaxed and allowed for follow-ups and prodding, it was not always certain that the interviewees were showing the negative aspects of contracting in proper perspective with the good. Some individuals were far less critical than others were of the same program, officials, and procedures. Whether this was due to

a desire to hide their true beliefs or merely because of individual differences is difficult to determine precisely.

Part of the difficulty arises from the two purposes of using the interview schedule--first, to define the actual procedures, in which overall accuracy is necessary; and second, to discover the opinions and views of the contracting actors, in which individual accuracy is required. In the first, I used other interviewees and documents to check on the procedures, but I could not do that for the opinion section, for obvious reasons. During the interviews, I tried not to provide any reasons for respondents to distort their responses. As with most questionnaires and interviews, I must assume that generally the respondents were truthful in their answers.

In conclusion, it must be emphasized that this research is an early effort to define some of the major issues and problems of human service contracting, within the general framework developed in chapter two. The precise frequency levels are less important than is the correspondence between the concepts and expectations of the theoretical approaches and the research findings of the next chapters.

CHAPTER IV
CONTRACTING OUT UNDER TITLE XX
IN THE MICHIGAN DEPARTMENT OF SOCIAL SERVICES

This chapter focuses on the Department of Social Services' Adult, Family, and Community programs in which a variety of services are purchased by contract from private agencies. We will examine the programs in DSS in light of the assumed conditions and positive expectations about contracting out that are held by public choice proponents of this method of service delivery. In particular, we will focus on determining the extent of competition in the social services environment, and in the procedures utilized by contracting officials; the role of DSS in monitoring and evaluating contractors; and economic rationality in government decisions about contracting. More indirectly, we will also attempt to answer the question: Does contracting seem to achieve the positive results envisioned by its advocates?

I. Interviewee Selection

Three different types of individuals were used as information and opinion sources for this study of DSS contracting: state DSS officials, county contracting officials, and contractor representatives.¹ First,

¹These 23 interviews were conducted during the months of July, August, September, and October of 1980. This long period was necessary because of the heavy workloads of participants, vacations, a budget crisis, and contract negotiations.

at the state level, six DSS employees were interviewed by means of interview schedules--two in programmatic areas (Adult, Family, and Community Services) and four in contract management. (Three of these were administered with the full-length form, while the others were done with the short form.) A mix of supervisors and specialists were interviewed. The second category of respondents, all given the long form, was made up of seven social services or contract coordinators in county Departments of Social Services. I chose to interview contract coordinators in three of the four most populous counties in the state, with the remainder from medium-sized counties that also contract out for some services in the selected programs. (Most of the other 76 counties in Michigan do not contract with private agencies for these targeted programs and services, although some may purchase child, delinquent, or protective services more frequently by this means. Their caseloads are usually smaller and they have few local private agencies that could be used.)

These state and local officials were selected because most of the DSS contracts originate and are "owned" at the county level, but are currently reviewed, processed, and monitored by the central contract management staff. State program officials interpret Title XX policy, make some service contracts themselves, review county contracts for programmatic elements, and provide technical assistance to the field staff when necessary. As a result of these selection procedures, I obtained in-depth information on several counties' contracting procedures from the county officials, and a more general overview of all the counties' DSS contract through the state officials. Consequently, some of the conclusions from this study can be understood as applying to DSS contracting in general--not just in the selected counties.

The third group of participants in the research consisted of ten private, non-profit agency spokespersons, who were interviewed with the schedule designed for them. Of the ten, two contractors had current state-wide contracts that were drawn up and managed by state program officials, while the rest of the providers dealt primarily with various county Departments of Social Services. Because two of those current county contractors had contracts with more than one county, they were also able to provide interesting comparisons and generalizations about the counties' procedures and relationships. In addition to current providers, I selected two former contractors who had failed to have county contracts renewed. The names and agencies of all contractor respondents were provided by state and/or county interviewees.

As with the public employee interviews, I had received official permission to conduct my research from the state DSS director of the evaluation division. This, and my promise to keep identities confidential, allowed me to get appointments and satisfactory cooperation during interviews. The only possibly negative aspect of receiving approval from DSS was their imposed limit on the number of DSS personnel who could be used. After conducting all the interviews, however, I did not believe that having more respondents would have altered the results significantly.

A. Backgrounds of Respondents

Generally, the backgrounds of the three major types of individuals interviewed offer few surprises. In most respects, the public sector employees differed little from the private sector respondents. State and county interviewees tended to be younger than the provider interviewees, but the average length of time spent in their current positions

for all groups was three to five years. The DSS employees were more likely than agency personnel to report some graduate education, yet their degrees were in similar fields--usually social work. This indicates that at least the public and private contracting participants have somewhat similar backgrounds--something that can facilitate better interpersonal relationships.

The most interesting feature of the interviewee profile is that some respondents of all three groups had held previous positions at either state, county, or private agencies. For example, some county services or contracts coordinators had worked for the state DSS before, and others had previously worked in private social agencies. Several respondents reported that they felt they had a broader, more complete, view of social services because of their experiences in seeing the welfare system from at least one other perspective. And some involved directly in the contracting process suggested that they may have been chosen for their current positions in part because of their appreciation for other viewpoints, as well as their wider knowledge. Two of the contractor respondents had moved from public to private positions (and vice versa for a county spokesman) that were almost direct counterparts in social services purchasing.

These similar backgrounds and patterns in careers suggest that at least these individuals would have some additional knowledge about contracting decisionmaking and probably have some sympathy for the demands and views of other actors in the contracting system. Private agency heads who have worked in DSS contracting or program areas would also have the advantages of important friends and contacts, and access to helpful information. One agency director, for example, had been

influential in setting up the DSS purchase-of-service system in the early Seventies, and had worked directly under the current state department director, John Dempsey. There is little doubt that her experience and contacts made her an excellent choice for the position she now holds. It is also highly unlikely that her agency would have to fear losing a contract--and not only because the staff personnel perform a necessary service and do their jobs very well.

The cooptation perspective suggests that frequent movement between the public and private sectors of regulatory agencies can be an indication of cooptative relationships, in which public officials can lose their objectivity and the importance of their "watchdog" role. Similar situations can occur in contracting out. And because of the common educational backgrounds and general work experience, some cooptive relationships are possible in the DSS contracting system as well. Therefore, the contracting procedures and checks on the process by other officials are particularly crucial.

B. Agency Profiles

The ten organizations included in the sample indicate the diversity of social services providers used by the DSS--even though this study is limited to the three program areas of Adult, Family, and Community Services. The services supplied to DSS clients by these agencies include money management counseling, geriatric day care, family counseling, vocational and educational services for the severely handicapped, homemaker services, housing services, alcoholism rehabilitation, health-related services for migrants, and family counseling for abuse prevention. Obviously, the target populations vary widely, according

to the services. Each of the contractors was selected for its particular expertise in one of these services. The providers are fairly specialized agencies with a limited clientele and range of services. The size of the agencies in terms of full-time workers varied widely, however, from a low of three employees to a high of 155, with a mean of 44. Although one family counseling agency was established in the nineteenth century, all the rest got their start since 1960--and several of these were at least partly in response to the newly available federal and state human services funds.

All except one of the providers depend a great deal on government contracts. (The single exception was a state association of counseling agencies that subcontracted for all of the DSS services in a unique, one-shot contract.) Of these nine agencies, five received at least 75 percent of their revenues from government contracts during the 1980 fiscal year. The ten agencies' total numbers of current contracts with various parts of the federal, state, county, or city governments ranged from one to 16, with a mean of four. (This is separate from additional grants that some have received from various public and private organizations.) In addition, several of the ten agencies have had other contracts under Title XX or other programs in the past that were no longer in effect.

While each agency has had at least one DSS contract either currently or in the last few years, two had more than one contract at the time of the interviews--one homemaker agency had two, and a money management agency had contracts with ten different counties. Six of the contractors have had their DSS contracts renewed for many years. Three of these were started at the state level, and then became the

responsibility of the county DSS. (Two remained state contracts, and one was dropped.) The contract amounts varied widely, from a low of \$4000 for money management in one county to a high of almost \$1,170,000 for alcohol rehabilitation services which are available to eligible clients throughout the state.

Of the ten agencies included in this sample, at least five of the agencies would be severely affected by major cut-backs or the elimination of their DSS contracts. Some probably would have to close their doors, if they did not find an alternative source of funding--in itself, a difficult proposition in these difficult times. Although DSS has at times encouraged contractors to find additional sources of funds and to use the DSS contracts as seed money, one contractor said that there is little incentive to become more diversified in funding sources in some instances in human services. He noticed that these sources tend to pull out when other sources become available, and just pay for programs that rely almost exclusively on their money. So the agencies may not gain anything by finding new grants and contracts.

This reliance on one or two funding sources, such as DSS contracts, can work in two ways--one to the advantage of public service provision, and the other, to its disadvantage. If agencies are particularly dependent on large DSS contracts, they may be more likely to respond to DSS' suggestions for improvement, since the loss of a contract could be devastating. This fits in well with the public choice approach--that cost will be reduced and performance improved because of the desire to "stay in business." Both contracting officials and providers mentioned that this responsiveness to correction sometimes has been important in improving contract performance.

On the other hand, there was evidence that contractor dependence can hamstring DSS officials if agencies: 1) mobilize their political friends, allies, and clients to prevent any change in program direction, priorities, funding, or awards; and/or 2) show that their programs will not be delivered to needy clients at all if DSS drops a contract. In those cases, the relevant government unit may not have any choice but to continue contracts. Consequently, DSS may be contracting for services that are determined, not by service priorities and performance, but by the very fact of contractor dependence.

II. The Role of Competition in Social Services Contracting

The public choice approach has assumed that all manner of benefits can be realized by contracting out for services. Their arguments largely rest on the assumption that competition will ensure that services will be provided at a lower cost level with good service performance. We will examine this assumption in terms of the DSS contracting experience. But first we will look at the background of the social services legislation.

A. Social Services History

The source of both the funds and regulations in social services is Title XX of the Social Security Act. Title XX was passed by Congress in December, 1974, signed into law in January, 1975, and went into effect in the new fiscal year--October, 1975. This title basically replaced most of the earlier titles of the act. It retained the \$2.5 billion ceiling that had been placed on federal matching funds in 1972, but included some other stricter requirements to prevent states from spending federal monies on activities not defined as in line with general

social service goals. At the same time, however, the law and HEW regulations gave the states continued discretion in determining which services they wished to provide within the general guidelines, the types of providers (in-house or contracted) they wanted to utilize, and the procedures to use in making these choices. Although an annual plan for Title XX services was also required before each fiscal year's funds would be distributed to each state, the act and the regulations continued to allow much discretion by the state governments. Attempts to limit state discretion drastically because of previous exploitation of the law had been overcome by strong opposition from state governments, national welfare organizations, the Congress, and private agency groups.²

Until the 1975-76 fiscal year, the Michigan DSS was not seriously affected by the 1972 federal ceiling, since Michigan did not suffer the cuts of some other large states (New York and Illinois) that had more aggressively captured ever larger amounts of federal matching funds from 1969 through 1972.³ Although DSS had purchased at least some of its services for many years, the rapid growth in utilizing many outside providers largely occurred between 1969 and 1975 with the availability of federal monies and an altered federal policy permitting purchase of services (the 1967 Amendments to the Social Security Act). According to a report by the House Fiscal Agency (the LPER report), Michigan's expansion in social services was due in part to pressure primarily from Governor Millikin's office and the state legislature to increase rapidly the level of federal participation in social services--the quickest

²Derthick, Chapter 10.

³See Derthick, Chapter 9, and LPER report, p. 4.

method being to purchase from existing private agencies. Because of the donated funds provision in the law, DSS saw purchase as a way of expanding needed social services without state expenditure.⁴

Private or public agencies that could arrange to donate to the state the requisite 25 percent match for federal funds in turn received contracts to perform particular services. In effect, DSS "allowed private and local public agencies to determine the use of millions of dollars in federal funds with almost no effort to control the disposition of those funds or to account for their impact on DSS clients."⁵ This strategy of using local provider/donors was fairly typical, according to Derthick, and contributed to the skyrocketing cost of the federal grant.⁶

When it approached its limit on receiving federal matching funds in 1975, Michigan DSS began to reconsider some of its loose contracting procedures. Instead of purchasing almost any new service with the 25 percent match donated, and continuing virtually all previous contracts routinely, DSS sought ways to determine client needs and to compare the merits of current programs.

DSS was not immediately successful in agreeing upon and implementing needs assessments and improved, more competitive purchase procedures. But it did make some changes in the system a couple years later, during FY79 and FY80. From the rather centralized, state-controlled process of the early Seventies, DSS moved to a more decentralized system in which

⁴LPER report, p. 4.

⁵Ibid., p. 38.

⁶Derthick, chapters 3-8. Some of the other states, however, were more involved in purchasing existing services from other state agencies and departments.

the county departments received certain allocations for purchased services and became directly involved in determining local needs, selecting providers, finding donors, and reviewing the services purchased for county residents. The result was greater variety in the contracting procedures and arrangements, since the counties were given some flexibility in this area. Although not strongly supported by state-level contracting officials, the change was part of the national trend toward greater local discretion in various programs, which, it was hoped, would lead to a better allocation of resources.

When funds became very limited in FYs '80 and '81 because of decreasing revenues and increasing social service needs, both the state and county levels had to examine more carefully what services they purchased, as well as those provided through public employees. Since all the interviews in this study were conducted during the summer and fall of 1980, this crisis provided an occasion to analyze not only the general subject of social service contracting in light of the public choice approach. It also illuminates the question about the role of contracting in times of fiscal stress: is contracting out for services reduced or expanded?

From this very brief history of social services and the Michigan experience with the federal legislation, it is clear that the Congress, HEW, and the Governor, the state legislature, and DSS officials have had quite different goals in using outside providers than do public choice advocates of contracting. Those involved with the Title XX policy process did not seek lower costs or a slowdown in government growth--and probably not even better quality services. Instead, they aimed to provide a wider array of services for the needy, to encourage states to

use both private and public sectors to accomplish this, and, at least for state officials, to capture ever-larger amounts of money for state residents with few strings attached.

Those committed to greater funding for the poor embraced the concept of purchase eagerly, since they saw that not only would it mean more services but also it would create a broader, state-wide constituency for welfare and social programs--largely made up of public and private service providers. Once that constituency was formed and became dependent upon DSS programs, the flexibility envisioned for contracting out by the advocates of this method was decreased, rather than increased. This state and local coalition, combined with allies in strategic positions, ensured that the new Title XX would not threaten existing arrangements. Even under severe fiscal constraints, it became difficult to reduce contract amounts and eliminate contractors. And competition seldom was seen as a desirable means for determining which services to fund and which providers to use.

As a result of their goals, state program and contract officials did not set up contracting procedures that emphasized the traditional principles of public procurement--fairness and competition. The federal regulations of both the original legislation and its Title XX successor did not require the states to promote these principles when contracting. Nor was it in the best interests of contracting officials and contractors to insist that competition and fairness be applied to state contracts. Competition among providers and in procedures can create conflict, increased paperwork, and greater uncertainty for all participants in the contracting process. Therefore, since it was not required,

competition was not maintained as an important principle in DSS purchase of services.

B. Competition in the Social Services Environment

Competition for clients and funding sources has not held a strong place in the tradition of the social services field. Public and private agencies have not considered themselves similar to profit-making enterprises, where the desire for profits and growth can encourage competition. Instead, social agencies have emphasized that their role is to serve people whose social and economic needs have gone unmet in a particular community. They differentiate their services from each other, to avoid direct competition and overlap.

Once the social services contracts became available, not all social agencies were interested in them. In the past, providers offering services aimed at the special needs of the poor were few in number, because of limited funding sources and the difficulty of serving the needy adequately. Before the mid-Sixties, most private agencies had middle-class orientations for middle-class clients. With the advent of the federal social services grants, many of these agencies were attracted by the available contracts--but not all. For some, the funds have not provided a sufficient incentive for them to try to get DSS contracts, for various reasons.

Yet another factor contributed to the lack of direct, service-by-service competition among social service providers for DSS contracts. Direct services to clients depend on having a site that is relatively convenient to those who require the services. For many agencies utilizing a variety of experts and facilities, the option of having the agency operate in different locations in the state is not usually feasible.

Among the DSS contractors, only the money management firms have tried setting up "branch offices" in various counties in the state--largely because their services are mainly provided through a single counselor. (As a result, there has been some competition between them for DSS contracts.) The alcohol rehabilitation center also was able to get around this problem, since clients are sent to it from throughout the state. These alternatives are not usually open to other providers, however. Each provider is usually limited to competing for contracts in its own county.

In addition, for human service contracting, the market model is not particularly useful in understanding the buyers' role in purchasing. Since they are limited in number and in purchasing range, government agencies act as monopoly interests--unlike in the market model, where multiple consumers can allow for new firms and products to emerge to fill felt needs. Today new private, non-profit agencies find it difficult to enter the "social services market" for the poor, unless they receive a prior contract commitment from a government agency. (Private funds are usually not enough for establishing an agency--even these sources want a commitment from a government unit.) The agencies that do form tend to be ones that both fill an unmet need that the government is genuinely interested in funding, and have found other funding sources as well.

An excellent example of the problems involved in getting into contracting is provided by the new DSS contractor that operates a day care center for the elderly. Even though he got a contract, the agency director said that it was very difficult to obtain other funding besides the DSS contract. (Getting that contract was hard enough

because the agency had no experience or track record.) Any agency, whether established or new, usually requires more than one funding source to survive. But failure to gain the necessary funds and support from the community for a new program prohibits entry into the social services field.

In summary, competition among potential providers is hampered by these barriers to entry into the "market," the locational limitations, the unwillingness of some agencies to compete for DSS contracts, and the differentiation in agency services.

C. The Donation Requirement

Even though competition in the environment is minimized, there are methods which the state and county departments could adopt to encourage even limited competition for its contracts. But the regulations of Title XX and its predecessor as well as the state DSS have not been designed to promote competition. The donation requirement has been one of the primary ways by which competition has been hindered.

For each service, the Title XX grant requires a 25 percent match from the state to receive the 75 percent federal funds. This stipulation was written with the idea that the states and local agencies should show some commitment to the services they choose to provide. In Michigan, some essential services have the match contributed by the state legislature (e.g., for protective services), or by county boards of commissioners for county programs. Usually, however, the requisite donation to the state is made by the very contractor that receives a DSS contract. But the ability to make the donation for their contracts does not necessarily correspond with the ability to provide high quality, essential services at a reasonable cost level.

Since some agencies do not have any "extra" money to fund the match, they are seldom considered for awards. Only a few agencies have been able to arrange for some outside donor to contribute the amount for their contracts. Consequently, providers with funds from other sources (e.g., United Way, religious organizations, foundation grants) or an active solicitation program are advantaged over agencies without these funding sources.

Not only must 25 percent of the total amount of the contract be donated, but some of the Title XX regulations governing these donations help certain types of agencies more than others. Public agencies are given preference over private agencies, and non-profit providers are advantaged over proprietary firms.

For public contractors alone, the regulations allow in-kind "donations" (e.g., office space, machines) to be made for almost all of the requisite match--only 5 percent of the contract amount must be made in cash and actually sent on to the state government. All private agencies must contribute 25 percent of the total contract amount in cash.

It is also easier to obtain the donation from the non-profits for their contracts than it is from for-profit firms. The regulations forbid the direct donation of funds from proprietaries for contracts in which they are the recipients. If a profit-making agent is used, public officials must find another donor (such as the county board of commissioners) or an intermediary who is willing to be responsible for "laundering" the firm's donation. Either of these methods is time-consuming for contracting officials--and certainly does not encourage proprietary firms to try to get DSS contracts. Adding to their problem is the bias against for-profit agencies in the social services field.

For two proprietary financial counseling firms that perform necessary services for DSS clients, the advantages of having the non-profit status were so compelling that both formed and incorporated new non-profit agencies to handle the DSS business, at the suggestion of state and county contracting officials.

There is one federal rule that is generally given only lip service in DSS. The federal regulations specify that if non-profit agencies are their own donors, an "independent decision" about awards must be made-- that the donation is not to affect the choice of contractors. In the past, when federal funds exceeded DSS' ability to spend them, any agency that put up the donation was almost automatically given a contract. These contracts were repeatedly renewed, with little scrutiny until the late Seventies during the decentralization process in Michigan. Even then, according to county contract coordinators, finding agencies with donations or outside donors has been so difficult that little has really changed in who has been awarded contracts.

While most of the county officials interviewed complained about the difficulties of finding good contractors who could also make the donation, one contracts coordinator said that his county has fostered increased competition by eliminating the need for all contractors to make the donation. The board of commissioners now supplies the local donations for many of the contracts. Since they do not need to make their own donations, more contractors have attempted to get contracts from DSS. This example illustrates how critical the donation requirement is in reducing the pool of potential contractors in other counties. It also shows that real competition may not be altogether desirable for certain officials. Because of the increased competition, some of the

previous contractors and several other reputable agencies were turned down for awards. The resulting dissatisfaction and ill-will made the contracting officials' jobs only more difficult and uncomfortable.

In at least one other county, officials have found an easier and cheaper way of getting around the donation stipulation. According to a coordinator, the salaries of contractor agency directors are sometimes "inflated" to cover their donation. An agreement is made between the county and the contractor that the excess funds that are not actually pocketed by the director would be used for the 25 percent donation. Because donations can be made in quarterly amounts and the contractor can usually get an advance on the contract, the agency need not use any of its own money, or run into serious cash-flow problems. I had suspected that this occurred (especially when state officials complained about some non-profit directors' high salaries which they had to approve), but received no confirmation of this practice outside of the one county. However, the coordinator asserted emphatically that he knew that some other counties used the same method of getting the match for agencies that otherwise would not qualify. (From this interview, I inferred that only agencies with special relationships with county officials would benefit from this arrangement.) If true, on some occasions in effect the federal government has paid for the entire contract amount, instead of its usual 75 percent.

D. Contracting Procedures in DSS

Government contracting procedures can enhance or inhibit competition among potential contractors and can expand or reduce the range of choices for decisionmakers. The early steps in the contracting process

are particularly crucial--the selection of services to be purchased, the solicitation of potential contractors, and the consideration of proposals (or bids, in other cases). Even though some of DSS' choice has been limited by the social services environment and the donation requirement, these procedures could be designed to allow contracting out to simulate the ideal marketplace. We need to examine if this occurs. Before this more detailed analysis is begun, a brief outline of the major steps of the DSS contracting process must be provided. (They are simplified here, and may not always take place in exactly this way, but they indicate the usual sequence.)

First, DSS officials in the counties and in the program offices try to determine which services to purchase. Next, the unit responsible for the contract--the contract "owner"--solicits public and private providers for proposals for the desired services. Once the proposals are submitted, various participants in the county or state DSS review and evaluate them and make their recommendations. The county department head, with the advice of the board of social services, makes the final decision for county contracts, while program division heads usually select state-level contractors, all subject to the signature of the state DSS director.

The selected contractor proposals are then sent to the DSS contract management division, where specialists review the proposals and the budgets for compliance with Title XX and state regulations. (Here or earlier in the process some changes in the proposals may be made and agreed upon.) These individuals also write up the contract documents, using a standard form (or "boilerplate") prepared with the consent of

the Attorney General's Office. Finally, all the required signatures are obtained, and the contract year can begin.

In actuality, this entire process is very time-consuming and complex, since many different offices and individuals are involved. Contracting officials work on several contracts at one time, each with a great deal of paperwork that must be processed in a certain way and order. When a local donation is required (as it is for all county contracts in the three programs), additional forms must be written out, and the donor must be included in various steps. The procedures are simplified a great deal, however, under two conditions: 1) when the contractor acts as his/her own donor, and 2) when a contract is renewed in a similar form. Therefore, for bureaucrats at both state and local levels, there are disincentives both to use contractors who cannot contribute the 25 percent, and to seek out new contractors.

1. Needs Assessments

In the past, the usual procedure for deciding which services to contract out for was to notify various public and private agencies about the available funds and the general regulations governing the use of the funds. Few attempts were made to assess clients' needs systematically, and then to solicit only for those types of services, since Michigan had so much federal money to match. Consequently, many different service providers received contracts year after year with very little review of needs or their performance towards meeting social service goals. They frequently built up their agencies to accommodate the increased demand from government, and also established good relationships with the relevant state bureaucrats and their legislators to ensure the flow of funds over time.

When DSS began decentralizing some of the contract administration by designating counties as the contract owners with significant discretion, part of the rationale was that local DSS officials could more adequately match the local needs with local service providers. They would be able to make annual, more manageable needs assessments, and also know who in the community were best equipped to deliver the needed services. Nonetheless, county departments also utilized most of the previous contractors--only a few were eliminated or given reduced funds. And some contracts were retained at the state program level, either because they served clients throughout the state, or, in some cases, were reported to be "better protected" by state officials and political influence.

In addition, the current county allocations of Title XX funds for donated funds purchase are not based on any formula of needs and population. Instead, funds are distributed on the basis of previous purchase levels. In other words, if a county had purchased many services early on in the decentralization process, it would continue to receive more contract staff positions and federal funds to match than a similar county that had not purchased as much at that time. For example, for the past few years, Ingham County (pop. 275,000) has received much larger allocations than both Genesee County (pop. 442,000, and with far greater welfare needs) and Kent County (pop. 433,000). Several of the county contract coordinators complained about this haphazard method of allocating funds, and hoped that it might be changed in the future. According to DSS written policy, the state DSS' goal is "to eventually

have donated funds allocated to local offices based on measures of social service needs."⁷

Some of the counties do, however, occasionally conduct needs assessments to help decide how to allocate the funds they receive. (The official donated funds contract process as written by the central office requires this as one of the first steps in the process, but interviewees indicated that they have not always been carried out.) Assessments seem to have been implemented by the counties which did not have many contracts or funds before, so they had opportunities to determine needs with almost no prior commitments to certain contractors and services.

The methods of determining need priorities vary from county to county, but they usually have depended upon two major sources of information and input--DSS caseworkers and local social agencies (many of which may already have contracts). In smaller counties, the process is very informal, with meetings with the interested and involved. A few of the counties reportedly have sent out questionnaires to the major public and private agencies active in the community. Generally clients' service needs are only indirectly measured--filtered through participants in the social service system who have particular interests or stakes in the outcome. In turn, these reports are interpreted by the local DSS officials working in the contracting process--program heads, contracts coordinators, department directors, the social services boards, and sometimes, the county board of commissioners.

In one case, a provider complained about the process of determining needs priorities. His agency had formerly had a family counseling

⁷Memorandum from Fred Lawless, Director of Field Services Administration, to local office managers (March 27, 1979), Attachment A.

contract from the state, but failed to get it renewed at the county level, for what he called "political" reasons--the local DSS staff "didn't want a successful agency to show that it can do counseling better" than DSS caseworkers. During the life of the state-awarded contract, he complained to officials that the county DSS workers were not making referrals to his agency, as specified under the terms of the contract. When contracting was decentralized, his proposals were turned down, he believed, because of the negative attitudes of the county administrators to counseling services, or any other services they perceived would compare unfavorably against DSS provision. The county discontinued the purchase of counseling services altogether since, they claimed, this service was being performed by DSS caseworkers. Political influence via a statewide agency association had helped to obtain the previous state contract, but had failed to make the difference in the county level.

2. Contract Solicitations

The solicitation stage is the most critical phase in the contracting process, as far as competition is concerned. The historic requirements for competition in public purchasing have always included the following: the presence of two or more available, willing, and responsible "bidders;" a complete, explicit, and realistic specification package which all interested parties can receive; the widest solicitation of qualified, potential contractors through the use of a bidders list; an atmosphere of objectivity and impartiality.⁸ These requirements have been standards in the field, whether competitive bidding or competitive negotiations are used to make awards.

⁸The Council of State Government, State and Local Government Purchasing (Lexington, Ky.: COS, 1975), especially Chapter 6.

The general rule at both the state and county levels has been that the DSS solicited for proposals or program descriptions from more than one prospective contractor only when new money became available, as was the case when decentralization took place. Both before and after counties gained control of most contracting, once an agency received a contract to provide a service that agency usually became the only one notified for subsequent contracts--and usually got renewals every year. The motto in most counties as well as at the state level seems to have been "Once a contractor, always a contractor."

For new contracts, the number of potential providers that are invited to submit proposals is very limited. County coordinators reported that between one and ten community agencies are contacted for each contract (with the mode at approximately two), depending on the size of the county and the type of service required. Some of the services DSS has wanted are rather specific in nature or in target populations (e.g., health-related services for migrant Hispanics), such that only one agency exists that could (and wants to) perform the service. County officials also have been hesitant to seek out contractors operating outside their own counties. As a result, fairly specialized agencies with no competition are in a more advantageous position to influence the contract amount, the performance specifications, and contract requirements than when more than one provider competes.

Formal solicitation procedures and "bidders lists" are seldom used by state and county offices. The usual means of communicating about DSS' needs when new contracts are to be made are fairly informal. The county program and contract staffs generally depend upon their knowledge of which established agencies in the county could deliver the services

in a satisfactory manner to DSS clients, and contact only them. All counties reported using personal telephone calls or word of mouth to inform these agencies of the available contracts. Some send out brief letters explaining the types of services they desire and the amount of money they can allocate through contracts. Only when funds were relatively plentiful did a few of the larger counties on occasion use newspaper articles, television and radio announcements, or advertisements in open requests for proposals.

Sometimes the county and state offices also receive new, unsolicited letters of interest or proposals during the year from various agencies offering to provide a service. In the early Seventies, these proposals were usually sent to state program offices and frequently resulted in contracts because of the available funds. More recently the counties have been the targets of such proposals. If the idea is a good one and officials believe that the service is needed and in line with Title XX guidelines, the contracting officials could either: 1) award a contract without trying to compare the proposal to any others, if there are some unexpended funds; or 2) tell the agency to resubmit the proposal at the annual proposal evaluation time in the contracting cycle to consider it along with other plans to compete for a share of the county allocation pot. The limits on federal funds have meant that in the last two years only a few of these proposals have led to awards.

The more formal Request for Proposal (RFP) process is not required by departmental policy, and as a result, only infrequently has it been utilized. The few counties and state programs that have used the RFP complained of the extra time and expense involved in preparing the full details of the contract and requested services, and in sending out the

large package. Others suggested that the RFP process might be a better alternative to the current method of solicitation--that it might promote greater fairness and competition.

Most of the counties, while not using RFP format, do send out more detailed explanations to those agencies that have expressed interest in a contract or have submitted a letter of intent. Usually written by the contract coordinator with assistance from program staff, this information gives the requirements of the contract and outlines the proposal format to be used by the proposer. The requirements usually include the following--acceptable total cost range, equal opportunity employment, affirmative action program, length of the contract (one year), specifications about the approximate number and type of clients to be served, the 25 percent donation regulations, record-keeping practices, and general types of services desired. Sometimes performance specifications are added, if DSS is seeking a particular service.

These packages seldom include, however, the criteria by which proposals will be evaluated. Some of the counties' contract coordinators suggested that the judging of proposals was so often subjective, that stating criteria would be difficult. Others said that the criteria that would be used were implicit in the specific information about the department's needs. Neither do these packages usually specify the various review methods and criteria that DSS would be using to monitor and evaluate contractors' expenditures and performance. In most cases, these procedures, as well as other details, are explained verbally in a pre-proposal conference for all interested parties (if there is one), by the contract owner upon request, or during contract negotiations.

It is clear from this description that DSS' solicitation procedures do not foster competition. In addition, during the interviews it was evident that some of the county coordinators were not concerned about being impartial and objective in their relationships with potential providers prior to awards. Some hinted that the program staff had their own biases in favor of inviting proposals from certain agencies, and not others. The lack of formal solicitation procedures, solicitation criteria (i.e., determining who would be a "responsible and responsive" provider), and proposal evaluation criteria means that personal judgments, prejudices, and oversights can reduce the already minimal competition that exists in the social services environment.

3. Proposals

All of the counties and the state program offices where I interviewed spokespersons require a written proposal before a decision is made on contract awards. These proposals range in length, detail, and sophistication, depending upon the guidelines of DSS and the ability of the agency. Contractors who are likely to have contracts renewed are expected to submit a proposal as well, even if it is a copy of the previous year's plan. Always included with the proposal is a line-item budget of expected costs. In the proposal itself are a detailed description of the services, the plan of service delivery, and the approximate number and type of clients to be served. In some cases, proposals need not meet all specifications of the DSS package. Contractors can request a higher funding level, reduce the number of clients, or change the mix or type of program activities--and still be considered for awards. Almost all of the other requirements provided by DSS under Title XX regulations must be complied with, however.

In addition, certain counties will occasionally require that the proposers give an oral presentation and answer questions before the three-member board of social services and the staff. This usually occurs when new contracts are being awarded--especially when more than one agency proposes to provide the same type of service.

In general, the competition for contracts is minimal. For any one type of service desired, according to interviewees, only one to three proposals are received for consideration. In all but the four largest counties, receiving more than one proposal for a contract is a rare occurrence. (When it has happened, it has usually been between money management agencies that have greater mobility.) Therefore, in most counties the competition is not between similar agencies offering similar kinds of services that can be compared, but among dissimilar agencies all wanting a share of the county's allocation.

III. Contract Decision Making

In advocating contracting out for public services, the public choice adherents assume that decision makers will use this mode of service delivery to promote greater efficiency and cut the costs of government services. The history of social services contracts indicates that these goals were not major considerations in the early years. But, as Michigan has found it increasingly difficult to stay within the state limit on Title XX allocations, have the DSS decision criteria changed over time? Have decision makers been trying to get "the biggest bang for the buck"? There are two major points in the contracting process that will be analyzed to answer these questions: first, the decision to purchase certain services, and second, the choice of contractors to

deliver these chosen services. We will examine both the decision-making process and the criteria utilized by officials.

A. Why Contract Out?

The interviews with public officials made it obvious that decision makers do not periodically review the advantages and disadvantages of using contractors to deliver public services. Nor do they weigh the costs and benefits of in-house provision vs. contracted services, and make their choices based on these factors. Instead, outside agencies have usually been utilized because DSS caseworkers have not had the expertise or experience to provide clients with certain services or programs. Even though they could have hired the necessary personnel, DSS believed it would be easier and cheaper for the state to use the existing, experienced agencies, particularly because of the donated funds. And the field had had a long history of private service provision to support this decision. According to an early participant in DSS contracting, the federal funds provided a perfect opportunity to get middle-class agencies to serve the poor.

All of the 23 respondents were asked to rank seven alternatives in order of importance (from one to seven, with one being the most important) as to why outside agencies or firms instead of public employees were used to supply social services in their program area. Although interviewees gave various combinations, the "better services" answer was selected by all three groups as the most important reason for contracting out (Table 1).⁹ Its mean was the lowest of the seven answers, 2.8,

⁹Several of the respondents said that this reason was really the only major one of the list. The importance of the other alternatives must not be overemphasized.

Table 1: Reasons for Contracting Out--D.S.S.

| Reasons: | State Officials | County Officials | Contractor Respondents | Mean of Individuals | Mean of Groups |
|---|--------------------|---------------------|---------------------------|------------------------|-------------------|
| Lower cost | 4.3 | 3.9 | 3.0 | 3.6 | 3.7 |
| Better services | 3.5 | 2.1 | 2.7 | 2.8 | 2.8 |
| Greater flexibility in hiring and firing | 4.3 | 3.8 | 4.8 | 4.4 | 4.3 |
| Better oversight over cost and performance | 6.0 | 4.5 | 3.3 | 4.4 | 4.6 |
| Mandated by federal/state laws or regulations | 5.3 | 5.4 | 5.4 | 5.4 | 5.4 |
| A way of strengthening private agencies or firms | 4.2 | 5.0 | 5.1 | 4.8 | 4.8 |
| Political porkbarrelling | 4.3 | 6.0 | 5.1 | 5.1 | 5.1 |
| | N = 6 | N = 7 | N = 10 | N = 23 | N = 3 |

and it was most frequently chosen as first in importance. By better services, respondents said they meant not only that outside providers generally could give better quality services than could DSS caseworkers, but also that they have expertise in a wide range of specialized services that clients need. Otherwise the DSS could not or would not be able to provide the services at all (e.g., certain housing and money management services, geriatric day care), or could not provide them very well (e.g., alcoholism rehabilitation, health services for migrants).

Respondents were somewhat more divided in their opinions about what additional reasons were used for contracting out. "Lower cost" ranks second out of the seven reasons for the combined total, even though the mean for both groups of officials is the third, not the second, lowest of the alternatives. Interestingly, neither of the two provider spokespersons who had worked in the state DSS during the early Seventies nor any of the veteran state officials selected this reason for their first or second choices. Cost seems to have become more important in recent years, but was not a major reason originally for using private providers, according to the more experienced bureaucrats. Some respondents made the important point that the locally raised donation made the services very attractive for the state government, since no state funds were necessary. State and county officials' consideration of cost as a reason for using contractors, therefore, does not seem to rely on comparisons of DSS' and outside providers' total per-unit costs of service (including both the federal and local amounts plus any other state-incurred expenses). Rather, the calculated costs have been the costs to the state government, using the simple rule-of-thumb that contracted services with the local donation are virtually "free" for

the state. If provided through DSS caseworkers, the state itself would have to make the match. Thus, fiscal federalism seems to have removed some of the incentives to consider cost as a crucial factor in contracting--if in fact costs otherwise would be a major consideration. Indeed, even with the fixed size of the Michigan Title XX allocation shrinking under inflationary pressures, the contracted services look like a relative bargain to a DSS that has difficulty getting enough funds to meet the direct payment needs of its growing clientele.

Other answers of somewhat less importance were: "greater flexibility in hiring and firing," "better oversight over cost and performance," and "a way of strengthening private agencies or firms." The alternatives of "political porkbarreling" and "mandated by federal and state laws and regulations" were generally viewed as relatively unimportant reasons for contracting out. In some specific cases, however, both of these reasons have been part of the decisionmaking process, according to respondents (e.g., sweetheart contracts, certain money management and guardianship services which by law cannot be performed by DSS employees). Some interviewees also commented that the politicians, federal regulations, and state policy encouraged contracting out under Title XX, but overall these were no longer seen as important as other reasons.

One of the problems mentioned by various public officials was that there actually has not been an objective purchasing process in DSS. They complained that the state policy governing which types of services can or should be bought is unclear, inconsistent, and subject to a variety of interpretations. Many of the counties have not conducted needs assessments or established criteria for deciding which types of services are most necessary. This lack of objectivity and a rational

decision-making process was seen as too often creating problems in decisions about both contracting for services and making awards to providers.

B. Choosing Contractors for Awards

The usual process of evaluating contractor proposals in the counties involves four major groups of officials: the county DSS staff, the county board of social services, the department director, and the state DSS officials--especially those in the program and contract management offices. The various county participants are given the task of making awards to contractors. But who in the county is actually most influential in the selection varies from county to county.

First, the county contract coordinator (if there is one), his/her supervisor (e.g., services head, deputy director), and relevant program heads review the proposals and make recommendations. Generally, they are supposed to examine them for "completeness, specificity of the program description consistent with local office needs assessments, reasonableness and if within the State [Title XX] Plan and Federal goals."¹⁰ If a proposal contains elements that are questionable, the proposing provider is brought in to negotiate or revise these parts. In many cases, the contractor alone is the expert on the service itself--what is practicable, how much various items or elements cost, which elements are essential, etc. Frequently, the public officials have few means of comparison (since competing proposals for the same service may not be submitted) and few outside sources of information. The most often negotiated items include the number of clients to be served (units of service) and the line-item amounts of the budget. Generally, however, the

¹⁰Memorandum, Fred Lawless to Local Office Manager (April 18, 1979).

final proposal form that is then passed along to other officials in the contracting process is very similar to the original proposal submitted by the provider.

Next, the social services board examines the proposals and states their preferences of providers. The board's normal role is an advisory one, in which it reviews, recommends, and comments on the range of policies, programs, and problems in the county DSS. In the area of contracting, the boards also have the authority to examine all DSS contracts to ensure that they conform to state statutes and Title XX (P.A. 237 of 1975). Each county has a three-member, voluntary board. Two members are appointed by the county board of commissioners, while the governor appoints the third member. These individuals are generally civic or business leaders, with an interest, but not necessarily any expertise, in the social services field.

Their actual role in contracting decisionmaking apparently depends upon the individuals who serve on the board, their role perceptions, the use the department directors make of them, and the ability of the staff to "manage" or influence them. In some counties, the boards were described by interviewees as mere rubber stamps of the decisions made by influential contract coordinators or service heads. In others, respondents expressed some frustration about the contract decisions of their boards--since they had not always agreed with staff recommendations. For example, one county's coordinator had gone along with the board's suggestion to solicit more widely for another money management firm, but concluded that the current contractor, located in the county, should have his contract renewed. The board decided instead to award the contract to an outside firm with several branch offices in the

state. This action angered the coordinator, since the change involved much additional work for her.

The county department director has final authority on awards (subject to the approval of the state DSS director). It depends upon the individual, the department, the board, and even sometimes some outside political forces as to whose recommendations for awards are actually approved. Some directors take an aggressive role in making decisions about contracts, while others approve of the decisions made by key staff members and/or the board. The usual strategy of most directors appears to be to gain staff and board consensus on awarding the contracts.

To determine the reasons for contract choices, I asked the interviewees this question:

On what basis is it decided that a certain firm or agency will receive a contract in your program area?

State and county officials chose three major reasons over the others, in the following order: previous satisfactory work in state services, adequate staff and equipment, and experience in this general type of service. Lowest cost, a plan to fulfill all criteria provided in the solicitation package, political influence, and well-reasoned arguments why program elements would accomplish the desired goals were mentioned, but relatively infrequently. Contractor spokespersons selected a somewhat different set of reasons, in order: experience in this general type of service, political influence, previous satisfactory work in state services, and lowest cost. These were the contractors' perceptions of what reasons were used for awards, rather than the more direct observations made by the public officials included in the sample. As for the lowest cost choice by contractors, it was clear from their comments that they were thinking of the latest round of contract

negotiations, where the cost factor was stressed--but usually was not a major criterion for awards, according to public officials. Contractors also selected the "political influence" alternative more frequently than bureaucrats, perhaps because some had more direct experience with political awards, or because they overstated the influence of politicians. On the other hand, public officials might be somewhat hesitant to admit that politics has been an important factor in their professional work.

Many of the respondents found it difficult to answer this question about the basis of contract awards, since a variety of criteria has been used to make choices. From their vantage point, state officials said that the reasons depended on the nature of the service desired, the county (or state) officials involved, and the availability of providers. Most of the state and county interviewees indicated that frequently there were few real choices to make--that previous contractors got renewals and new contracts were awarded to the only available, reputable agency in the community equipped to handle the services. The more critical choice for small and medium-sized counties (and even the state program offices) has been deciding which services to purchase, because that choice in turn determined which supplier could be utilized.

Some of the counties apparently do not first consider the service needs, solicit just for the chosen services, and then make the choice among the proposers. Instead, their solicitations are not limited to a few specific services, but are more open invitations to interested providers. County officials examine the various proposals they receive and the agencies submitting them; then they make their awards. In these circumstances, it is difficult to distinguish two different decisions in the process--one about the service needs and the other about awards for

these services. The two decisions apparently are made as one, since the agencies and their proposals affect the outcome.

In any case, as indicated by the DSS respondents, the agencies usually chosen for contracts are ones that, in the opinion of decision-makers, will supply good services for clients and are able to work well with DSS officials. Comparing the costs of various services and agencies has only been done infrequently. Not only is it extremely difficult to measure and compare the costs and the benefits of very different programs, but it has not been done because of a lack of choice among providers and because decisionmakers have not been geared toward making choices on the basis of costs. In one recent case of competition between two money management agencies, the county contracts coordinator reported that the board of social services and the staff recommended that the agency proposing the lower cost with essentially the same services not be granted a contract. They chose the other, more experienced agency because they believed its costs were more realistic for the quality of services they desired.

In making choices about contractors, whether a contractor is of a racial minority group has not usually been considered as a critical factor. It can be important, however, when a particular minority group is targeted for a service. In that case, officials try to solicit proposals specifically from minorities and award the contract to a provider of the same group. Contract coordinators in the larger counties with significant minority populations and needs expressed more concern about this issue. Otherwise, minority contractors' proposals are treated in the same fashion as are other proposals.

C. Reasons for Lack of Objectivity and Fairness

In examining the DSS contracting procedures, it was apparent that the solicitation methods were not aimed at increasing competition, fairness, and objectivity. The DSS' award decisionmaking process does not promote these goals, either. Nor do officials necessarily choose services and providers on the basis of lowest cost with the best quality services.

Some of the counties' decisions on services and awards were strongly criticized by state program and contract management officials. One official, with a business background, complained that it has been difficult to try to get the program and county staffs to act like they are buying services, instead of merely funding them. A program head said that "some counties are too heavily involved in facilitating friendships instead of the program goals" that are set by the various state program offices. He and other state officials questioned some of the awards made by some counties (e.g., choosing Dale Carnegie, Inc. to teach General Assistance clients how to improve themselves by winning friends and influencing people). In addition, according to DSS officials, too many of the counties (and some state programs) have become "locked into" certain older contracts, such that they may not be purchasing the best quality and most necessary services for clients.

Part of the explanation for some dissatisfaction with the choices made is due to DSS procedures in the decision-making process itself. First, the identities of the proposers are known to all contracting participants. As a result, factors besides the proposal can affect the decisions, including latent prejudices against certain types of agencies, knowledge of political connections, personal feelings about

individuals associated with the agencies. Secondly, most of the counties have not established and made known their criteria for selecting services and providers. Different participants can use a variety of criteria, some of which may have little to do with the service needs, the costs, and the quality of services. In writing up proposals, providers operate in the dark concerning the needs and expectations of DSS, unless they have access to some inside information. Third, DSS' monitoring and evaluation procedures have not served to assist decision-makers. Interviewees suggested that contracting officials and the county boards of social services were often handicapped in decisionmaking because they lacked adequate information about the effects of various programs and services on clients' problems.

It is not surprising then that some decisionmakers also allow their personal relationships with providers and/or outside political pressures to influence their choices. For the most part, the professional bureaucrats I interviewed disapproved of these influences, but recognized that these factors sometimes have determined final decisions. (They were not always so aware of their own biases and those of the program staffs.) Therefore, the pattern of decisionmaking on DSS contracts is at variance with that assumed by the public choice school. Often the goals and the contracting methods of DSS officials are not oriented towards the pursuit of cost savings for the government.

1. Relationships Between Bureaucrats and Contractors

Next we will examine the relationships that have been built up between the public contracting agents and private contractors. Generally, the provider spokespersons interviewed were the directors or administrative personnel who were responsible for the contracting

process and operation. On the government side, state officials are not usually as involved with contractors on a frequent or face-to-face basis as are county contract coordinators or service heads. Both sets of questions in this section were designed to explore whether bureaucrat-contractor relationships are indicative of contracting cooptation, where friendships can reduce objectivity in decisions about renewals and service needs.

Respondents were asked the following question:

Use the following terms to describe your own relationships with contractors/public officials in your area of contracting:

1. close and personal
2. warm and friendly
3. strictly businesslike
4. cool and distant
5. hostile and antagonistic

They were given a frequency rating scale from one through four (always, often, sometimes, or never) to indicate how often their relationships could be characterized in the five above ways. The interviewees' answers seemed to depend in part upon their moods, their recent experiences (which had not been altogether pleasant during the late payment problems), and their individual personalities. The results cannot be understood as being very precise, therefore.

Nonetheless, the general conclusion that can be drawn from Tables 2, 3, and 4 is that the interactions between bureaucrats and providers are often warm and friendly, as described by state, county, and contractor respondents (83%, 71%, 80%, respectively). Relationships were not always harmonious for some individuals, however. At least three interviewees in each group stated that their dealings were sometimes cool and distant, and even hostile and antagonistic. Two newer

Table 2: State D.S.S. Employees' Relationships with Providers

| Frequency: | Close and personal | Warm and friendly | Strictly businesslike | Cool and distant | Hostile and antagonistic |
|------------|--------------------|-------------------|-----------------------|------------------|--------------------------|
| Always | -- | -- | 1 (17%) | -- | -- |
| Often | 1 (17%) | 5 (83%) | 2 (33%) | 1 (17%) | -- |
| Sometimes | 3 (50%) | 1 (17%) | 3 (50%) | 3 (50%) | 3 (50%) |
| Never | 2 (33%) | -- | -- | 2 (33%) | 3 (50%) |
| TOTALS | 6 (100%) | 6 (100%) | 6 (100%) | 6 (100%) | 6 (100%) |

*One respondent in each category did not answer this question.

Table 3: County D.S.S. Respondents' Relationships With Contractors

| Frequency: | Close and personal | Warm and friendly | Strictly businesslike | Cool and distant | Hostile and antagonistic |
|------------|--------------------|-------------------|-----------------------|------------------|--------------------------|
| Always | -- | 1 (14%) | 1 (17%) | -- | -- |
| Often | 2 (29%) | 5 (71%) | 2 (29%) | -- | -- |
| Sometimes | 5 (71%) | 1 (14%) | 3 (43%) | 5 (71%) | 3 (43%) |
| Never | -- | -- | 1 (14%) | 2 (29%) | 4 (57%) |
| TOTALS | 7 (100%) | 7 (99%)* | 7 (100%) | 7 (100%) | 7 (100%) |

* Due to rounding.

Table 4: Contractors' Relationships with D.S.S. Contracting Officials

| Frequency: | Close and personal | Warm and friendly | Strictly businesslike | Cool and distant | Hostile and antagonistic |
|------------|--------------------|-------------------|-----------------------|------------------|--------------------------|
| Always | -- | -- | 1 (10%) | -- | -- |
| Often | 3 (30%) | 8 (80%) | 5 (50%) | 1 (10%) | -- |
| Sometimes | 2 (20%) | 1 (10%) | 4 (40%) | 3 (30%) | 3 (30%) |
| Never | 5 (50%) | 1 (10%) | -- | 6 (60%) | 7 (70%) |
| TOTALS | 10 (100%) | 10 (100%) | 10 (100%) | 10 (100%) | 10 (100%) |

contractors (including the association director) and the two providers who had not had DSS contracts renewed reported these less-than-friendly relations. Although the civil servants more frequently said that interactions were strained at times, it does not mean that they necessarily have a more negative view of working with contractors generally, as compared with provider views of dealing with bureaucrats. These officials probably have more problems because they sometimes are given the unpleasant tasks of hearing complaints, reprimanding unsatisfactory providers, and trying to explain why contracts are late, reduced in amounts, or not renewed.

A related question was designed to ascertain if bureaucrats felt they acted as advocates for contractors, and if contractors perceived them behaving as such. A bureaucratic advocacy role would be in line with the cooptation approach to public and private agency relations. State and county interviewees were asked:

How frequently do you see yourself acting as an advocate for service providers in your work (e.g., as with other state officials)?

Contractors were given this version:

How frequently do you think that the service contract coordinator(s) in the state/county acts as an advocate for your agency and other service providers (e.g., as with other state officials)?

All were provided with the four-part frequency scale (always, often, sometimes, never). Most of the county contract coordinators (and service supervisors) indicated that they do act as advocates for contractors (Table 5). Eighty-eight percent (five out of six) said that they always or often take on the advocate role. Not surprisingly, they reported this more frequently than did the state officials (with 50

Table 5: Advocate Role of D.S.S. Bureaucrats

| Frequency: | State | County | Providers | Totals |
|------------|-------------|--------------|--------------|--------------|
| Always | -- | 2 (33%) | 1 (11%) | 3 (14%) |
| Often | 3 (50%) | 3 (50%) | 2 (22%) | 8 (38%) |
| Sometimes | 2 (33%) | 1 (17%) | 6 (67%) | 9 (43%) |
| Never | 1 (17%) | -- | -- | 1 (5%) |
| TOTALS | 6 (100%) | 6* (100%) | 9* (100%) | 21 (100%) |

* One respondent in this category did not answer the question.

percent in these categories), who are further removed from the needs of contractors. (Most contractors said they first go to their county contact if they have any problems.) As part of their advocate role, county coordinators (as well as contract management officials) said that they present the needs of particular providers before other officials (e.g., for DSS referrals, timely payments) as well as being an advocate for using contractors to supply DSS services.

The provider spokespersons apparently did not see the contracting officials acting on their behalf as frequently as the officials reported. The majority (67 percent, or six out of nine) said that their coordinator only sometimes advocated their positions with others. (The one contractor who responded with "always" to the question had only been employed in her agency for a few months and previously she had worked in contract policy for the state DSS.)

From these answers and their comments, I concluded that most, but not all, of the state and county officials try to help contractors through what can only be described as a "huge bureaucratic maze," but without taking on the role of promoting the causes of particular agencies when unwarranted. While certainly sympathetic to the needs of contractors and to the idea of purchasing services, most officials have not lost their critical eye. They reported a number of cases where contractors had not done their jobs adequately, and where contractors have tried to work the DSS system to their own advantage (sometimes successfully, sometimes not). As a result, contractors cannot assume that these officials will be their allies.¹¹ In my view, it is healthy that

¹¹It is possible that although the general pattern is not cooptative, some coordinators may occasionally prefer certain agencies because of friendships.

contractors do not see their bureaucratic contacts as always acting on their behalf. They will be more likely to perform better if they are somewhat uncertain about the friendship or advocacy role of officials.

On the other hand, not all county contracting officials kept a distance between themselves and contractors. In two of the counties, I found good evidence that the relationships between contractors and coordinators were cooptive, instead of more objective. (I could draw this conclusion only for those counties where I conducted interviews. I can only conjecture from state-level interviews that a few of the other counties might also fit this pattern.) These county officials were anxious to defend their contractors vs. the state DSS; they worked at promoting cooperative, rather than competitive, relationships among contractors; they spoke in very favorable terms about their agencies and the need to keep them going; and they seemed to trust their contractors implicitly. They did not see the need to have thorough reviews of performance--only enough to prove to others that they were doing their jobs.

2. Role of Politicians and Politics in Contracting

Although previous questions about contracting did not show that political pork barreling and political pressure were very important factors, several of the respondents made vague or disparaging comments about the activities of politicians in contracting. To assess more directly how politicians get involved and how the respondents react to such involvement, the following question with six alternatives was asked of all respondents:

In your experience in contracting, how do you evaluate the role of most politicians (e.g., state legislators, county commissioners, city councilmen) in the contracting process?

1. generally quite helpful
2. not involved enough in contracting
3. too interfering in decision making
4. hardly involved at all, but that's the way I prefer it
5. only involved in contracts that their constituents want, but otherwise hardly involved at all
6. some other response(s)

The picture that emerges from their answers and comments is one in which politicians (especially state legislators and county commissioners) can and do exert some pressure on contracting officials, but this is not uniformly done in all counties, nor was it perceived in negative ways by all respondents. In fact, seven persons (30 percent) said that politicians were generally quite helpful (Table 6). A county contracts coordinator added that they can act as a check on the DSS administration in specific instances where otherwise important factors would not have been taken into account in decisions. A state CMS supervisor said that although they are helpful, they often do represent their constituents' needs as well. Some providers mentioned that occasionally they have contacted their local representatives or state legislators, and considered them helpful in contracting matters.

None of the respondents believed that the elected officials were not involved enough in contracting affairs. Five (22 percent) said that they had found that the politicians were hardly involved at all, but they preferred it that way. When they did get involved, they usually acted on behalf of constituent providers' interests, not those of the general public or DSS clients, according to nine (39 percent) of those interviewed. This role was not always seen as a healthy one by respondents, both public officials and providers alike. One respondent

Table 6: Role of Politicians in Social Service Contracting

| Role of Politicians: | State | County | Providers | Total |
|---|-------------|--------------|--------------|--------------|
| Generally quite helpful | 1 (17%) | 2 (29%) | 4 (40%) | 7 (30%) |
| Not involved enough | -- | -- | -- | -- |
| Too interfering in decision-making | -- | 1 (14%) | -- | 1 (4%) |
| Hardly involved, but that's the way I prefer it | -- | 2 (29%) | 3 (30%) | 5 (22%) |
| Only involved in contracts constituents want | 4 (67%) | 2 (29%) | 3 (30%) | 9 (39%) |
| Some other response | 1 (17%) | -- | -- | 1 (4%) |
| TOTALS | 6 (100%) | 7 (101%)* | 10 (100%) | 23 (99%)* |

* Due to rounding.

said that the politicians had been too interfering at times, while another stated that local politicians represented only the interests of friends and relatives.

Both providers and public officials told of cases in their county or other counties where certain decisions were affected by political forces. Two of the providers interviewed had been pointed out by officials or by themselves as being the recipients of sweetheart contracts--made as a result of a special political relationship with the state DSS director and/or a powerful state representative. (One of these no longer is a true sweetheart, since it began to receive more scrutiny after decentralization. The director said his agency keeps getting contracts because of inertia.) Such contracts are the exception, most affirmed, but they irritated contracting officials nevertheless, sometimes because they thought some other agency could do a better job or another service was needed more by clients.

A state program head was particularly angry at the state legislature as a whole, since it had specified a contract with a certain agency in her program area. For two years, it required DSS to purchase pregnancy counseling services from a private anti-abortion agency, against the desires of her office and the department. (This was part of the on-going tug-of-war between the state legislature and the Governor over the abortion issue.)

A state DSS respondent mentioned that some of the county boards of social services were also heavily influenced by politics--that some members were actually highly political appointments, especially in smaller counties. On occasion, partisan conflicts also erupted in counties with a Democratic county board of commissioners (which appoints

two of the three members). One of the providers complained of "rampant politics" in one of the counties where he had lost a contract. In this unusual case, apparently the board decided to make only one contract instead of dividing up its allocation, largely due to the active lobbying of senior citizens for a set of services they wanted.

In sum, elected officials have had a role in various contract decisions throughout the Seventies, according to interviewees. On occasion, they have used their resources to influence contracting officials to make choices they otherwise would not have made. In particular, some providers and their constituencies have established strong ties with influential politicians and appointed officials. Because of their relationships, it has been difficult to reduce or eliminate certain services and providers, when the staff believes a change is warranted. This political muscle has not been flexed often, but contracting participants understand their potential power--and, therefore, act with caution in suggesting changes in services and awards. It is not surprising that almost all "old" contracts have been routinely renewed in the counties and the state program level. The ones that have been eliminated or reduced have usually been with providers who did not have bureaucratic or political allies in key positions. The political pressure that could be exerted only serves to strengthen the position of most current providers. It acts as yet another constraint upon contracting decisionmaking to narrow the range of choices that the DSS can consider.

IV. The Watchdog Role of DSS

A. Review Procedures

Now our attention focuses on one of the most important parts of the contract process--the government's monitoring and evaluation of cost

and performance. Those in the public choice school who advocate contracting out as a solution to government inefficiency assume that the relevant government unit can determine that its money is spent as agreed upon, and that the performance and effectiveness of the services make the contracts worthwhile. Ideally, then, the contractor should undergo rigorous scrutiny in three areas--expenditures, performance of the services as specified, and the longer-range effectiveness of the services. (The last type of evaluation is particularly necessary in the area of human services, since the goals are usually to change people, their behavior, or their circumstances.) Obviously, this role for governments also requires the utilization of these reviews--so that the cost and performance feedback has a direct effect upon the future decisions made. The contract owner can use this information to determine if the contract should be renewed, if another service provider should be sought, if the government unit should provide the service itself instead, or if the service should not be provided at all. It is only with these options available that the government can act as an effective watchdog over the public purse and the services.

In Michigan, the two most important parts of the DSS review process are the monitoring of expenditures (in accordance with DSS book-keeping methods) and the determination of eligibility for service recipients. The DSS' reviews are less oriented toward evaluating service performance and the long-term outcomes for clients. A fair amount of variation exists among counties, however, since each county DSS determines the reviews it wishes to do. Only the periodic reporting of expenditures and units of service is required of providers by state contract administration.

The state contract management office is given the responsibility of overseeing the expenditure and eligibility review processes and assisting counties and providers with their many forms. The office is almost exclusively concerned with examining contract compliance, not with service performance, quality, or impact. Contract specialists are supposed to: 1) determine in a general way if adequate bookkeeping systems are in place; 2) review the providers' quarterly progress reports on enrollments and services performed; and 3) conduct occasional on-site field visits to give assistance where problems exist, to examine the facilities and services for compliance, and to go through files to check at random on client eligibility. Due to reduced staff, in the last year or more, the field visits have been reduced in number and limited only to a few agencies or counties with obvious problems.

County contract coordinators sometimes do their own on-site visits as well. Expenditure and progress reports are filled out by contractors and sent on to the county office. If any performance review or in-depth evaluations are done, they are conducted by the county DSS, often at the request of the local director or the board of social services. Because of inadequate staff and funding in most counties, these types of reviews are fairly informal and infrequent. Only three of the seven counties reported doing more in-depth forms of evaluation, and then only for some services. Clients are not contacted for their viewpoints and suggestions, except by some providers for their own evaluation reports. Sub-contracts are not required to be reviewed for use of funds or for performance, as the main contractors are primarily responsible for these services. And the information used for performance reviews is mainly compiled by the contractors themselves. In short,

the contractors can usually "get by" with filling out the required forms, since state and county scrutiny is spotty and depends so heavily on self-reporting.

The other method that has been used to check on costs and compliance is the post-audit of expenditures. This can be done in a couple ways. Some of the agencies sub-contract with an independent accounting firm for an annual audit and include the cost in their budget. They send copies of the report to the county and/or state offices. Audits are also conducted by the internal audit staff of the state DSS. Agencies either are picked at random for the audit, or are selected on the basis of a request by program or contract staff at either government level because of suspicion of fraud, inadequate bookkeeping procedures, or non-compliance with the terms of the contract. Such fiscal audits usually take place within six months to a year after the end of the contract. Therefore, their results may not be known until after contracts have been renewed once or even twice. Even though future contracts might not be made after negative findings, funds may have been misspent for a period of two or three years. One respondent reported that officials have not always prosecuted in clear cases of fraud because of political pressure. Instances of mismanagement of funds have been found to pose difficulties in recouping losses as well because of the contractors' apparent good intentions and the time and costs involved.

A few contracts have, however, been revoked or terminated before the specified end of the contract year for various reasons, including the improper use of funds, unsatisfactory service performance, failure to provide the specified service, or fouled-up bookkeeping. Some of

these contracts were ended by mutual agreement, as in cases where the provider was unable to get the program started up on time, while other contractors were only discovered to be in non-compliance when an audit was done (e.g., in a case where it was found that an agency did not exist). In addition, in the last year several contracts were terminated and many reduced in funding because of the state's lack of funds. None of the interviewees knew of any official suspensions or debarments that resulted from the various cases of contractor fraud, although a couple lawsuits have been in the courts to get back the money that was paid out. Nonetheless, several contractors have been unofficially eliminated from further consideration for solicitations or awards because of their previous problems.

B. Opinions About DSS Review Procedures

Two questions about the review procedures in contracted services were asked of all the respondents to help in evaluating the extent and effectiveness of DSS' watch-dog role. One question offered a forced choice:

In your area, do you believe that the monitoring and evaluation of contractors is:

1. too strict, with too much unnecessary and burdensome paperwork involved
2. not adequate to oversee expenditures
3. not adequate to evaluate performance
4. not strict enough to oversee expenditures or to evaluate performance adequately
5. just about right
6. some other response(s)?

None of the bureaucrats chose either of the first two alternatives (Table 7). All of the state officials said they thought the current review process was either inadequate to evaluate performance (two, 33

Table 7: Monitoring and Evaluation of D.S.S. Contractors

| Monitoring and evaluation is: | State | County | Providers | Totals |
|--|-------------|-------------|---------------|---------------|
| Too strict, with too much paperwork | -- | -- | 3 (27%) | 3 (13%) |
| Not adequate to oversee expenditures | -- | -- | -- | -- |
| Not adequate to evaluate performance | 2 (33%) | 1 (14%) | 3 (27%) | 6 (25%) |
| Not strict enough for expenditures or performance | 4 (67%) | 3 (43%) | 2 (18%) | 9 (38%) |
| Just about right | -- | 2 (29%) | 2 (18%) | 4 (17%) |
| Some other response | -- | 1 (14%) | 1 (9%) | 2 (8%) |
| TOTALS | 6 (100%) | 7 (100%) | 11+ (99%)* | 24 (101%)* |

+ One respondent gave two answers to this question.

* Due to rounding.

percent) or inadequate for reviewing both expenditures and performance (four, 67 percent). None in this state category said that the reviews were just about right. The county coordinators and service heads were more divided in their answers. Two (29 percent) of them said they thought the monitoring and evaluation were just about right in their county, although one of them admitted that performance reviews were just barely adequate. Three (43 percent) did not think efforts were sufficient for reviewing either costs or performance, while one (14 percent) said that performance was not evaluated adequately. (One of the respondents emphasized that the literature about monitoring and evaluating contracted social services was also inadequate.) Another services head stated that the process was not too strict, but it was "terribly cumbersome from start to finish, and confusing for providers."

Some of the providers agreed with this view. Unlike the state and county respondents, some contractors chose the first response (three, 27 percent), but they emphasized "the unnecessary and burdensome paperwork" more than the fact that the process was too strict. The part of their work that was heavily scrutinized and required so much time was the eligibility verification, not their performance. Three (27 percent) others said the performance evaluations were inadequate, and two (18 percent) said that both the expenditure and performance reviews were insufficient. Of the ten providers, two judged the process to be just about right, although they also had some problems with it, as they revealed in the answers to another more open-ended question on the subject. Another agency administrator thought the reviews were "O.K., but accountability is important, and monitoring can be improved."

The following question was also asked of all respondents:

What do you believe are the major problems involved in the monitoring and evaluation of performance?

Respondents pinpointed several problems, but the consensus seemed to be that DSS officials did not have the requisite resources to do careful reviews--time, staff, money, expertise--so they hardly do them at all. They usually depend upon the providers to report on their service quality and effectiveness in an annual report. State or county reviews are primarily a paper process, not evaluations of performance. Because service sites are physically removed from them and program supervisors, responsible county officials have not been able to keep in frequent contact with providers and their staffs to monitor their performance on an on-going basis, as is done with DSS caseworkers. Providers admitted that not much monitoring and evaluation is done by anyone, although some suggested it might be healthy to have greater DSS scrutiny, involvement, and communication about their services.

Almost all of the respondents (both officials and providers) reported having difficulty with various elements of the evaluation enterprise, and suggested that these were major reasons for inadequate performance reviews. One of the major stumbling blocks was being able to develop "a statistical evaluation tool that has both credibility and validity," in the words of a county contracts coordinator. Interviewees mentioned the lack of standard evaluation measures of service quality, performance, outcomes, and impact. With many different services being purchased, this problem becomes more serious, since the same evaluation tool cannot be used to evaluate all programs. Then, too, a couple officials stated that it is difficult to compare different agencies' performance and outcomes as a basis for decisions about the contracts

(because of sole source contracting)--"it's like comparing apples and oranges." A state program head reported that when her office attempted to develop some outcome measures for contracted services, the Attorney General's Office notified her that contractors cannot be held legally accountable to meeting certain desirable outcomes--they could be held accountable only for performing the services as agreed.

Several respondents also mentioned that ideally frequent client evaluations and follow-ups should be done as a way of measuring the contractors' performance and long-run effectiveness. According to interviewees, these are difficult to get because of fluid populations in some areas and because of a lack of knowledge about how "to develop a workable and honest client evaluation." Some of the providers, however, do try to get the views of their clients.

Others complained about the procedures to use in doing performance monitoring and evaluations (if they can be done at all). Both county officials and providers said that the state does not provide consistent policies and specific guidelines about how, when, and why reviews should be done. A state program official said it is the counties' responsibility to develop review and reporting systems to give them the necessary information--but they have failed to do so. A CMS respondent said the major problem is deciding who is supposed to do the job "in this bureaucratic mess."

Providers saw some additional problems in the procedures that are employed. One of the few review methods consistently used by state monitors is to visit an agency (usually annually) with the sole purpose of pulling one or two cases out of the files to examine them for eligibility, compliance, and completeness. This was thought by some to

be both inadequate and unfair. One provider also complained about the fact that different monitors look for different things, such that providers are unsure of how to comply with DSS reviews. Adding to the general problem, according to providers, is that DSS reviewers know little about the services that agencies provide or about the clients' needs. This ignorance affects not only the methods and measures used to monitor and evaluate, but also the proposal and award decisions.

These interviews with both public officials and providers show how weak the DSS review process is for contracted services. The state and county units are usually able to monitor eligibility, compliance, and expenditures adequately. Performance and effectiveness are not evaluated well enough, however. Without relevant and correct information about the services and their effects on clients, decisions about awards and renewals must be based on other factors--political influence, attitudes of caseworkers and supervisors, previous experience, reputation in the community, beliefs about what the clients really need--rather than whether the services meet these needs.

V. Benefits of Contracting Out

Although the main thrust of this chapter has been to examine the conditions of contracting that are assumed by the public choice approach, we also can indirectly evaluate whether the expectations of lower cost and better services are fulfilled in DSS. Contracting officials mentioned frequently that they lack data on these matters, but most could estimate the general outcomes of contracting. Therefore, we will depend upon the opinions of the various participants to study cost and performance.

A. The Cost of Contracting Out

According to contracting advocates, the strongest argument in favor of purchasing services is that it will lead to significant cost savings for government. To determine whether this expectation has materialized in DSS contracting, in the view of respondents, I asked this question:

In the contracts and services you work with, do you think contracting with private agencies or firms costs less than, about the same as, or more than, government delivery of those services would?

In response, 15 of the 23 said that the private agencies/firms could provide services at a lower cost than could the government (Table 8). Not surprisingly, the providers themselves held the strongest support for this answer with 80 percent (eight of the ten). But county coordinators also strongly believed that costs are lower under contracting out, with 71 percent (five out of seven) choosing this response. Generally, the state officials in the program and contract offices did not share their enthusiasm--only 33 percent selected the lower cost alternative. Perhaps in their positions they can see how much is involved in contracting compared to direct services.

In general, the state and county officials were not certain about the relative costs, since no one had any hard data to make such comparisons. Some mentioned the difficulty in accurately assessing all of the costs, since the contract amount is no indication of the total costs of administration and service. The reasons they and providers gave for why lower costs might be realized with contracting came down to one major factor--salaries and fringe benefits for workers in private counseling

Table 8: The Cost of Social Services Under Contract

| Cost: | State | County | Providers | Total |
|-------------------------|-------------|-------------|--------------|--------------|
| Less than public | 2 (33%) | 5 (71%) | 8 (80%) | 15 (65%) |
| Equal to public | 2 (33%) | -- | 1 (10%) | 3 (13%) |
| More than public | 1 (17%) | 2 (29%) | 1 (10%) | 4 (17%) |
| Don't know or no answer | 1 (17%) | -- | -- | 1 (4%) |
| TOTALS | 6 (100%) | 7 (100%) | 10 (100%) | 23 (100%) |

agencies are usually lower than for county DSS caseworkers.¹² One official added that the 25 percent donation obviously made it less expensive to contract out. Another said that the government benefits by using outside suppliers that already have set up an organization of specialized personnel.

On the other hand, several officials argued that although it seems less costly to contract out, several factors cancel out the savings on some of the salaries and fringes, and may even make the services more expensive in the long run. These factors they mentioned include the extra, sometimes hidden, costs of contracting paperwork, administration, and review; greater expenses for some of the more specialized services for which pay scales are significantly higher; the belief that "there are as many rip-off artists in the private sector as in the public;" and the belief that per-unit costs of services are lower in the public sector, probably because of larger case loads.

B. The Quality of Contracted Services

Even if the cost of DSS contracted services is equal to or less than publicly-provided services would be, efficiency and effectiveness may not characterize the services if the performance is not acceptable. Therefore, the respondents were questioned about the quality of services:

For the contracts and services you work with, do you think contracting with private agencies or firms results in poorer service, about the same quality of service, or better service for recipients than government service delivery would?

¹²Two providers mentioned a report that documents this and argues for increased utilization of private agencies, Michigan Federation of Child and Family Agencies, In Partnership With the Public (May, 1979), pp. 15-18.

With this question, an interesting phenomenon occurred (Table 9). Ninety percent of the providers judged the quality of their services to be better than the government's. County coordinators, however, did not agree this time. Instead, the majority (62.5 percent, or five out of eight) said the quality was only equal to that of services delivered mainly by county DSS caseworkers. This result may be due to a closer observation of DSS caseworkers and contractors, or because of a possible county/public sector loyalty. But on this question, three of the six state bureaucrats claimed that the services are better in the private sector. For the totals, 91 percent (21) of those interviewed stated that private social services delivery was equal to or better than public service delivery. No one said that contracted services were poorer in quality.

Respondents generally were less tentative in their answer and comments on this question. Although they had no hard data comparing the contractors' performance with that of DSS caseworkers, many respondents were certain of their answers because of their personal experiences, their general social work studies, and/or their application of logic to the issue. Public officials who said that the private services were generally better gave the following reasons: "they don't have to serve DSS clients, so they don't burn out or get discouraged;" "generally, the education and experience level of private staff is higher" (e.g., higher number of M.A. degrees); "reimbursement is based on quality and outcomes, not existence--we can terminate the contract otherwise;" "more flexibility to drop the contract;" "we buy it with the expectation that the service will be better than can be done in-house;" "better oversight;" "personalized, smaller case loads, greater variety of services,

Table 9: The Quality of Social Services Under Contract

| Quality: | State | County | Providers | Total |
|-------------------------|-------------|--------------|--------------|---------------|
| Better than public | 3 (50%) | 3 (37.5%) | 9 (90%) | 15 (63%) |
| Equal to public | 2 (33%) | 5 (62.5%) | -- | 7 (29%) |
| Poorer than public | -- | -- | -- | -- |
| Don't know or no answer | 1 (17%) | -- | 1 (10%) | 2 (8%) |
| TOTALS | 6 (100%) | 8* (100%) | 10 (100%) | 24* (100%) |

* One respondent chose two responses with qualifications for each.

identification with clients is closer, and they can select their clients" (besides the state recipients).

Several respondents qualified their statements about the quality being equal to or better in the contracted services with comments like these: services are better if it is a "specialized agency that does things that the government doesn't," but about the same quality if the service is counseling; if the service is already provided in the community, it is better, but if it is an unpopular service, then the government could provide better service (e.g., protective services for children); "it depends on the agency--some are better than others." Those who claimed that service quality was roughly equal in the two sectors said this was the case because of: equal oversight; the fact that government has the money to keep an agency going; "high standards in both the agencies and DSS;" "accountability is about equal;" they "must see to it, through monitoring;" "they're all skilled professionals, whether in the government or not."

Agency directors and spokespersons were even more enthusiastic about the private services. The service quality is better, they said, because of "specialization and a smaller span of control over quality;" better attitudes toward work and service, as well as better knowledge of how to help clients; "DSS caseworkers have heavier caseloads, but we have more time and personal contact" in private agencies; "staff turnover is much lower;" "better staff selection and supervision;" "more participation in running program;" "smaller units;" "greater motivation, creativity, and professionalism."

C. Slowdown in Government Growth

Contracting out proponents have not only expected that cost savings with good quality services could be realized, but they have also maintained that contracting would be likely to lead to a slowdown in the growth of government--an important goal to most public choice thinkers. But has this been a result of the DSS experience with contracting?

Government growth can be examined from two perspectives--growth in the expenditures of the government, and growth in the number of public employees. In both respects, the DSS contracting experience does not meet up with the public choice expectation. The original federal legislation was designed to spend money--and because of the way the law and regulations were worded, at uncontrollable rates, until 1972. Michigan's share of the federal grants grew from approximately \$16 million in FY71 to over \$100 million in FY76, in part because of the increase in purchase-of-service through both agreements and contracts.¹³ Contracts started off rather slowly and never reached the levels of many other states; yet they have continued to be an important means for providing services.¹⁴ After 1975, the state began to manage its funds carefully to stay within its Title XX limit. Where government had not previously funded services, by the mid-Seventies, the state had given out large amounts of federal money by contract. No one knows exactly how much because of their budgeting practices.

¹³Derthick, op. cit., p. 100.

¹⁴Bill Benton, Tracey Feild, and Rhona Millar, Social Services Federal Legislation vs. State Implementation (Washington: The Urban Institute, 1978), p. 111. This report offers a good overview and comparison of Title XX state implementation.

In addition, both before and after decentralization, as DSS became more concerned with accountability and staying within the ceiling, large numbers of people were hired by DSS to make and administer the contracts. As a result, not only did more federal monies get spent on contracts, but also more state funds were used for administration.

Conclusion

Although limited primarily to the interviews with contracting participants, this analysis of DSS contracting provides a means of evaluating the theoretical assumptions and expectations of the public choice perspective. The evidence in this case is at odds with the optimistic picture of the contracting proponents on several important points.

Above all, it is clear that DSS contracting has seen only infrequent competition among providers for contracts, due to both the social services environment and DSS' procedures. Consequently, the range of choices for officials has been circumscribed, particularly in smaller counties and more specialized services. Some contractors and their political allies have also contributed to the reduction of choice and flexibility--both of which are supposed to be key advantages of contracting for government.

The decision-making process in DSS contracting does not conform well to the picture implicit in the writings of public choice theorists. Contracting apparently does not magically transform self-interested bureaucrats and other public officials into objective individuals who simply judge proposals and make awards on the basis of lowest cost with the best quality service output. Rather, individual values of stability, predictability, continuity, friendship, and political favor

have at times affected their solicitations and final decisions.

To begin with, the search for potential providers is narrow, usually stopping with previous contractors. Often officials satisfice, rather than maximize, by ending their solicitation process after locating a minimally acceptable, local provider that can also make the requisite donation. When reviewing proposals, officials have little outside, objective information to use to evaluate past and future performance. They may not have much relevant knowledge about the services or client groups' needs, and thus must depend upon the providers' plans and information. In the past, cost comparisons have rarely been used as a criterion for awards; instead, officials have been concerned about contracting with reputable agencies that they believe (sometimes on faith) could deliver necessary, and generally good quality services. Even then, however, their decisions have been influenced by political pressure, past commitments, biases of program staff, etc. All of this adds up to an incremental decision-making process in which feedback is limited and changes in priorities and awards are difficult to bring about.

But does the absence of a rational decision process, of competition, and of an adequate watchdog role mean that DSS is not getting low cost, good quality services? Not necessarily. Our limited exploration of the expected benefits of contracting indicates that the privately-provided services are generally of good quality. The strong professional ethic, the expertise, and the commitment to the needy help to explain why most of the providers probably do perform well under contract. Those contractors interviewed said they welcomed evaluation if it could help them become more effective. (But what would they say if

these evaluations could also lead to the elimination of their contracts?) They were proud of their agencies and their accomplishments. And it probably can be safely said that at least some agencies work at providing their services well at acceptable cost levels because they fear of late (not always realistically) that otherwise their contracts could be reduced or terminated.

I am not convinced, however, that significant cost reductions have been realized through contracting. Any savings to the state (as compared with in-house provision) have occurred because of the donation requirement and the federal source of the funds. And certainly the legislation and the availability of outside providers has contributed to the growth, not the curtailment, of government in this case. While these outcomes do not indict contracting itself, they do illustrate how this method of service supply can be used for quite different purposes and lead to different outcomes than those envisioned by contracting advocates.

The two perspectives of market imperfections and cooptation have suggested that these findings about the conditions should come as no surprise. Under conditions of few providers and inadequate information, contracting out may not have indisputable over in-house provision, as suggested by the economic perspective. Competition among potential providers has been reduced both by the market provisions and by the DSS match requirement. Therefore, officials have had only limited choice for service suppliers. Because of inadequate needs assessments, DSS has also lacked necessary information about the needs of clients. In expenditure and performance reviews, DSS has usually had to depend upon information from the providers themselves, since department

resources have been very limited. In these ways then, the perspective of market imperfections has more closely approximated the actual conditions of contracting than has the public choice approach.

In certain circumstances, these conditions can lead to cooptive relationships between officials and contractors, in which contractors can have a major influence on the choices of government. In DSS, cooptation was not obvious or wide-spread. Nonetheless, similar professional backgrounds, officials' identification with private agencies, and efforts of contractors have led to some counties exhibiting cooptation characteristics, and to other situations in which bureaucratic relationships with contractors may have reduced objectivity and fairness. Moreover, political pressures have been exerted upon DSS--usually to continue certain contracts with specific providers that otherwise would have been terminated or given to another provider. Sweetheart contracts have also been made and perpetuated because of the influence of appointed or elected officials. Consequently, DSS has been cautious in altering program priorities, reducing contracts, or changing service suppliers. With this analysis of both the political and the economic factors raised by the two alternative perspectives, our understanding of DSS contracting has been enhanced.

CHAPTER V
CONTRACTING OUT UNDER CETA
IN THE MICHIGAN DEPARTMENT OF LABOR

In addition to many social services, the state of Michigan uses federal funds to purchase various employment and training services under the Comprehensive Employment and Training Act (CETA). This chapter focuses on contracts in the Department of Labor (DOL) and its relationships with private contractors, in the same way the last chapter dealt with DSS contracts. A comparison of the findings in the two departments and their programs is included in the next chapter. Although both are funded largely by federal grants, the DSS and DOL contracts have different purposes, regulations, and methods of procurement--all of which have an importance for our consideration of the conditions and expectations of the public choice school in its recommendation of contracting out. What makes this study of DOL contracting even more complex is that CETA contracts are made under two titles that are characterized by several significant differences in competition, procedures, awards, etc.

The major questions that will guide our study of DOL contracting are: What are the key conditions that relate to competition, decision-making, and reviews? How do they vary in the implementation of the two CETA titles? Are they different from the DSS conditions? How do these conditions affect contracting outcomes?

Background of State CETA Programs

The federal government has funded a large number of employment and training programs over the last two decades in response to the needs of the poor and unemployed. In 1973, the Comprehensive Employment and Training Act (CETA) was enacted to consolidate many of the previous categorical programs into a new block grant approach to providing services. CETA transferred the planning and operation of such programs from the federal level to state and local governments. This decentralized, noncategorical approach allowed state governors and local elected officials greater discretion in providing a mix of services in response to the needs of people in their jurisdictions within federal guidelines.

In the 1978 reauthorization, CETA underwent certain changes in the eligibility requirements, the number of public service jobs, and the state program. Several restrictions were adopted largely in response to the severe criticisms of CETA programs. The most significant alteration was the shift in emphasis from public sector employment to private sector training and jobs.

Although most of the CETA funds have always gone to local prime sponsors (single units of government or consortia of local units), two titles of the revised act channel funds to the state government as well, specifically to provide for innovation, experimentation, coordination, and certain direct services. Title II, Section 202 (b)(c)(d) and (e), authorizes the Special Grant to Governors to develop and operate programs that address issues that are usually beyond the scope of local prime sponsor programs. (This type of grant was also part of the earlier Title I with a few differences.) Although most of the funds are used for contracts with state and local public agencies, a

variety of coordination and special services contracts has been made with private organizations. The goals of the Title II state grant were to provide Governors and their labor agencies with funds to assist and coordinate local prime sponsors, to conduct labor market studies, to set up demonstration projects for groups not adequately served by local units, and to provide information and linkages with unions and other CETA-related bodies.

The other contracts examined here are funded under CETA's Title IV, Section 433 (a)(2)--the Governors' Special State-Wide Youth Services, a new direct services program for states. This program was designed to add model or experimental youth projects developed under the state government. For both titles, state officials can choose services from a list of federally approved services, but Title II includes certain mandated programs as well. In Michigan, both public and private agencies can be used for these grants, but only a few private organizations have received contracts each year.

While the goals and expectations of the CETA legislation and regulations may not have been to promote contracting out specifically to reduce costs and government growth, the programs generally were designed to provide better services to meet the needs of the employable poor more effectively--whether provided in-house or via contractors. In a sense, then, one of the goals of contracting proponents can be said to be found within the CETA legislation. Specifically, the Governors' Grants allowed states to take advantage of the expertise developed by public and private agencies, to provide special services for certain target groups, and to encourage innovation in employment services. By focusing on developing demonstration or model projects

under CETA, Michigan DOL has committed itself to choosing programs whose plans and past performance hold the likelihood of being most effective in assisting the needy.

Unlike the Michigan DSS and Title XX, the federal DOL apparently did not want merely to spend money or expand services to the needy. An improved allocation of resources was the objective. CETA was created to overcome various inefficiencies in the previous patchwork of manpower programs--overlap, contradictions, inconsistencies, lack of coordination, federal goals that were incompatible with state and local needs. The reauthorized form of CETA in 1978 also intended to reduce the dependence upon public service employment--work which often did not have direct applications to the private sector. While not specifically aimed at reducing government growth, in the long run these changes in the employment and training programs would help to limit government growth and reduce costs of employment programs. In sum, even though they were not designed to accomplish all three goals of contracting advocates, at least CETA goals were not inconsistent with the desire for reduced costs, better services, and limited government growth.

I. Interviewee Selection

Two categories of individuals were selected for interviews--six state DOL officials in the Bureau of Employment and Training (BET) and ten service providers.¹ Of the BET employees, two respondents worked in the program and planning division, where they had responsibility for the early stages of the contract process--policy development, program design, and contract solicitations--as well as the design and

¹These interviews were conducted in January and February of 1981.

implementation of any program evaluations. The four other BET interviewees were contract administrators. They were involved in negotiating contracts, assisting contractors, and monitoring contracts for contract compliance.²

The ten contractor representatives were scattered throughout the state, but were located mainly in the same larger county areas where I had interviewed DSS contractors. Although no official permission was given (or necessary) to obtain these interviews, the BET interviewees provided complete lists of current and past CETA contractors. From these lists, I chose four agencies that had current contracts from BET for FY81, and six that no longer were receiving any from this source. More former contractors were interviewed than current ones (and more than in the DSS sample) because of the smaller numbers of current contractors. Of the past contractors, I selected only agencies that had been awarded BET contracts within the past three fiscal years, to avoid problems caused by staff turnover and forgetfulness.³ About 60 percent of the current and recent past private contractors were included in this sample.⁴

A. Backgrounds of Respondents

Except for one variable, the backgrounds of both the public officials and the provider representatives are not unusual. In fact they

²Three of the officials were given the long form; three were interviewed with the short form.

³As it was, one of the agencies originally selected for an interview had disbanded since the end of its Title IV contract. To take its place, I chose another agency.

⁴These did not include any research contracts with private agencies.

are not unlike those of the DSS interviewees. The one obvious difference is that in this DOL sample, 75 percent (12 out of 16) of the participants were women, whereas only 26 percent (six out of 23) of the DSS sample were women. There was no attempt to include women specifically in the sample. It seems that more opportunities opened up in these positions for women in BET and in the newer field of employment and training generally.

A few other differences also emerged between the public and private groups in this study, but they were relatively small. The public employees were generally somewhat younger, not as highly educated with specialized or advanced degrees, and were less likely to have been employed in the opposite sector as were the private agency representatives. But with two exceptions, the public sector work experiences of the private respondents were not in CETA-related organizations, such as DOL, BET, or local CETA prime sponsors. (Even these exceptions got their experience in other states.) There did not seem to be the same movement between public and private as was observed in the career patterns of the DSS interviewees. In addition, the actual interviews indicated that most, but not all, of the public respondents did not have as much knowledge and understanding of (or sympathy with) their private counterparts' positions, as was evidenced in the DSS interviews. Their educational backgrounds may partially explain this, since all but one of the public respondents had no degrees in the relevant professional fields of vocational education, adult education, manpower, etc. Instead, their degrees were for the most part in the liberal arts.

B. Contractor Agency Profile

As with the DSS provider agencies, the ten BET contractors used in this study made up a diverse group of private, non-profit agencies. Eight of the ten agencies had contracts that required direct service provision to CETA-eligible clients in certain target groups that had not been adequately served by prime sponsors--female offenders, women, handicappers, adjudicated high school drop-outs, Hispanics, etc. The other two agencies delivered "linkage" services to CETA-related agencies.

Three of the six Title II contracts included in this sample were made with agencies that focused on women's employment needs, but were no longer in effect. The only current Title II contract for direct client services was with an agency that offers pre-employment services for in-school youth. Two agencies currently provide linkage services for BET under Title II. One program, implemented by the manpower section in the state office of one of the major unions in the state, is directed toward providing information on labor's role in CETA to prime sponsors and labor unions in various communities. The second linkage contract has been made with a small, new agency that delivers a variety of information and training services for staffs of Michigan prime sponsors. These latter contracts were of particular interest since they were made because of the complexities of the CETA programs.

Of the four Title IV youth contractors, only one continues to have a contract with BET--for employment services for adjudicated high school drop-outs. Two of the other agencies provided services for handicapped youth, while a third agency assisted Hispanic drop-outs in finding employment. These programs were all located in certain

designated communities--and were not available to youth state-wide, since they were mainly for demonstration or experimental purposes.

The interviews with representatives of the ten contractors indicate that normally most of the agencies offer a wider range of services than just those contracted for under the Governor's programs. (Three of the agencies were exceptions, however.) Their specializations and client groups differ widely as well, with the result that the agencies themselves are among the best experts on the clients' needs, the services, and the appropriate methods of service delivery. The sizes of the agencies included in the sample range from having five employees (a prison para-legal program) to over 200 (a migrant workers' agency). The age of the contractor agencies varied from a 90-year-old YMCA to a new consulting firm. But most of the agencies were established since 1960, with government funds.

All of the contractors had a relatively low number of contracts (from one to five), but some of those from other sources were very large in amounts. The state CETA contracts were usually not the largest of their government contracts. Several of the agencies also had at some time received CETA contracts from other government units--local prime sponsors, directly from the federal government--such that they could compare the BET contract procedures to other CETA procedures. Five of the agencies rely on government contracts for at least 70 percent of their operating costs, with some of these having no other sources of funds.

Unlike several DSS contractors, almost none of the DOL contractors seemed to be very dependent upon BET contracts, since they usually had a variety of public and private sources of funds. In fact, two of

the Title IV youth contractors did not request renewals after one year of a contract because of various "bureaucratic" requirements, the small amounts of the contracts and rather poor results under the contracts, according to their representatives. In general, contractors understood that their BET contracts were for a three-year maximum period, under BET's policy. (Only the union contract had been extended for a longer, indefinite time period. Two of the other current contractors also expressed hope that theirs might be continued after three years, but they were not counting on it.) What appears to be the case with the DOL contracts is that they can be important for some agencies at the margins, since most agencies operate from hand to mouth, but contractors have not depended on them as their major funding source. Therefore, almost all of the agencies could survive quite well without them.⁵ In sum, the relatively small amounts of the contracts and BET's usual three-year limit apparantly have helped to avoid the problems of dependence.

The only negative outcome of this lack of dependence seemed to be a less serious effort by some agencies at meeting BET's requirements and objectives--especially when they did not compare favorably with other governments' methods. One of the contractor interviewees said that the BET contract was so small that it was not worth their while to make a concerted effort at improving performance and "putting up" with the hassles of the BET. Other contracts were more important to retain, and did not require compliance with as many difficult regulations.

⁵ Obviously, the agency that was mentioned in note #3 did not fare so well without the funds.

II. Competition in State CETA Contracting

The emerging picture of DOL contracting already differs from that of DSS. Private contractors are not as dependent upon BET funds; there appears to be fewer automatic contract renewals; the goals of CETA programs were more oriented toward efficiency and effectiveness; and the reasons for using outside providers seem to be rooted in CETA's aim to use state governments to promote innovation and coordination more than on-going direct services for certain client groups. But now our attention shifts to this question: How competitive is the employment and training "market"? And do the procedures adopted by BET promote or hinder competition?

A. Competition in the Employment and Training Environment

The employment and training field has been marked by only limited competition--and for some of the same reasons as were found in social services: the need for providers to differentiate their services to enter the market successfully, locational restrictions, and various barriers to getting government funds.

Employment and training services are clearly services which, prior to government articulation of demand, suffered from under-expression of demand and lack of adequate supply--even more than in the area of social services. When the federal government decided that this basic need should be met by government action, there were very few available providers. The government generally had to depend upon public agencies to accomplish its goals (e.g., public schools, public employment agencies).

Although the public sector has remained the chief vehicle for delivering manpower services for the needy, some private agencies have

been utilized. During the Sixties, a number of private, community-based organizations (CBO's) created with federal grants developed expertise in various employment and training services. Even though they were relatively small in number, these agencies have become important because of special considerations they receive over other agencies under CETA regulations--i.e., requirements that they be allowed to participate in the planning process, receive solicitations for contracts, and be awarded contracts where their programs have demonstrated their effectiveness. Through their strong lobbying efforts at the national level, these organizations were able to gain enough political support to help ensure the continued flow of funds even though CETA has brought almost all employment and training programs under the control of public officials--and out of the hands of federal bureaucrats and non-profit corporations.

These regulations do not mean that CBO's and other private agencies have readily formed to compete with public agencies for state and local contracts. New private agencies (or existing social agencies desiring to expand their services) have experienced some difficulty in entering the market to compete directly with public organizations for government funds. Some contractor interviewees complained that they often were not seriously considered for local prime sponsor contracts because of the prime sponsors' long-standing loyalties to other related public agencies in the community. Private agencies included in this sample were able to form and continue with some success in large part because they were local affiliates of national manpower networks (e.g., in youth employment--70,001 Ltd. and OIC); have been successful in getting grants from private employers and/or the federal government

directly (e.g., the migrant workers' organization); and/or have gotten into manpower programs as a by-product of some other primary activity in which they developed program or client expertise not found in other private or public agencies (e.g., the labor union, rehabilitation agencies, YWCA, prison para-legal program). Apparently competition is discouraged in this field by the prime sponsors and the public agencies that receive their contracts.

B. The Reduction of Competition Through a BET Policy

The number of potential providers competing for CETA contracts appears to be reduced further by one critical BET policy--the stipulation that a match for Title IV youth contracts be made during the second and third years of a contract. A match is not required by federal CETA regulations, but was designed by BET to achieve certain state goals.

Almost all contracts under both state titles have a three-year limit. (This fact in itself may discourage some providers from competing for contracts.) This BET policy was designed in part to foster model or experimental programs which, if successful, could be continued through other funding sources. The policy requiring a match goes one step further. It allows for only one year of being fully funded by the BET contract from Title IV youth funds. For the second contract year, 30 percent of the amount must be met by the provider; in the third year, 50 percent. After three years, it is expected that good programs will have demonstrated their effectiveness and will be able to obtain a more permanent funding source to continue their services.

While discouraging dependence on BET contracts, the increasing match and the three-year limit also would seem to discourage some

agencies from competing for and/or renewing contracts. Public agencies can use their own appropriations for the requisite amount. But certain private, non-profit agencies with only government contracts would face more difficulty than would private agencies with extra donated funds from private sources.

The three years of youth programs have seen a decline in the number of contracts with private agencies, because several agencies did not reapply for contracts for the second and third years. In fact, none of the private contractors have continued for the three full years as yet. One of the reasons given for not asking for a renewal was the matching requirement--some of the agencies had difficulty finding extra money, while others had other sources available that did not require a match or complex regulations. Only two private contractors have requested and received second-year contracts. An agency program director said that he believed the renewal of his agency's contract was automatic because he had the funds for the match, while others did not. Even though the performance of many of the public and private youth contractors had not been satisfactory to BET officials, renewals were given to all who requested them for FY81. At this time, BET had little choice of contractors so it could not use the renewals as "rewards" for well-run, effective programs.

BET's experience with the Title IV match substantiates my claim in the previous chapter that a donation requirement reduces competition, especially among private agencies. DSS has had difficulty finding agencies that could provide a particular service and also make the 25 percent donation. In BET, almost without exception, the Title II contractors have requested the maximum number of contract years allowed

by BET; Title IV providers have been opting out of their programs, and have not usually continued them with other funds. Thus, the matching requirement not only reduces competition and choice, but sometimes does not allow promising programs to continue to the point of being successful and providing the unemployed with jobs--the very aim of the state grants.

C. Contracting Procedures

All other things being equal, we would expect that the Title II funds would encourage more competition and choice for BET than the Title IV youth contracts--because of the matching difference. The procedures for the two CETA titles have not, however, been designed to be equally competitive. The Title II procedures have usually produced only limited competition, while the Title IV youth programs, at least for one year, created more competition and choice through the use of the RFP process.

Many of the procedures used by BET to purchase various services are governed by CETA regulations, which generally emphasize the need for competition, objectivity, and fairness.⁶ Nonetheless, state governments can use their own discretion in deciding which services to purchase and in choosing solicitation methods. Michigan DOL has mainly used two different approaches to the two titles.

1. Needs Assessments

The Bureau has had several ways of determining which types of services should be provided by Title II and IV funds--CETA mandates,

⁶ Unlike DSS, BET has not needed Civil Service permission to make contracts, because the federal grants pay for the entire contract amounts under CETA. Nor has it required the Attorney General's Office to approve of the forms and final contract agreements.

informal and formal needs assessments, planning task forces, and requests for proposals. Under CETA, the state has specific responsibility for the employment and training needs of institutionalized individuals. In addition, BET tries to meet the unmet needs of certain populations in the state. BET uses several advisory and information sources to determine if in fact the prime sponsors are not meeting more specialized needs. They include: the prime sponsors themselves; the Michigan Employment and Training Council (METC)--a large, CETA-mandated advisory body made up of a variety of interested experts and individuals, with its own staff; the CETA management information system, which produces a great quantity of data, including the types of services available and enrollments for various populations throughout the state; and the monthly reports of the DOL affirmative action officer, which are directed at determining how equitably the various groups are being served. This information is channelled to the planning and program half of BET, which decides which populations need special attention and the general types of programs that would fit into CETA guidelines. An annual CETA plan is then compiled, submitted to the regional federal DOL office, and, if approved, BET can proceed with making the contracts to fulfill their plans.

In the recent past, BET has set up two planning task forces when it became apparent that older workers and handicapped individuals have special needs that largely have gone unmet. Each task force is an ad hoc committee consisting of representatives of these special groups, providers, and prime sponsors. In part, their efforts were first aimed at helping the state (as well as prime sponsors) to understand the various needs of these populations. Although the current fiscal

year does not include programs for them, the two committees each outlined the general programs required, and BET intends to fund a few local demonstration projects for the next fiscal year. These and other efforts at assessing needs and suggesting possible providers rely both on a strong research component (specifically paid for by Title II, some of which are also contracted out with independent organizations) and inputs from concerned groups. This appears to promote a necessary balance of objectivity and responsiveness in providing employment and training services.

The more recent Title IV youth grant planning process largely depended on the research results, which showed that certain sub-groups among unemployed youth needed additional employment assistance: physically and mentally handicapped, racial minorities, heads of households, adjudicated youth, high-school drop-outs, central city and rural residents. The RFP that was drawn up by the program staff specified that contracted projects should serve youth with some of these target characteristics. In addition, it required that all the projects should include at least on-the-job training (OJT), since research results convinced officials that OJT is the best method of ensuring that enrollees will continue in unsubsidized employment.

Not all the BET contracts have used such systematic means for determining needs, however. In the past years, the target populations and methods of service delivery have not been as well-defined in advance of the solicitation stage for the Title II service contracts. Instead, program officials have had general ideas that more projects for certain groups (e.g., women) were needed, but did not develop specific programs or target sub-groups for contracts. The contracts were

developed then from the proposals that potential contractors submitted-- either in response to an invitation or through their own initiative.

2. Solicitation Procedures

Unlike Title XX and the Michigan DSS, the goals of the state CETA titles and Michigan DOL for employment and training programs would seem to require competition in solicitation procedures to attract proposals for innovative and model programs that would hold the greatest possibilities for success. These state CETA funds are not supposed to be spent only to provide certain necessary services to client groups. These titles were also intended for model and demonstration projects. Effective competition would seem to be the avenue to giving BET a variety of choices and achieving these goals.

BET has not, however, consistently promoted competition through its solicitation procedures. Major differences in methods have been obvious when the youth contracts and the Title II contracts were compared. Title IV contracts were marked by competition throughout the contracting process--at least for one year--but only minimal competition has characterized the Title II process.

While CETA regulations do not require it, BET used the RFP (Request for Proposal) process for the youth contracts in 1979, for the first full year of Title IV (FY80). The Program Development Division was responsible for writing the RFP and notifying agencies on their mailing list. BET has compiled a long list of approximately 600 potential public and private providers, including past contractors, all prime sponsors, community-based organizations, and any agency that has expressed interest in CETA contract. This solicitation allowed for the widest exposure and included practically every possible contractor.

The contract specifications were also very thorough and complete. As mentioned above, the RFP specifically stated that OJT be part of the services provided and that agencies design projects aimed at enrolling youths who met at least two of the target characteristics, in addition to being under CETA's usual income limits. Also included in the RFP were the standard requirements for equal opportunity, affirmative action, bookkeeping procedures, client eligibility procedures. Contracts were to be made for a one year period or less, with the stipulation that two additional years would be available as well, provided a match was made and the first year's performance was acceptable. Performance goals were also given (e.g., percentage of participants placed in unsubsidized employment) and agencies were informed in a general way that their programs, if funded, would be monitored and evaluated by BET for these and other matters. More importantly, the package clearly specified the criteria (and their relative weights) by which the proposals would be judged and given awards. It stated, for example, that extra "points" would be given to projects that proposed to enroll youths who met more than the minimum number of target characteristics.

This RFP process was a major undertaking by BET. It has not been repeated for FY81 or FY82, in part because the first solicitation had been so thorough and BET has not changed its goals for the youth grant. In addition, the process was very expensive, time-consuming, and complicated. Unfortunately, BET officials included in the sample were not altogether pleased with the results of the process--both in terms of the proposals that were received and the performance of the agencies that were awarded contracts.

For the two following years, BET basically continued the previous year's contracts. The contractors were invited to submit proposals for FY81 and then FY82, provided they had not mismanaged funds or been found to be in "gross non-compliance" during the first year. All of the contractors who requested renewals for FY81 were given them, even though their performance had not met the expectations of officials and even the terms of the contracts. Some programs had late starts, inadequate record-keeping systems, and/or difficulty meeting the contract terms. Various reasons were given for the failures besides the contractors' inadequacies, including the economy, slow processing by BET, and unrealistic expectations of program officials.

The Title II solicitation process has not included using the RFP, except for a few specialized research and linkage contracts. The usual methods utilized by BET have been informal contacts and letters. Any time private sources may be used, wider advertising is supposed to be employed to maximize competition, according to CETA regulations. Some non-competitive awards to public agencies are allowed, but they have not been made often, because, in the words of one supervisor, "it could be so easily abused." According to interviewees, if BET has a specific need, a small number of potential public and/or private providers is notified by means of a brief general summary of what is desired, and what are the relevant CETA requirements. The requirements are not very different from those listed under the Title IV programs, except the target groups and methods of service are not as clearly stated. Providers propose their own types of programs, the number of enrollees, and the total cost. These summaries also do not usually include the criteria used in making awards. The process works very much like the DSS

solicitations. Instead of achieving direct competition through wide advertising for certain specific programs, BET receives several different types of proposals for different groups that cannot be easily compared. The agencies then compete for a part of the allocation for direct services.

Apparently most of the private agencies do not receive their contracts as a result of a solicitation notice from BET; they contact DOL first about their proposed programs. All four of the current and former direct service contractors in Title II reported that their agencies approached BET about funding, rather than the reverse. One respondent said that she had never seen any advertisements about the Title II contracts, even though she has been very involved in the employment and training policy field in and out of Michigan for many years.

3. Proposals

A full written proposal has not always been required for Title II contracts. Instead, contractors sometimes have submitted letters of interest or intent, with outlines of their projects--some of which have already been in operation with other funding. Even if a proposal is required, a detailed budget is not always included at this time.

For the youth contracts, the proposal was critical for the awards for FY80. It was supposed to be very complete in terms of its plan for the target groups, methods of service delivery, and placement rates, but the budget was not to be a factor in the decision-making process.

Generally the process for soliciting Title IV proposals was quite competitive. Of all the invitations that were sent out, only 35 proposals were received, of which 14 agencies received contracts. This appears to provide more choice than was found in the DSS system. The

only problem with the youth proposals was that most were judged as being poorly written, poorly conceived, and unresponsive to the needs of BET. Just the same, all of the funds were allocated. An official who was responsible for the RFP and the proposal evaluations process declared that if she had had a choice, she would have only purchased services from two or three of the 35 agencies. Since the system offers no incentives to states or officials who return unused allocations, the contracts were awarded to some private and public agencies that were unlikely to produce well-run, effective programs. In this case, the competition did not promote better quality programs. In part, this result could be traced to the matching requirement that probably prevented some agencies from competing, and the fact that the amounts of the contracts were fairly small.

In the last series of Title II proposal considerations, for FY81, all the agencies that submitted proposals or letters of intent received contracts. Several of these were continuations of previous projects. In other years, according to officials, roughly half of the unsolicited and solicited proposals have been selected for contracts. Nonetheless, those agencies submitting proposals for specialized programs and target groups have met little direct competition. All of the Title II service contractors interviewed suggested that there were no other agencies in Michigan that could provide their kinds of employment and training services for their client groups. If BET receives more proposals than can be funded, the Bureau must determine contracts mainly on the basis of which groups have the greatest need--not necessarily which contractor has the best project or success rate.

III. Contract Decision Making

In this section, we will once again examine if decision makers use contracting out to promote greater efficiency in the provision of public services--both in their decisions to use outside contractors and in their choices of contractors to deliver services. In the DOL case, at least the goals of CETA are oriented toward improving efficiency and effectiveness through the state titles. But the question is: Is contracting perceived as a means of improving efficiency and effectiveness? And have officials used cost and performance criteria to make their choices among various proposals?

A. Why Contract Out?

The underlying reason for contracting out for CETA services is that DOL does not have the staff and local facilities to carry out all the mandated and optional programs in-house. The intention of the state titles, in addition, was to encourage states to use the existing local prime sponsors, school districts, community-based organizations, etc., for innovation, coordination, experimentation, and the targeted services. Consequently, relatively few activities are provided by DOL itself--only some coordination, linkage, and research services--and more of these are being contracted out as the state government has required personnel lay-offs in all departments and bureaus, even ones where most employees are paid through federal funds.

Therefore, the following question took some respondents by surprise:

Rank the following in order of importance (from 1 to 7, with 1 being the most important) as to why outside agencies/firms are used to supply public services in your program area instead of state public employees.

To clarify the question, I added the phrase, "for example, in an expanded MESCC" (Michigan Employment Security Commission--a part of DOL, with branch offices throughout the state.⁷ The answers ranged across the possible alternatives, with some differences of opinion and difficulties in answering.⁸ It was clear that some had never considered the question before.

Among public officials, the "greater flexibility" alternative most frequently showed up in the top three (most important) responses. "Better services" also was chosen as relatively important, in the sense that outside agencies have expertise in clients and services that is not available within the government. While two individuals stated that contracting was a way of strengthening private agencies and firms, others disagreed and said that reason was not intended at all. Seen as having somewhat less importance were the "lower cost" and "better oversight" options. Respondents did not believe that political pork barreling or the federal or state laws or regulations were generally very important. Two comments given as other key reasons were: "it makes no sense to have a state-wide, state-level program for local problems" and "they [outside agencies] happen to be available and can do it well."

Not surprisingly, the private agency representatives most frequently chose the "better services" alternative, followed by "greater flexibility in initiating and terminating programs"--in the words of a respondent who improved the schedule's wording. They also believed that

⁷This example seemed necessary after the pre-test and the first interviews indicated that respondents needed an example to understand the meaning of the question.

⁸One official did not answer this question, while two others gave only one or two of the alternatives on this list.

federal and state mandates were quite important. Of somewhat less importance were lower cost, better oversight, and a way of strengthening private agencies and firms. Political pork barreling, with one exception, was seen as unimportant in the decision to use outside suppliers.

These and other answers indicate that DOL has no complex set of criteria for deciding whether or not to contract out for particular services; there usually is little choice. Because DOL and MESC offer limited types of services themselves, BET usually turns to other public and private agencies for services they can perform. The CETA structure itself is oriented towards decentralizing administration, discretion, and service delivery. Contracting out conforms well with BET's goals for model projects. In the words of one interviewee, it is a "way of insuring that programs will continue with local support and local input." It would be quite inconsistent, as well as usually inefficient, to build up a state-level system for the services it desires when other local agencies exist which can fill the need.

Thus, the primary reason for contracting out is not simply to cut costs, as might be expected from the public choice literature on contracting out. Rather, it is to fill the needs for employment and training services by using experienced local agencies, and secondarily, to improve the efficiency and effectiveness of the CETA programs.

B. Choosing Contractors for Awards

Not only have the solicitation procedures for the two titles differed, but the two processes of evaluating proposals have also been very dissimilar. The methods for judging the Title II proposals have frequently been almost haphazard, while the Title IV process was fair and

systematic for the most part. Common to both titles, however, is a general concern for the proposed program, the methods of service delivery, and needs of the targeted clients. Cost considerations have hardly been seen as important at all in making awards.

The Title II proposals, often unsolicited except for renewals, are almost always considered by relevant program staff members on their individual merits in view of the needs of the target group and the funds available at the time. Contracts are considered and written all year around, such that all proposals are not compared to each other at the same time in competition for a given amount of money. Usually the officials know the identities of the providers. Their recommendations are then given to the bureau and department directors for their scrutiny and the final decision.

A different process for evaluating proposals was employed when the RFP was used for youth contracts. (It has also been used a couple times for Title II when several research proposals have been submitted for a smaller number of contracts.) A panel of disinterested reviewers was chosen--made up primarily of various staff members from within BET (not those who have written the RFP or who negotiate and monitor contracts), prime sponsor representatives, and selected members of the METC. This panel examined and scored each proposal according to the RFP's specified criteria. They discussed the top contenders when scores were close. Without knowing who had submitted which proposals, the panel recommended that the agencies receiving the top scores be awarded contracts. While these recommendations mainly determined the outcomes, both the bureau director and the department director made the final selections.

Once the selection of providers has been made--by either of the methods--the specialists in contract administration are assigned the contracts. They are given the responsibility of negotiating and drawing up the contracts, as well as providing technical assistance during the projects' start-up period. Only here does the cost of the programs become a consideration--but this is after awards have been made. The administrators examine the budget submitted by each provider and, if necessary, suggest ways to change the line-items and/or get the provider in compliance with the many complex CETA regulations. In addition, they may negotiate the number of clients served (the units of service) and the total amount of the contract. Generally the methods of service delivery are not discussed, but included as the proposal states them. Several of the youth contracts have been performance-oriented, including not only the services to be delivered, but also the goals for the number of individuals to be placed in unsubsidized employment.

In the past, some agencies that have been selected for contracts have not had them completed during the contract writing stage because of non-compliance with certain CETA regulations. The program and planning side of the bureau has been primarily concerned with the programmatic elements of proposals, with the result that contractors are often not aware of the many restrictions and paperwork required until later. Some insurmountable technical problems have emerged only when the contract administrators took over in the process. When contracts cannot be written, the funds are given to the next higher scorer in the Title IV proposal "contest," or another Title II contractor must be found.

Interviewees were also questioned about their opinions of the criteria used in award decisions: On what basis is it decided that a

certain firm or agency will receive a contract in your program area? Four of the six BET employees answered this question. (Two contract specialists did not respond because they had little knowledge of how awards were made.) Two major reasons for BET's choices were given by officials: plan to fulfill all criteria provided in solicitation package and well-reasoned arguments why program elements will accomplish the desired goals, as given in the proposal. Other reasons mentioned were previous satisfactory work in state projects or services and previous experience in this general type of service. Interviewees agreed that lowest cost was hardly a factor in decision making. Public officials said that although the CETA regulations say that minority, female-owned and small contractors and CBOs be given all opportunities to make proposals, these background factors are only infrequently involved in making awards.

One of the respondents who makes award recommendations to the bureau director said that she wished that the only reasons for choices were the first two listed above. She asserted that political factors also were important once the final decisions were in the hands of the bureau director and the department director.

From their perspective, the provider respondents said that they did not know for certain what were the reasons for awarding contracts. In this respect, the providers were generally less informed than DSS providers, who may have understood the system better because of longer relationships with officials. (Many of the DOL contractors were also very mistaken about the identities of those who selected contractors.) Their most frequent answers, in order, were: having previous satisfactory work in state projects or services, an innovative approach to

dealing with the perceived problem, lowest cost, and previous experience in this general type of service or population group. The top two reasons given by BET officials were not seen as important as these, which may indicate that providers often do not know what BET really wants, and this may explain why BET has often been disappointed with the quality of proposals. None of the providers mentioned that political influence was a factor. In fact, some of the interviewees stated that compared to the favoritism in the award process of their local prime sponsors, the state BET appeared to be remarkably free of politics. The only complaint in this regard was that public agencies appeared to receive more invitations for proposals and, therefore, more contracts.

Because state CETA funds have been relatively plentiful and the titles are geared toward producing effective model programs, there appears to have been little concern for cost. The major reasons for awards appear to be programmatic in nature--i.e., on the basis of the proposed programs as they related to the needs of certain unemployed groups in the state. Previous experience or reputation may also have some bearing in some cases, but this did not seem particularly important by itself, despite what providers thought. Naturally agencies would be better able to construct a feasible service plan if they were familiar with the target population's needs and abilities. A current provider said that the youth grants program placed a "heavy weight on intent and design, not so much on success," either under previous funding or during the first year of a BET contract. This observation was confirmed by other officials and providers. The submission of a good proposal seemed to be the crucial part in getting either the Title II and IV

contracts, but even some poorly written proposals have also resulted in contracts, since the funds were available and no other contractors were.

Though not guaranteed, renewals are usually made up to the three-year limit, despite difficulties in operating programs and meeting goals. In the first year of an experimental project with a new funding source, providers have encountered various start-up problems that can be overcome with additional time, experience, and technical assistance from BET. Therefore, giving renewals may often help to accomplish BET's goals of helping to establish effective employment and training programs, even though the first year's costs may be high.

Judging from the evidence, at least one of the key elements in decision making assumed by contracting supporters is absent--the common goal of cost minimization. Officials have tried to maximize service performance instead. In their view, awarding contracts to providers with good proposals for programs aimed at the most needy is the method of achieving this goal.

This means, however, that often BET evaluates potential contractors on the basis of limited information--information compiled by providers almost exclusively about the programs' clients, elements, service delivery, etc. In particular, three problems arise with this approach to judging programs' future success: 1) information about the likelihood of an agency being able to attain program goals (i.e., reputation, past performance) is not often used for making awards, as in the "blind" youth contracts award process; 2) proposal evaluators often do not have independent information or expertise with which to judge the specialized agencies' proposals about clients and services (e.g., para-legal services for incarcerated women); and 3) there may be no necessary

connection between being able to "package" a credible program and being able to implement the plans, since usually these require different skills and quite different parts of an organization are responsible for these activities. As a result, it may be difficult to assess accurately the anticipated performance and consequences of each alternative in terms of the goal of effectiveness.

BET's need to expend federal CETA funds also means that some plainly less desirable alternatives have also been funded--a way of actually diminishing the possibilities of being effective as well as producing a probable source of waste and inefficiency. A program head said a major problem in contracting was that BET "becomes more and more pressured as time goes on, because money is ready to spend." Consequently, officials give contracts to providers with "less than adequate plans." No other agencies are available, due to a lack of competition in the environment, so willing agencies are given funds despite the anticipated problems. This phenomenon is not due to contracting per se, but to the disincentives for having unexpended funds at the year's end. The problem is increased, however, when the contracting unit has no alternative but to use contractors to provide the desired services. If there was a choice to use either in-house staff or contractors, programs probably could be designed and implemented to fulfill more exactly the needs of government.

C. Objectivity and Fairness in Contracting

The complex CETA regulations include several provisions for promoting fairness in contracting. Political patronage and conflict of interest in awards, for example, are strictly forbidden. Although certain types of contractors are to be given "maximum reasonable

opportunity" to compete and be given awards, generally selection of contractors is supposed to be made on the basis of merit after a thorough review. In most respects, these regulations appear to be followed in Michigan DOL. Nonetheless, the personal relationships between bureaucrats and contractors and the role of politicians in state CETA contracts must be examined to determine whether other influences affect contracting decisions.

1. Relationships Between Bureaucrats and Contractors

BET does not hold the same potential for fostering cozy or cooperative relationships as in DSS--for a basic structural reason. BET's organizational structure divides the work of the bureau into two major areas--on one side, policy, planning, and program development; on the other, on-going operations. The contracting plans, programs, and awards are the responsibility of one set of officials. Contract negotiations, monitoring, and assistance are carried out by another set--the contract administrators in the operations division.

For our purposes, this means that the bureaucrats with the most frequent, on-going contracts with contractors are not the same individuals who make up the RFP's and decide awards for either of the titles. Personal relationships are less likely to be a factor in choosing contractors and renewals. Certainly friendships could develop between contract administrators and contractors which would undermine the objectivity of the monitoring process and perhaps feed biased and inaccurate information into the award process. But the opportunities for this are minimized by both the dominant role program officials have taken in the Title II decision making process and the objective nature of the Title IV youth decision process. The contract administrators'

information about contract implementation and compliance has had somewhat less influence on BET's plans, programs, and awards than they would like. (If they were consulted, interviewees suggested that they would recommend that several contractors would not receive renewals or other opportunities to compete for contracts.) In addition, because of the three-year limit on funds, loyalties born out of long-term relationships are less likely to materialize. Only a few public agencies and the labor union have gone beyond the limit, either with the same or different programs.

Nonetheless, to find out about their associations with others, I asked respondents to rate the frequency of the following types of relationships:

1. close and personal
2. warm and friendly
3. strictly businesslike
4. cool and distant
5. hostile and antagonistic

As with DSS, relationships were described as often warm and friendly by half of the BET officials and six (60 percent) of the contractors (Tables 10 and 11). Nonetheless, 50 percent of the officials said their relationships were often strictly businesslike. Very few differences in perceptions between bureaucrats and contractors are evident. Again some respondents stated that their relationships were sometimes cool and distant or even hostile and antagonistic--with somewhat more frequent responses of this kind by BET officials.

The question about whether bureaucrats act as advocates for contractors was also asked of both officials and providers (Table 12). It

Table 10: State B.E.T. Officials' Relationships With Providers

| Frequency: | Close and personal | Warm and friendly | Strictly businesslike | Cool and distant | Hostile and antagonistic |
|------------|--------------------|-------------------|-----------------------|------------------|--------------------------|
| Always | 1 (17%) | 1 (17%) | -- | -- | -- |
| Often | 1 (17%) | 3 (50%) | 3 (50%) | -- | -- |
| Sometimes | 2 (33%) | 2 (33%) | 2 (33%) | 3 (50%) | 1 (17%) |
| Never | 2 (33%) | -- | 1 (17%) | 3 (50%) | 5 (80%) |
| TOTALS | 6 (100%) | 6 (100%) | 6 (100%) | 6 (100%) | 6 (100%) |

Table 11: Contractors' Relationships With B.E.T. Contracting Officials

| Frequency: | Close and personal | Warm and friendly | Strictly businesslike | Cool and distant | Hostile and antagonistic |
|------------|--------------------|-------------------|-----------------------|------------------|--------------------------|
| Always | -- | 1 (10%) | 1 (10%) | -- | -- |
| Often | 3 (30%) | 6 (60%) | 4 (40%) | -- | -- |
| Sometimes | 3 (30%) | 3 (30%) | 4 (40%) | 3 (30%) | 1 (10%) |
| Never | 4 (40%) | -- | 1 (10%) | 7 (70%) | 9 (90%) |
| TOTALS | 10 (100%) | 10 (100%) | 10 (100%) | 10 (100%) | 10 (100%) |

Table 12: Advocate Role of B.E.T. Bureaucrats

| Frequency: | State | Contractors | TOTALS |
|------------|--------------|--------------|--------------|
| Always | 1 (20%) | 2 (20%) | 3 (20%) |
| Often | 2 (40%) | 4 (40%) | 6 (40%) |
| Sometimes | 2 (40%) | 1 (10%) | 3 (20%) |
| Never | -- | 3 (30%) | 3 (20%) |
| TOTALS | 5* (100%) | 10 (100%) | 15 (100%) |

* One respondent did not answer this question.

was apparent that some contract administrators saw their jobs in terms of assisting "their" contractors. Often this required an advocacy role --e.g., clearing payments for them, promoting their programs with other officials. Program heads also have acted as promoters of contractors with effective programs in their areas of responsibility. Those who work closely with the contractors then were more likely than other officials to give "always" and "often" as their responses. This result was similar to the answers in DSS, where county coordinators reported more frequently than state officials that they act as advocates.

For the providers, the responses were more scattered across the four choices of always (two, 20 percent), often (4, 40 percent), sometimes (1, 10 percent), and never (3, 30 percent). Their answers seemed to depend in large part upon the contract administrator assigned to them, since some seemed to take on the advocacy role more often and were generally more cooperative than others. Unlike in DSS, where none of the providers chose "never" for this question, three of the respondents said officials never acted as their advocates.

In general, most contract administrators and program heads appear to act as advocates with other officials for their agencies--especially when the programs are important ones and when they need assistance in finding their way through BET's confusing policies and bureaucracy. As a contractor said, officials are "supportive" because they want the contractors' programs to "do well so they look good to their bosses." Two of the contractors for specialized projects for women also saw themselves as receiving extra assistance because BET wanted to fund their unique programs and wanted them to succeed. At times, however, officials were critical of requests or actions of some contractors. And

they are limited in what they can do for contractors, since the important decisions about policies, awards, and renewals are made by a variety of individuals.

The only real evidence of preferential treatment or cooptation by bureaucrats in relations with contractors was a general comment made by a planning official. She said that "cronyism" between certain prime sponsors and the state DOL meant that all agencies are not given equal treatment. The more vocal and sometimes more critical local agencies tend to get more attention and assistance. From their viewpoint, some of the contractors also said they thought public agencies were preferred in some Title II procedures and decisions. From this and other information, I concluded that certain public agencies were not only given more opportunities to compete for contractors, but they also on occasion were chosen for contracts that, if they had been private agencies, they would not have received. Some of these decisions have been made within the program offices, while others have been made by the bureau and department directors.

2. Role of Politicians in BET Contracting

BET and provider respondents were also asked to evaluate the role of most politicians in the contracting process. Generally BET officials saw the activities of politicians in somewhat more negative light than did DSS state and county officials (Table 13). One interviewee said they were too interfering, while the rest stated that they were only involved in contracts their constituents wanted. None said they were helpful, not involved enough, or hardly involved at all. The providers' experience with elected officials was somewhat different than that of bureaucrats, with two (20 percent) stating that politicians were

Table 13: Role of Politicians in B.E.T. Contracting

| Role of Politicians: | State B.E.T. | Contractors | TOTALS |
|---|--------------|--------------|--------------|
| Generally quite helpful | -- | 2 (20%) | 2 (13%) |
| Not involved enough | -- | -- | -- |
| Too interfering in decision-making | 1 (20%) | -- | 1 (7%) |
| Hardly involved, but that's the way I prefer it | -- | 3 (30%) | 3 (30%) |
| Only involved in contracts constituents want | 4 (80%) | 5 (50%) | 9 (60%) |
| TOTALS | 5* (100%) | 10 (100%) | 15 (100%) |

* One respondent did not answer this question.

generally helpful. Three respondents (30 percent) thought they were hardly involved at all and five (50 percent) said that they were only involved in contracts their constituents wanted. As mentioned above, some of the providers said that from what they saw, BET was relatively free of the political influences that were common in the local prime sponsors' decisions.

The overall picture of politicians' involvement in state CETA contracts is rather similar to that found in DSS' social services, even though political pressure is more often exerted by state legislators instead of by local officials. Elected officials are interested in having funds channeled to their districts and sometimes to specific agencies as well. Thus, they have become active in assisting constituent organizations in being considered for awards. While they do not have many contacts with or influence over bureaucrats in their recommendations for awards, on occasion they have been effective in influencing the final choices of the bureau and department directors. As a result, BET has had several sweetheart (or "heaven above") contracts over the past years.

A clear case of a sweetheart contract was reported by two officials. A Catholic agency has had contracts for years, both through Title II and IV funds. Not only have the contract amounts exceeded the specified limit on youth contracts, but, according to a contract administrator, BET could have gotten another agency to provide the services more effectively. A program head maintained, however, that usually politicians have not been very successful at pushing poorly run programs.

Almost all of the officials expressed some resentment over the changes that the appointed bureau and department heads have made. A

policy and planning supervisor stated that she tries "to make policy priorities that are good, but the decisions made at higher levels are not consistent with these." One of the officials explained that many "politicians may not have much information and understanding" of what BET is attempting to do with the CETA contracts--with the implication that if they did, they would not pressure BET to change their priorities. That judgment is probably too charitable. Even those who know the goals of BET have not been averse to tampering with the experts' recommendations. The department director, Patrick Babcock, had both a "hands-on" style where contracting was concerned and some political ambitions of his own, which in combination meant that some "capriciousness" in funding was almost inevitable. Some of these decisions probably derived from his use of contracts to achieve his own goals while others resulted from politicians who understood Babcock's style and his political vulnerability. As with the DSS case, sweetheart contracts can come from the decisions of either elected officials or appointed department heads --both of whom try to augment their political support by this means.

These findings indicate that despite professional expertise and a model Title IV contracting out process, politics can still be a factor in awards decisions. Consequently, the final choices by BET have not always been consistent with maximizing service performance and effectiveness, much less efficiency.

IV. The Watchdog Role of BET

A. Review Procedures

Considering BET's goals for CETA contracts, thorough and objective reviews are critical for two areas--contract compliance and program effectiveness. These reviews should also be utilized when contracts

are considered for renewals. By these methods the government can be assured that clients are receiving the kinds and quality of services they require. And BET can gain useful knowledge about the cause and effect relationships that operate under various service conditions and programs.

Most of the Title II and IV contracts are reviewed only indirectly by the Bureau, however, through contractors' self-reporting of expenditures and progress in accordance with BET's guidelines and forms. All contract monitoring is performed by the contract administrators, but they mainly check the providers' performance and expenditures forms for simple compliance with the terms of the contract (e.g., for correct number of enrollees, for overspending and underspending), and file them. As with DSS contracts, the most rigorous scrutiny is reserved for determining participants' eligibility. A lottery system like DSS' is used for pulling clients' files to verify information. Unlike the DSS reviews, however, the monitoring of expenditures does not appear to be particularly thorough during the life of the contract. Even when the provider is found to be in non-compliance, the contract may not be terminated if the provider shows "good faith." Contract administrators provide them with technical assistance to move the program or administration in the agreed-upon direction.

On-site field visits were first employed for the early part of the current fiscal year FY81, and then only infrequently. The personnel are no longer available to make visits because of staff cuts and travel curtailments. (BET has had plenty of federal funds to spend on contracts and staff salaries, but it has suffered along with other departments in the state's staff reduction efforts.) On rare occasions, contract monitors have called on sub-contractors, but most of the

sub-contracted services are indirectly reviewed through the contractors' reports. Title II linkage contracts appear to receive even less review, since they do not serve client populations directly.

Some of the providers also compile final reports on their projects, through their own initiative. These range from very professional, thorough, and objective analyses to brief summaries of the program, completion rates, placements, etc. Sometimes contractors include participant evaluations and follow-ups; these are the only means BET has of obtaining client viewpoints, aside from a participants' grievance procedure. It is unclear what, if anything, BET does with these reports. Certainly it does not disseminate information about the "model" or "demonstration" projects that have been successful in meeting employment needs--yet that would seem to be a natural fulfillment of their goals.

BET's program development division has only infrequently produced in-depth evaluations and follow-ups itself to determine if certain programs are effective, what changes are necessary, and if they should be continued. Several of the provider respondents suggested that BET did not seem to be particularly interested in their results--even when some had not done very well in meeting their objectives. This failure to do adequate performance reviews is obviously inconsistent with BET's avowed purpose to fund model programs. How else is BET to know that it is using its funds wisely?

The post-audit is by far the most thorough means of verifying expenditures and contract compliance for the BET contracts. All contracts of \$100,000 and over are routinely audited by private firms, while each year 10 percent of all other contracts are randomly selected for audits by the regional office of the federal DOL. Since very few

contracts are for over the \$100,000 amount, most of the contracts actually do not get a thorough review. As in DSS, audits are performed some time after the end of the contract year, such that if expenditure and compliance monitoring has not spotted any irregularities, the problems can go undiscovered for almost two years.

Of the Title II and IV contracts, approximately five have been terminated for non-compliance with the contract and/or CETA regulations in the last three years. Several other agencies have voluntarily terminated their contracts before the specified end of the contract year, for a variety of reasons--including late start-ups, staff problems, etc. One additional contract was revoked when BET learned that the agency director was in jail. Because of these and other experiences with certain public and private agencies, BET has decided that several agencies will not be considered for future contracts.

8. Opinions About BET Review Procedures

Interviewees were also asked a question about their viewpoints of the monitoring and evaluation of contracts:

In your area, do you believe that the monitoring and evaluation of contractors is:

1. too strict, with too much unnecessary and burdensome paperwork involved
2. not adequate to oversee expenditures
3. not adequate to evaluate performance
4. not strict enough to oversee expenditures or to evaluate performance adequately
5. just about right
6. some other response?

BET officials were very critical of their own review methods, or lack of them (Table 14). Four of the five who answered the question gave the fourth response--the procedures are not adequate to oversee expenditures or to evaluate performance. Of the contractors, four (40

Table 14: Monitoring and Evaluation of B.E.T. Contractors

| Monitoring and evaluation is: | State | Contractors | TOTALS |
|---|--------------|--------------|---------------|
| Too strict, with too much paperwork | -- | 1 (10%) | 1 (7%) |
| Not adequate to oversee expenses | -- | -- | -- |
| Not adequate to evaluate performance | -- | -- | -- |
| Not enough for expenditures <u>or</u> performance | 4 (80%) | 2 (20%) | 6 (40%) |
| Just about right | -- | 4 (40%) | 4 (27%) |
| Some other response | 1 (20%) | 3 (30%) | 4 (27%) |
| TOTALS | 5* (100%) | 10 (100%) | 15 (101%)+ |

* One respondent did not answer this question.

+ Error due to rounding.

percent) of the ten said that the procedures were just about right, but the other contractor respondents were more critical. Two who chose "some other response" combined two of the alternatives--the monitoring and evaluating requires too much burdensome paperwork and is inadequate to evaluate performance. The respondent who gave the first choice, answered in the same vein by saying that actually the reviews are not too strict--they just require too much time-consuming paperwork.

Respondents were also asked to pinpoint the major problems associated with the reviews. There was almost unanimity among BET officials on this subject. All but one of them answered that they had insufficient time, staff, and travel funds necessary to do on-site field monitoring. Consequently, officials have not been able to assist contractors as effectively as they might, nor can they determine what the providers' administration and program staff are actually doing. The following problems were also given by officials: "contract work statements are written so we cannot hold them to it;" some resistance by contractors to monitoring and evaluation, since they are somewhat protective of their records; and it is "difficult to develop different tools and measures for evaluation," partly because of different priorities for the programs.

Two familiar themes ran through the responses of the providers--that the paperwork load was very heavy and that the performance reviews were inadequate. A constant vexation were the various forms that were required by CETA and BET. For the same program, some contractors must fill out quite different sets of forms for each different funding source--even though the information is usually the same. Some of the contractors said that they have fallen behind schedule in submitting

reports or verifying eligibility because of the unrealistic expectations. A provider claimed that even with the monitoring and the expenditure, eligibility, and progress reports, a dishonest contractor could still find methods of defrauding the government successfully.

Several of the contractor respondents complained about BET's narrow view of performance. They noted that although BET officials talk about getting good results, they have focused most of their monitoring efforts on forms, eligibility, etc.--not on performance outcomes, follow-ups, and service quality. BET's single measure of success is whether or not a program participant has been placed in employment immediately after completion of a program. One of the contractors found this emphasis on placement numbers to be quite inadequate for his program for adjudicated minority high school drop-outs. Other long- and short-term positive by-products of the program were also important for enrollees--e.g., staying out of trouble, going back to school. Another interviewee with a linkage contract stated that her agency has no external source of evaluation for essential feedback about their training programs. She suggested that "internal evaluations are always slanted" in their own favor, such that the results would not always be reliable and valid.

Although their criticisms were fewer in number and narrower in scope, BET officials and contractors seemed to have some of the same problems as DSS respondents did in the monitoring and evaluation of their programs--the paperwork; the inadequate evaluation measures and tools; and lack of time, staff, and funds. Both departments emphasized client eligibility verification, did less well on reviewing expenditures, and failed in evaluating program performance and effectiveness. While everyone agreed that not enough monitoring and evaluation was

being done, everyone also concurred that with the state's fiscal squeeze the situation was unlikely to change in the near future.

V. Benefits of Contracting Out

Now that the three conditions of competition, decisionmaking, and reviews have been examined, we should also evaluate if BET's programs measure up to the expectations about contracting out that have been posited by the public choice approach--cost reduction, better services, and a slowdown in government growth. The DSS case showed that even though all three conditions were incongruent with the conditional assumptions of contracting proponents, one of the expectations probably was realized because of another, compensating condition--professionalism. Thus, it is possible that some of the contracting benefits have been achieved in BET's programs, despite the failure to meet all three contracting conditions.

A. The Costs of Contracting Out

Assessing the comparative costs (and quality) of in-house versus private service provision in Title II and IV poses a problem for this study, since virtually all direct and linkage services are purchased by BET. Respondents have little empirical basis for comparing either the cost or the quality of services by these two methods.

Interviewees could, however, compare the relative costs and performance of private and public contractors. All of the BET officials have worked with both types of providers under both titles. The private contractors quite naturally would tend to be biased in their analysis, judging from the DSS results, but their opinions in themselves are of some interest.

Generally the public choice literature has maintained that either public or private agents can be used to achieve their efficiency goals, but more recently some writers have argued that the private sector is inherently superior to public provision.⁹ Therefore, it is not inappropriate to examine the viewpoints of contracting actors concerning the differences.

The same question that was used in the DSS study was also asked of DOL respondents, but the meaning for them was different because of the different context. They did not focus on the effect of contracting out in itself, but on the effects of the type of service provider.

In the contracts and services you work with, do you think contracting with private agencies or firms costs less than, about the same as, or more than, government delivery of those services would?

The answers of the state officials and the contractors differed markedly (Table 15). While none of the BET respondents said the costs of private agencies were less than government agencies, six (60 percent) of the provider respondents thought they were. Three interviewees of each group believed costs were equal (50 percent of BET, 30 percent for providers); one from each group said costs were higher with private contractors (17 percent, 10 percent); and two BET officials said relative costs depended on the staff, the service, and the agency's experience.

Respondents provided a variety of reasons for their answers. Those who believed private costs are generally equal to or greater than public provision made these comments: "private agencies underestimate

⁹ For one of the "best" examples, see Robert M. Spann, "Public versus Private Provision of Governmental Services," in Thomas E. Borchert, ed., Budgets and Bureaucrats: The Sources of Government Growth (Durham, N.C.: Duke University Press, 1977), pp. 71-89.

Table 15: The Cost of B.E.T. Services By Private Contractors

| Cost: | State | Contractors | TOTALS |
|----------------------|-------------|--------------|---------------|
| Less than government | -- | 6 (60%) | 6 (38%) |
| Equal to government | 3 (50%) | 3 (30%) | 6 (38%) |
| More than government | 1 (17%) | 1 (10%) | 2 (13%) |
| "It depends" | 2 (33%) | -- | 2 (13%) |
| TOTALS | 6 (100%) | 10 (100%) | 16 (102%)* |

* Error due to rounding.

how much it costs;" all contracts are cost reimbursement contracts with the same CETA guidelines; and there is "tremendous overhead" with some private agencies. On the other hand, providers who said the costs were lower with private agencies gave many of the same reasons as given by the DSS respondents who compared private to in-house supply. In their view, the government contractor agencies incur more expenses because of bureaucracy, red-tape, civil service, and higher salaries; while private agencies are more flexible and efficient, are forced to live within financial restraints, have less overhead and lower salaries, and are motivated by "profit."

B. The Quality of Private Service Contracting

The same type of question was asked about the quality of public versus private service provision:

For the contracts and services you work with, do you think contracting with private agencies or firms results in poorer service, about the same quality of service, or better service for recipients than government service delivery would?

Again the state officials and the contractors disagreed in their opinions (Table 16). None of those from BET said that private agencies performed better than public agencies. Four officials (67 percent) believed that private services are equal to publicly-provided ones. One contract administrator concluded from her experience that private agencies provided poorer services than government agencies did, while another official said that the service quality depended upon the agencies' and staff members' experience.

A policy and planning official commented that each type of agency has certain strengths and weaknesses for CETA contracting purposes. Because they have had more experience in government programs and direct

Table 16: The Quality of B.E.T. Services By Private Contractors

| Quality: | State | Contractors | TOTALS |
|------------------------|--------------|--------------|---------------|
| Better than government | -- | 7 (70%) | 7 (44%) |
| Equal to government | 4 (67%) | 1 (10%) | 5 (31%) |
| Poorer than government | 1 (17%) | 1 (10%) | 2 (13%) |
| "Depends" | 1 (17%) | 1 (10%) | 2 (13%) |
| TOTALS | 6 (101%)* | 10 (100%) | 16 (101%)* |

* Error due to rounding.

services, public agencies usually are better able to run programs, handle clients, and meet BET's specific needs. Generally non-profit agencies also have a good programmatic sense, but their administrative skills are frequently inadequate. She attributed this failing to the fact that many of these agencies "live hand-to-mouth because of their grant dependence." On the other hand, private, proprietary firms have better administrative skills, yet they are not usually very competent in providing the program and services to clients. The advantage of the private over the public agencies is that the private providers are "hungrier, so they want to cooperate." Another contract supervisor put it this way: "they are more likely to be responsive to corrective action" because of their greater need for funds.

Contractors answered that private agency service quality was better than government's, with seven giving this response (70 percent). The other three alternatives were chosen by only one respondent for each. Those who said the services were better in the private sector gave these reasons: more flexibility, less bureaucracy, more personal contact, fewer regulations, greater expertise, better staff, less political interference. In addition, they claimed, if the agencies do not do a good job, they will not get funded. That fact alone provides an incentive for good performance.

These responses and comments are consistent with the answers given by DSS providers. It appears that many private agencies believe that public agencies, whether under contract or not, are inferior in most cost and performance respects to private agencies. The contractors' opinion that private agencies have more incentives to maintain good services seems to be substantiated by the comments of officials. But the

overall performance would only be better if all other factors contributing to quality services were otherwise equal--and that may not be the case for some agencies.

The question still remains, however: Have the expectations of cost reduction and improved services been realized by BET's heavy reliance on contracting out? Although there is no direct evidence on this matter in the interviews, certain factors can be considered to clarify this issue.

Some large initial costs of building an agency or various programs have been avoided by using existing specialized agencies. Certainly the contracts help to cover some overhead and administrative costs these agencies must incur, but it is probably less than the costs of starting from virtually nothing. On the other hand, BET itself has sustained significant expenses directly and exclusively due to purchasing services from a wide range of different suppliers. The costs of contract administration appear high, as the DSS administrators suggested. Not only must they negotiate and monitor the contracts, but the contract administrators must also provide a great deal of technical assistance to providers--assistance which is particularly necessary when new contractors are used. In a sense, then, BET absorbs program start-up costs each time a new agency is utilized, both in the "price" of the contract for the agency's administrative needs and in the personnel costs for BET administrators.

The issue of comparative service quality is a difficult one. It is unclear whether private service quality is inherently better than public provision because of the structure of public and private agencies. If private services are usually better, then the positive answers of the DSS officials and providers can be explained in those terms--not just

because of the contract mechanism. This would conform with the answers that DOL contractors gave as well.

What is interesting in the DOL case, however, is that the BET officials saw few differences in service quality between the public and private agencies. In addition, they were often dissatisfied with the performance of their contractors--both the public and private providers. The youth contracts were particularly disappointing. The first year's placement rates were low and several of the agencies had difficulty even getting their programs into operation. This result indicates a problem with purchasing human services--contracting units must depend upon other agencies both to design their own programs and then to implement them. Contractors' efforts may not coincide with the goals of the officials; yet, in the BET case, these services were purchased anyway because of no other alternatives. BET does not have its own in-house staff to provide more desirable services. Nor were there any other public or private agencies to solicit since all of them had already been invited to submit proposals. Consequently, the services were not uniformly of good quality. Reliance on outside agents means that the contracting unit can lose control over the services themselves. Therefore, they may not meet the objectives set for them by government officials.

C. Slowdown of Government Growth

Just as it is difficult to evaluate the success of the expectations of lower cost and better services, it is also difficult to determine if government growth has been slowed through DOL contracting. Many factors affect both personnel and budget growth, and, obviously, we have no measures of what would have occurred if the services had not been contracted out. It can be speculated, nonetheless, that growth may have

been held in check by the use of outside contractors. The fact of contracting and the usual three-year limit on funding may have prevented some ineffective programs from becoming institutionalized--as is wont to happen in bureaucracies.

Government growth, however, should not be analyzed only from the narrow view of DOL's budget and personnel growth. BET has made funds available to other state and local public agencies that have found it necessary to add staff to accommodate the increased demand. In addition, when the BET funds have no longer been available, local prime sponsors or city governments have often contributed the funds necessary to keep projects going. After three years of service to a community, there may be significant pressure to continue these projects--even if they are not congruent with a local unit's priorities. Many local governments throughout the U.S. have found it difficult to withdraw their support from programs that have been started with federal and state funds.

Conclusion

Contracting in DOL has been marked by some procedures--not found in DSS--that have enhanced competition, improved decisionmaking, and prevented long-term reliance on BET contracts. In particular, BET has used systematic needs assessment methods that depend upon information from a variety of sources--not just those with vested interests. Officials have utilized these means to set priorities and make contracts. The Title II contract process also is a model of wide solicitation to promote competition. It allowed BET more alternatives from which to choose. When these proposals were considered, the process was fair and objective, especially since the criteria used for evaluations were known in advance to those submitting proposals. In addition, the

three-year limit appears to have widened BET's choices by not allowing itself to become locked-into certain undesirable projects. Not only has this allowed BET more flexibility, but it has also helped to accomplish their goals of promoting model projects which, if effective, can in turn gain local control and support.

The DOL contracting system has not, however, fulfilled all of the conditional requirements assumed by the public choice proponents of contracting. First, the limited competition in the environment has meant that actually BET has had a limited choice of responsive and responsible agencies. Title II and IV funds have sometimes been unwisely used because agencies have not been available to fulfill BET's needs as they see them. The matching requirement for the Title IV youth contracts probably inhibited competition for contracts, even though BET solicited widely for proposals. Second, the competitive procedures in the Title IV program have not been used beyond the first year or for Title II contracts. Generally the procedures for the Title II programs have reduced competition and choice for BET.

Third, decision making in BET has not always followed the model process set up by officials for the Title IV contracts. Apparently there has been some preference in solicitations and awards for certain public agencies (i.e., prime sponsors, school districts). Some awards have also been motivated, not by a desire for cost reduction or effective service performance, but by political considerations. This phenomenon violates the competitive process and BET's goal of maximizing effectiveness.

Fourth, the watchdog role of BET over their contracts has clearly been ineffective. The procedures emphasize eligibility verification and

not monitoring and evaluating performance and effectiveness in helping the unemployed poor. Without having accurate, complete, and objective information about services and their results, it is indeed difficult to make wise choices.

These conditions have been analyzed to determine if they measure up to the assumptions of the public choice approach. In several respects the three key conditions appear to be absent or only partially fulfilled in these BET programs. It is uncertain if the contracting mechanism has led to the positive benefits expected by contracting proponents. Some of the same service problems raised by critics of bureaucratic supply--i.e., overspending, waste, ineffective services--have been present in the contracted services. Although these difficulties probably would have also materialized if DOL had produced the contracted services itself (e.g., through MESCO), this case indicates that contracting out does not necessarily avoid some of the problems inherent in most bureaucracies. The services themselves may be provided in some non-bureaucratic settings, but many of the critical decisions are, nonetheless, made within the context of a large public bureaucracy.

The failure of the public choice model to provide a good fit for DOL contracting necessitates the evaluation of the other two perspectives to determine if they are applicable. First, the perspective of market imperfections provides a good explanation for some of the realities of DOL contracting. It highlights the important role of competition--especially the competition among providers in the government agency's environment. Mainly because employment and training services for the needy have public good characteristics, few private agencies exist to provide these services, and those that do have been created

with government assistance. Most of BET's contracts go to public agencies that want to avoid direct competition with other providers. Therefore, the supply of potential public and private contractors is very limited. BET's choice among providers is also limited as a result. Many of those who proposed projects for BET did not even measure up to the minimum standards set by officials. While the specifications may have been rather ambitious, this situation illustrates an important point. In contracting, government agencies are dependent upon available service supply when they cannot (or will not) provide the service themselves. Competitive procedures, like those used in the youth program, can enhance competition and choice, but they seldom can create competition where it does not already exist.

The perspective of market imperfection also emphasizes the significance of information in making choices among providers and in monitoring contractors' performance. Because of the costs, decisionmakers must simplify and reduce their search for relevant, accurate, and complete information. This is exactly what DOL has done. Since the requisite resources are very limited, BET has decided to focus its monitoring efforts on verifying client eligibility. On-site monitoring and program evaluations have not been conducted by BET because they are not required by CETA regulations. In these and other areas of compliance, BET has had to rely on information from the service "sellers," who have both the incentives and the opportunities to put their programs in the best possible light. Not only can they provide favorable information for reviews, but they also are the only sources of information for decisions on awards. In all of this, client feedback and follow-ups have been minimal.

Some aspects of DOL contracting can also be analyzed through the cooptation perspective. This perspective points out that contracting may offer opportunities for mutual advantage for bureaucrats, politicians, and contractors. In DOL, close relationships between bureaucrats and contractors did not seem to be common, but some preferences for certain public agencies was in evidence in solicitations and awards. This phenomenon (and more extreme forms of it) is predicted by the cooptation perspective. In particular, prime sponsors have become an integral part of the DOL's employment and training system--such that they have become key actors in BET's policy-making process involving contracts. They have inside information, special skills, and CETA regulations which give them an advantage over private agencies.

In addition, some of the awards in BET have been motivated by political gain. Both legislators and appointed DOL officials have used their positions on occasion to build political support. Both the preference for certain public agencies and the use of contracting for political goals violates the norms of the competitive process. Certain agencies are disadvantaged as a consequence. Clients' needs and viewpoints are not used as the basis for awards. And the agencies used may not be able to provide the quality of services for recipients that they deserve.

In sum, both of these perspectives offer explanations of why contracting out in DOL has not met the ideals of the public choice approach. They may not be able to explain all aspects of the complex process; yet they contribute to our understanding of how market imperfections and political motivations can produce less than ideal policies, behavior, and results.

CHAPTER VI

CONCLUDING ANALYSIS OF CONDITIONS AND EXPECTATIONS IN CONTRACTING OUT

This dissertation has tried to unite two types of analysis: 1) the development of the political and economic perspectives that pertain to the public choice prescription for contracting out, and 2) an empirical examination of human service contracting in various settings within two departments of Michigan state government in light of the three different perspectives. As a result, this study offers a unique inquiry into this most timely subject. It has taught us much about the actual processes involved in contracting for services in Michigan under two major federal acts. It suggests ways in which the public choice model of contracting is inadequate for understanding the realities of DSS and DOL contracting. And the relevance of the two alternative social science traditions has been affirmed in several important respects.

In this chapter, I will highlight the major findings from the two departments in terms of the major conditional assumptions of the public choice school as set out in the second chapter. From this, we can begin the task of identifying suitable conditions for successful contracting out. I will conclude with some unresolved issues that bear further consideration and study.

I. Comparison of DSS and DOL Contracting

An obvious starting point for reviewing human service contracting is to compare the goals of the contracting advocates with those of the federal legislation affecting social services and CETA programs. The social services grants were designed to increase the number of clients and the kinds of social services available to the needy. In BET, the CETA titles were aimed at coordinating CETA services and promoting model employment and training programs. In both cases, cutting costs or improving efficiency were not major aims. Thus, the contracting systems and decisions were not made to maximize the objectives of most contracting supporters by competitive means.

Is it unfair then to measure the procedures and outcomes according to the yardstick of competition and reduced cost? Not at all, since some would believe that significant savings would result simply from using outside suppliers, for whatever reasons. And the CETA titles at least were oriented toward funding better, more effective services which might be determined best through competitive means. Even in DSS, the concern for cost has become a factor in recent years with budget constraints.

A. Competition

In this study the lack of meaningful competition in the services "market" was found to be a critical factor which led to problems in meeting some of the other conditions. Because of the small pool of willing, responsible, and responsive agencies, too often officials were "forced" to give contracts to the only available providers--even though they did not always fit in with the departments' priorities or, as under Title IV, they were expected to encounter administrative and service

difficulties. Lack of competition in the environment translated into lack of choice for DSS and DOL.

Several additional factors arising out of government policies and procedures have further limited competition and choice. First, the necessity of using outside agencies for service delivery can reduce the range of potential alternatives. Because of its structure, BET has had no choice but to utilize contractors, despite the unsatisfactory plans and subsequent service performance by some. It cannot design and implement its own programs, but must act in a more passive role, depending on other agencies for proposals and program implementation. Theoretically at least (and in fact, in some counties), DSS has the possibility of utilizing the county agency when there are no acceptable alternatives. This option may also enhance the "voice" mechanism, since the potential competition from in-house supply should compel contractors to meet the needs and performance standards of the government.

Second, DSS' donation requirement and BET's increasing match for Title IV has obviously reduced the field of competitors and gives certain contractors distinct advantages over others. For Title II, the proportion of proposals to awards has usually been about two to one--the same as for the Title IV contracts for the first full year--but the Title II contracts have seldom been advertised. Unsolicited proposals are common. Apparently prospective contractors are not deterred from these Title II contracts since a match is not required at any time.

A third factor involved in restricting competition is the locational problem--i.e., when contracting is decentralized under conditions of already limited competition in the environment, the government unit usually has even fewer suppliers available. In DSS, this fact made

competition impossible in medium- and smaller-sized counties for services in which the agencies were not mobile. In contrast, DOL has had some more choice of agencies from throughout the state, even though its efforts were often targeted at the major central cities and client groups concentrated in certain areas.

Fourth, the solicitation procedures used by DSS and BET for Title II have not allowed for the widest exposure of the departments' contracts. Certain other, short-cut methods have been easier and less costly for government officials than the major RFP solicitation for Title IV and the scattered cases of RFPs in social services. But since fewer agencies are likely to compete for contracts under these circumstances, the government has fewer projects, services, and suppliers to consider. This fact alone may also encourage providers that are notified to be less concerned about their proposals, methods of service delivery, service quality, and program costs.

In many ways, however, this narrow search and lack of competition is mutually beneficial for most of the key contracting actors. One of the primary concerns of almost all officials interviewed was to determine awards and process contracts in a timely manner with a minimum of confusion and controversy. The contracting process can proceed quickly and smoothly under the following conditions: when the contracting unit does not have to reach an agreement on service priorities and proposal criteria; when an RFP and complete mailing list of suppliers is deemed unnecessary; when unsolicited proposals are already on file; when mainly renewals are considered and given contracts; and when a thorough consideration of alternative proposals and agencies is not needed. Usually there exist more disincentives than incentives to promote competitive

procedures. When the fact of declining resources of personnel, time, and money is added to these disincentives, is it any surprise that competition among responsible and responsive providers is the exception, rather than the rule?

For their part, regular contractors do not welcome competition either, since they seek a stable, predictable source of funds. Writing good, competitive proposals is costly for agencies, particularly when a contract is not awarded for the effort. It is quite possible that some providers would not wish to submit proposals for programs when the solicitation was thorough and the competition would likely be stiff. The only actors who might personally benefit from competition are the agencies that otherwise would not have an opportunity to compete, and the clients who might receive better quality services as a result. Usually, however, these two groups have not been at all active and organized participants in contract decisionmaking.

On occasion, boards or supervisors more removed from the day-to-day operations have encouraged wider solicitations to expand their choices. For the Title IV contracts this was viewed as necessary because of higher-level policy decisions--the increasing match requirement, the limit on the amounts of the contracts, and the specification of the method of service delivery and target groups. For these reasons and because a large number of youth contracts were to be awarded at one time (originally 16), officials believed it would be easier and more productive to use the competitive RFP process. It is significant that the competitive procedures did not guarantee that BET obtained the proposals and performance that was desired, due to the limited number of

potential providers and the BET policies that in effect discouraged some from competing.

B. Decision Making in Contracting Out

One of the intriguing questions in this type of research is: Why have officials chosen to use contracting out instead of traditional bureaucratic methods of supply? For the DSS and BET cases, the answer has two major components: 1) pragmatic considerations and 2) policy concerns. It was clear from the interviews that decisionmakers did not consult cost-benefit studies or public choice handbooks to determine the advantages of using outside agencies. Rather, federal policies encouraged it and state situations often have made contracting necessary.

In DSS, in the late Sixties and early Seventies, various political pressures were exerted to use outside suppliers to capture the large sums of available federal matching funds in order to provide more services to the needy. Not only had HEW approved the use of private providers, but it had also allowed local donors (usually the contractors themselves) to contribute the requisite state match. As a result of this and their experience in a wide variety of specialized services, outside suppliers became very attractive as service deliverers. To some extent officials apparently also saw the funds as an opportunity to encourage existing community agencies to focus on the needs of the poor.

In DOL, contracting out was utilized in part because the state-level department did not have the necessary expertise or agencies for the required and optional programs under the two titles. Clearly, contracting with established agencies gave BET greater flexibility than organizing a new agency or expanding MESC would have. Probably just as

importantly, purchasing services meshed with BET's decentralization policy--i.e., that community agencies should be given contracts that in time could be funded through local support. In CETA, states were encouraged to use public and private agencies to promote greater coordination, innovation, and experimentation.

In the last few years, as state resources have become increasingly limited and social needs have grown, contracting out has proved to be an even more desirable alternative. The federal funds have been available for services, but the state has imposed periodic hiring freezes, cutbacks for state travel, and, most recently, personnel cuts which affect only in-house service supply. For the most part then, the early and more recent advantages of using outside providers have arisen from the accompanying policies and pressures encouraging contracting out--and not from the inherent cost and service quality advantages of outside supply.

The award processes of the two departments stand in clear contrast to one another, in part because of different historical and programmatic commitments. In DSS, thorough and objective needs assessments have been infrequent. Most attempts at assessing current needs have been perfunctory and heavily dependent upon provider inputs. The interests and needs of the inarticulate, unorganized consumers and taxpayers have seldom been represented. Even when available, needs information only infrequently has served as the major determinant in setting social service priorities and awarding contracts at state and county levels. Previous commitments to services and providers have often not allowed officials the flexibility to change their priorities, services, and contractors without political repercussions. DSS' early policy of granting contracts to almost any available contractor willing to make

the donation set a pattern that has been difficult to break, even when cutbacks and changes have been necessary. Consequently, renewing contracts repeatedly has been the standard practice at the state level and in most counties. When making new contracts, decision makers have usually preferred the experienced, reputable agencies that offer necessary services for DSS clients.

On the other hand, BET's awards have usually been based on a combination of the needs assessments and the submitted proposals. The assessment system appeared to be very thorough and sophisticated, and aimed at including both the relative needs of various target populations and the existing service supply through CETA programs. (Of course, assessing employment needs is a more manageable task than assessing the wide range of social needs that DSS tries to meet.) These analyses, drawn from a variety of sources, have been regularly utilized in BET planning. For both titles, the agencies' proposals for meeting the recognized needs of certain target groups have usually been the basis for the bureaucrats' recommendations for awards. If requested, renewals are generally made up to the three-year limit. With only a few exceptions, BET has been able to avoid being locked-into certain contracts, services, and providers because of their stated three-year limitation on funding.

Common to programs in both departments, however, is the presence of political pressures which have sometimes determined the awards and robbed the system of objectivity and fairness. In DSS, politicians, department heads, and the boards of social services have usually acted to prevent DSS officials from reducing or ending a particular contract; while in BET, legislators and appointed officials have promoted certain

public or private agencies for new awards. Either way, these political influences frustrate bureaucrats and act as a potential threat to their recommendations.

The presence of political pressures, the lack of adequate needs assessments in DSS, and the tendency to continue contracts that should be reduced or eliminated all are ways in which DSS and BET contracting does not measure up to the ideal, rational decision-making process that seems to be required by the public choice prescription of contracting out.

In addition, the relative costs of competing proposals (if there are any in direct competition) are seldom considered in granting awards. Service quality and expected effectiveness can be important, but only if there are similar agencies in direct competition--an infrequent occurrence in most DSS counties and under CETA's Title II. What usually is considered is whether the agency can meet certain clients' needs in an adequate manner. This is indicative of satisficing behavior, not maximizing for the best quality, most effective services at the least cost level. In this respect as well, DSS and BET contracting behavior does not meet the conditional requirements of contracting proponents.

C. The Watchdog Role

One of the weakest parts of the contracting process appears to be the reviews of expenditures, performance, and effectiveness for both DSS and BET programs. For the most part, the departments have not had adequate resources to monitor contractors and conduct periodic evaluations of their programs. Because of federal requirements, officials have independently monitored eligibility, but have depended upon contractors themselves to supply information on other matters. Consumers of the

services have had infrequent opportunities to express their needs, suggestions, and complaints.

Moreover, DSS' and BET's watchdog roles have been rendered almost ineffective by other factors: 1) the Attorney General has ruled that contractors cannot be held responsible for failure to meet performance goals; 2) information that the departments have obtained about compliance and performance does not always determine whether or not a renewal will be made, in view of political and service considerations; and 3) frequently there are no other sources of supply that could meet the departments' and/or clients' needs. Consequently, few mechanisms operate to ensure that contractors are producing the kinds of services and results that are desired by officials and needed by clients.

II. Evaluation of the Three Perspectives

Beyond these immediate substantive conclusions, this study has broader theoretical implications because of what it suggests about contracting in general. The strength of the theoretical, comparative case study approach is that it illuminates not only the particular patterns of contracting in DSS and BET, but it also sheds light on the applicability of the public choice perspective, the common features and problems of human service contracting, and some of the conditions under which contracting may not meet certain efficiency goals. Throughout this dissertation, I have tried to stress that some undesirable behaviors and outcomes are likely to materialize when certain conditions exist--whether in Michigan, human services, or contracting generally.

The major difficulty with the contracting prescription is that too often it is given as a panacea for the current ills of government with little explicit recognition of the requisite conditions and the

realities of implementation. At least three general deficiencies have been evident in the public choice perspective of contracting.

First, despite its major contributions to our understanding of public bureaucracy, the public choice school in its advocacy of contracting has overlooked the motivational and organizational contexts of the contracting participants. Certain public choice scholars have shown that bureaucrats are motivated by self-interest which results in empire-building, budget maximization, and inefficiency. Unfortunately, they have not applied this understanding to the bureaucratic and political behaviors that determine the design, decisions, and, eventually, the outcomes of contracting systems. The obvious questions are: Why should bureaucratic behaviors change with contracting? What incentives are there to achieve efficiency goals?

Second, up until now the importance of the contracting organizational structure, process, and procedures has been ignored in public administration. Too readily have some contracting advocates assumed that quasi-market mechanisms will almost automatically work wonders in providing services, without exploring how and why contracting is actually utilized, what procedures are critical in producing the expected benefits, and under which constraints and inducements the various actors operate. By interviewing some sixty participants and observers of BET and DSScontracting, I have been able not only to obtain their opinions, but also to gain insights into the common patterns of contracting processes.

Third, contracting proponents have failed to recognize the critical role that the service environment can play in contracting, both in terms of the pool of potential providers and the inputs and feedback of

service consumers. Not enough attention has been paid to the effect that government programs, regulations, and funds have had on creating contractors, encouraging government dependency, and giving critical advantages to certain providers. In other words, those who prescribe contracting out have examined the subject in a far too narrow and simplistic way. Too quickly they have adapted inappropriate economic models for suggested use in complex and varying circumstances. The realities of government mean that this alternative to traditional methods of supply is not an easy, clear-cut solution to governments' knotty problems.

These criticisms of the public choice perspective on contracting are not meant to attack or refute public choice theory itself, however. I have not contradicted those who claim that government is too big and that bureaucracy is too often a clumsy vehicle for delivering services. Rather, the universal application of the contracting prescription is being challenged. I have not questioned some of the fundamental causal relationships that have been asserted by this perspective--for example, that competition is the most effective way of cutting costs and improving services. Nor have I raised either the legitimate question concerning whether government should try to maximize efficiency in human services, or the related issue of whether slowing government growth through privatization is a desirable end in itself. These matters, however important, are beyond the scope of this work, but may prove to be fruitful areas of inquiry for others to address.

Now that the public choice perspective has been shown to be severely deficient in describing, explaining and predicting contracting behavior, what of the two alternative perspectives of market imperfections and cooptation? Which of these two models is correct? In Chapters

4 and 5, it has been shown that both perspectives have something to contribute to our understanding of contracting out. By themselves, neither perspective is completely accurate. Together, they suggest how economic and political factors can reduce competition, set aside the rational decision-making process, and prevent an effective watchdog role for government.

The perspective of market imperfections is particularly relevant and applicable to these cases of human service contracting. It rightly emphasizes the problems and causes of inadequate competition in the environment and in procedures, as well as the significance of inadequate information in making awards and conducting reviews. Basic economic forces did shape many of the decisions and behaviors of contracting participants in both DSS and DOL. Contracting out in these human services has been marked by few competitors, insufficient resources for government officials and contractors, a lack of competitive procedures in most cases, and dependence upon sellers' information and preferences. The research did not, however, discover signs of attempts at collusion, price setting, or market control, even though the human services system discourages direct competition.

In the face of these conditions, officials used shortcuts and satisficing strategies to make contracting policy, procedures, and award decisions. A key factor in decision making was a preference for professionalism, as evidenced in choosing contractors because of their professional reputations and for their ability to compile professional proposals that met the needs of the department. In turn, professional behavior by contractors usually meant that the quality of their work and services was judged to be good, despite the virtual absence of

government review and other mechanisms to constrain their behavior.

(Of course, it is somewhat questionable as to how independently officials arrived at these judgments. The fact that these reputable agencies are run by competent professionals with the correct education and affiliations could mean that officials concluded that therefore they must be providing good quality services.) Sometimes, however, it can be supposed that the common professional goals, methods, and biases served as a substitute for assessing the actual needs of clients and the actual outcomes of outside suppliers' services.

The cooptation perspective has predicted some of the political influences that also affect contracting decisionmaking. Since they have intense material interests at stake, providers have become more involved than clients and taxpayers in the planning and contracting process. Not only have their views shaped decisions about service needs, but they also have been successful in getting politicians and appointed officials to operate on their behalf when a contract is available or a renewal is threatened. Therefore, not all contractors are treated alike. Some, such as the public agencies in BET, are given special advantages over others, whether through their political ties, federal regulations, or bureaucratic-professional relationships. Although the role of providers has not taken the extreme and highly organized forms suggested by cooptationists, yet this perspective heightens our awareness of the possible problems that can arise out of contracting out.

Where and when should contracting be considered a viable alternative to in-house supply? It appears that a variety of situations offer some potential for implementing contracting out: where demonstration, experimental programs, services, or methods can be tried with no

long-term commitment to continuing the programs; when there is a genuine, common need and desire to cut costs and still maintain good quality services; where government does not have the requisite experience, equipment, or expertise to provide the services; when government needs certain services occasionally or seasonally; where economies of scale can be realized; where government officials can set priorities, service levels, and outcome goals, with the opportunity to reward and punish if these are not met by contractors; where there is adequate competition in the environment to ensure government choice; where competitive procedures can be adopted and enforced; where politically-motivated awards can be minimized; where government agencies have the resources and desire to implement effective review methods. Obviously, all these conditions are not required to be present at the same time for contracting to meet the public choice goals of contracting. In some cases seemingly necessary conditions of contracting can be absent if other conditions are used to compensate for the void.

In setting up these suitable conditions for contracting, I have assumed the goals of the contracting advocates--least cost for the best quality services and a slowdown in government growth are the major aims of these conditions. Different observers of contracting may not agree that these goals should be of primary importance throughout government services and programs. Yet other goals that government may wish to maximize may also be met through contracting, perhaps with different conditions.

This effort to identify the necessary conditions for successful contracting has only begun with this limited and flawed study. Many other services, levels, and organizational environments should be

examined to verify these early conclusions and add to this attempt at studying the conditions of contracting. In addition, this study has not been able to examine adequately the various cost and service outcomes of contracting within DSS and DOL programs. Measuring costs and benefits of any programs is always difficult, but in contracting, the task can be almost impossible for certain services. Just the same, such attempts could illuminate even more the relationships between the conditions and the outcomes, which have only been estimated in this work.

For the most part throughout this study I have seen contracting through the eyes of the government and, indirectly, the consumer/citizens government is supposed to represent. There is, however, a growing literature on the views of the contractors themselves--especially the non-profit social agencies. This is an interesting and important area of study, for it can help to understand how government contracting impacts these agencies. In this way, scholars could begin to evaluate the significance of some of the disadvantages that some have seen with contracting, as given in the first chapter.

Honest and thorough attempts at examining these differing aspects of contracting can go far to increase our knowledge of human behavior, organizations, and the interface between public and private sectors. Adding to our present imperfect information can only help scholars and practitioners to better understand the complexities of implementing government programs and management devices. Only by studying contracting can we learn how to alter conditions to achieve its positive benefits.

APPENDICES

APPENDIX A

APPENDIX A

SERVICE CONTRACT INTERVIEW SCHEDULE

In this interview, I am interested in learning more about service contracting in the state of Michigan in general, and in your area of contracting, in particular. Not only do I want to know more factual information about the process, but I would also like to hear your point of view and opinions about your work. Therefore, many questions will not have a strictly right or wrong answer, since people see things differently. I assure you that the responses you give will be kept confidential. Your answers to all questions will be used for statistical purposes only and will not be examined on an individual basis, with your name or position identified. In the interest of time, please try to keep your answers short and to the point.

A. Background Questions

1. To be completed by interviewer:

a. For bureaucrats--department of employment:

- ☐ 1. Labor
- ☐ 2. Management and Budget
- ☐ 3. Social Services--state
- ☐ 4. Social Services--county
- ☐ 5. Transportation

Contractual program affiliated with:

2. Job of Respondent:

- ☐ 1. contract specialist
- ☐ 2. contract supervisor
- ☐ 3. program specialist
- ☐ 4. program supervisor
- ☐ 5. section chief
- ☐ 6. program evaluator
- ☐ 7. contractor
- ☐ 8. other (specify)

a. What are the major tasks that you are responsible for in your position, as it relates to contracting for services?

b. Who is your immediate supervisor?

c. Number of years in this unit?

3. Personal background information:

a. Age of respondent

- ☐ 1. 21-30
- ☐ 2. 31-40
- ☐ 3. 41-50
- ☐ 4. 51-60
- ☐ 5. 61-70

b. Highest level of education completed:

- ☐ 1. high school
- ☐ 2. some college
- ☐ 3. 4-year college degree
- ☐ 4. Master's degree
- ☐ 5. some graduate school
- ☐ 6. Ph.D.
- ☐ 7. some other graduate degree (specify)

↓

Major area of study in college or graduate school:

- ☐ 1. public administration
- ☐ 2. social work
- ☐ 3. law
- ☐ 4. business
- ☐ 5. social sciences
- ☐ 6. humanities
- ☐ 7. other (specify)

4. From which of the following outside sources do you (or your unit) purchase services by contract: (may check more than one)

- ☐ 1. private, non-profit agencies
- ☐ 2. private, proprietary (profit-making) agencies or companies
- ☐ 3. public agencies

What are the names of some of your largest contractors:

If more than one type of source is contracted with, are there differences among them, at least as you work with them in your job, because of the type of agency?

- ☐ 1. no differences at all
- ☐ 2. very few differences
- ☐ 3. several differences
- ☐ 4. many differences

If some differences exist, what are the major differences you have found?

B. Descriptive Process Questions

5. Which of the following agencies or departments must approve all contracts from your unit?

- ☐ 1. Department of Management and Budget
- ☐ 2. Attorney General's Office
- ☐ 3. Civil Service Department
- ☐ 4. Civil Rights Department
- ☐ 5. House and Senate Fiscal Agencies or Appropriations Committees
- ☐ 6. none of the above
- ☐ 7. some other agency/department (specify)

Which of the following agencies or departments must approve some of the contracts from your unit?

- ☐ 1. Department of Management and Budget
- ☐ 2. Attorney General's Office
- ☐ 3. Civil Service Department
- ☐ 4. Civil Rights Department
- ☐ 5. House and Senate Fiscal Agencies or Appropriations Committees
- ☐ 6. none of the above
- ☐ 7. some other agency/department (specify)

6. In your area, where do the guidelines and regulations concerning various parts of the contracting process come from? Use the following list where appropriate. (You may need to select more than one source for some answers.)

- 1-State statute
- 2-State Constitution
- 3-Federal laws or regulations
- 4-Department policy
- 5-Program heads
- 6-Contract or program specialists
- 7-Some other source (specify)

- ☐ 1. whether a service will be purchased by contract or provided by department employees
- ☐ 2. contract authority
- ☐ 3. solicitation procedures
- ☐ 4. bidding or negotiation procedures
- ☐ 5. criteria for awarding contracts
- ☐ 6. selection of individual(s) who choose contractors
- ☐ 7. contract form
- ☐ 8. contract content
- ☐ 9. sub-contracting procedures
- ☐ 10. reasons for contract termination or revocation
- ☐ 11. types and nature of review methods to be used during contract life
- ☐ 12. procedures for hearing protests and complaints from contractors and would-be contractors

Which of these twelve areas of guidelines and regulations can be most influenced by you? (e.g., to change them)

- 7. Approximately how many contracts have you personally worked on in the last calendar year (1979)?
- 8. Approximately how many contracts were drawn up or processed in the last calendar year in the program area of _____?
- 9. How are potential contractors informed of a particular project or program that your department will purchase from a private source? (may check more than one)

- ☐ 1. newspapers
- ☐ 2. trade or professional newsletter or magazines
- ☐ 3. posted notices in state offices
- ☒ 4. letter
- ☐ 5. other means (specify)

10. If only some contractors are notified:

- a. How is it decided which contractors will be notified?
- b. How many contractors are usually notified in your area?

- 11. Are specific solicitation instruments required to purchase contracted services in your area of work?

- ☒ 1. yes
- ☐ 2. no
- ☐ 3. sometimes

- a. If yes, which of the following is (are) necessary? (may check more than one)

- ☐ 1. Request for Proposal (RFP)
- ☐ 2. Request for Quote (RFQ)
- ☐ 3. Letter of intent
- ☐ 4. other solicitation instrument (specify)

b. If sometimes, under what circumstances are they required?

If a solicitation instrument is sometimes necessary, which of the following is used?

- ☐ 1. Request for Proposal (RFP)
- ☐ 2. Request for Quote (RFQ)
- ☐ 3. Letter of intent
- ☐ 4. other solicitation instrument (specify)

c. If a solicitation instrument is used, who writes it up? (please name, where possible)

- ☐ 1. contract specialist(s)
- ☐ 2. contract supervisor
- ☐ 3. program specialist(s)
- ☐ 4. program supervisor
- ☐ 5. some other person(s) (specify)

12. When soliciting bids or programs from outside sources, does your office explicitly state that certain requirements must be met by the contractor?

- ☐ 1. yes
- ☐ 2. no
- ☐ 3. sometimes

a. If yes, what kinds of requirements are explicitly stated?

- ☐ 1. cost
- ☐ 2. equal opportunity employment
- ☐ 3. affirmative action program
- ☐ 4. length of the contract (time period)
- ☐ 5. specifications about quality or service provided
- ☐ 6. specifications about number of clients/recipients to be served
- ☐ 7. other performance specifications
- ☐ 8. other kinds of requirements (specify)

b. If sometimes, under what circumstances are requirements stated?

If requirements are sometimes stated, what kinds are they? (see list above in 12.a. #1-8)

13. When bids or proposals are invited, are the criteria by which proposals will be evaluated included in the package or notice?

☐ 1. yes
☐ 2. no
☒ 3. sometimes

→ If sometimes, under what circumstances are they included?

14. When a bid or proposal for a program is solicited, as contractor review methods and criteria included in the notice?

☐ 1. yes
☐ 2. no
☒ 3. sometimes

→ If sometimes, under what circumstances are they included?

15. Is a budget included with the contractor's proposal?

☐ 1. always
☒ 2. usually
☐ 3. sometimes
☐ 4. never

→ If usually or sometimes, under what circumstances would a budget be submitted:

16. Must the contractor's proposal, including work plan and bid prices or proposal amounts, meet all requirements contained in the original solicitation notice in order to be considered for a contract?

☒ 1. yes
☐ 2. no
☐ 3. sometimes

→ If no or sometimes, which requirements are usually more flexible, and why?

17. Who evaluates contractor proposals in your program are? (may check more than one)

☐ 1. department contract administrator (central office)
☐ 2. contract officer in program division, section, or unit (circle one)
☒ 3. a panel of evaluators in program division, section, or unit
☐ 4. some other group or individual (specify)

↳ If a panel is used, what are their usual positions in the department?

18. Do these individuals know which contractors have submitted which proposals?

- ☐ 1. always
- ☐ 2. sometimes
- ☐ 3. never

19. In your area of service contracting, how frequently does your unit receive unsolicited proposals for programs or projects?

- ☐ 1. often
- ☐ 2. sometimes
- ☐ 3. never
- ☐ 4. don't know

20. As a result of an unsolicited proposal, how frequently does the proposing source receive a contract for the service they wish to perform?

- ☐ 1. always
- ☐ 2. often
- ☐ 3. sometimes
- ☐ 4. never
- ☐ 5. don't know

21. In your program area, how frequently are contracts negotiated between contracting officials and contractors, instead of through the competitive bidding process?

- ☐ 1. always
- ☐ 2. usually
- ☐ 3. sometimes
- ☐ 4. never

↳ Why are they negotiated? Which parts of the contract are most negotiable?

22. What types of contracts are usually awarded in your area, at least where cost is concerned:

- ☐ 1. fixed price contract, in which some adjustment for increased costs may be provided for
- ☐ 2. firm fixed price contract, where no adjustments are allowed
- ☐ 3. cost reimbursement contract, in which contractor is reimbursed for only approved costs
- ☐ 4. cost reimbursement plus incentive contract, in which contractor receives a bonus if under target cost

- ___ 5. cost plus a fixed fee contract, in which contractor receives costs plus a predetermined, fixed fee
- ___ 6. some other kind of contract (specify)

a. Does the contractor receive an advance for part of the contract price?

- ☐ 1. yes
- ☐ 2. no
- ☐ 3. sometimes

b. If yes or sometimes, what is the usual amount?

23. If more than one type of contract is used, what is the second most frequently used type? (use list above in 20. #1-6)

___ 7. no other type of contract is used

24. In the purchased services you work with, who draws up the contract?

- ___ 1. the Department of Management and Budget
- ___ 2. the department's central contract office
- ___ 3. the legal division in this department
- ___ 4. someone in the program area (name)
- ___ 5. some other office or person (specify)

25. Is competitive bidding always, sometimes, or never required in your program area?

- ☐ 1. always
- ☐ 2. sometimes
- ☐ 3. never

a. If sometimes, when is competitive bidding required?

b. If competitive bidding is used, is there a specified policy that requires award of a contract to the lowest bidder, provided minimum specifications are met?

- ___ 1. yes
- ___ 2. no

26. In the contracted projects or programs you are acquainted with in your division, how many different contractors' bids or proposals are usually considered before an award is made?

27. In your program area, is a written proposal or an oral presentation required before the decision is made on who will receive a contract? (may check more than one)

- ☐ 1. written proposal
- ☐ 2. oral presentation
- ☐ 3. neither is required, but one of the two is sometimes done
- ☐ 4. neither is required, so neither are done

28. On what basis is it decided that a certain firm or agency will receive a contract in your program area? (choose 1st and 2nd reasons)

- ☐ 1. lowest cost
- ☐ 2. previous satisfactory work in state projects or services
- ☐ 3. adequate staff and equipment to do the job
- ☐ 4. previous experience in this general type of service
- ☐ 5. plan to fulfill all criteria provided in solicitation package.
- ☐ 6. well-reasoned arguments why program elements will accomplish the desired goals, as given in the proposal
- ☐ 7. some other reason (specify)

29. When considering various bids or proposals for a contract, how important is it that the contractor be of a racial minority group?

- ☐ 1. very important
- ☐ 2. somewhat important
- ☐ 3. sometimes can be important
- ☐ 4. not very important
- ☐ 5. not at all important

Does your unit keep track of how many minority contractors are awarded contracts?

- ☐ 1. yes
- ☐ 2. no

30. Are sole source contracts used in your program area?

- ☐ 1. yes
- ☐ 2. no
- ☐ 3. sometimes

→ a. If yes, why is it used? Are there any restrictions on its use?

→ b. If sometimes, under what circumstances is it used?

31. In the contracts you work with, which of the following items are always, sometimes, or never included in the contracts?
- | | always | sometimes | never |
|---|--------|-----------|-------|
| ___ 1. limitations on employee wage/salary increases | 1 | 2 | 3 |
| ___ 2. limitations on contractor administrative costs | 1 | 2 | 3 |
| ___ 3. minimum wages for employees | 1 | 2 | 3 |
| ___ 4. limitations on employees' overtime and compensatory time | 1 | 2 | 3 |
| ___ 5. maximum wage/salary rates for major positions | 1 | 2 | 3 |

32. In the cases of for-profit firms, are there standard fee scales or limitations on profit margins?

- ☒ 1. yes
☐ 2. no
☐ 3. sometimes

→ If there are, what are they? How are they determined?

33. In your area, do the contracts usually state the payments to contractors will be in specified lump-sum amounts, according to per-unit rates, or to reimburse approved costs?

- ___ 1. lump-sum amounts
 ___ 2. per-unit rates
 ___ 3. reimburse approved costs
 ___ 4. reimburse approved costs plus a specified fee
 ___ 5. some other form (specify)

34. Do any of the contractors awarded contracts in your area in turn sub-contract for some or all of the services?

- ☒ 1. yes
☐ 2. no

→ a. If yes, what types of agencies or firms sub-contract? (may choose more than one, but rank in terms of frequency)

- ___ 1. private, non-profit agencies
 ___ 2. private, proprietary (for-profit) firms
 ___ 3. public agencies

→ b. What types of firms receive sub-contracts?

- ___ 1. private, non-profit agencies
 ___ 2. private, proprietary firms
 ___ 3. public agencies

↳ c. What role does your unit have in sub-contracting? (may check more than one)

- ☐ 1. provides guidelines for contractors to follow
- ☐ 2. sets strict rules governing sub-contracting
- ☐ 3. helps to select sub-contractors
- ☐ 4. examines contracts
- ☐ 5. reviews budgets for sub-contractors
- ☐ 6. checks to ensure that sub-contractors are in compliance with EOE standards
- ☐ 7. no role at all
- ☐ 8. some other role (specify)

35. During the time you have worked in this unit, have any contracts been revoked or terminated before the specified end of the contract?

- ☒ 1. yes
- ☐ 2. no

- ↳ a. If yes, why were they revoked or terminated?
- ↳ b. How many contracts have been revoked or terminated while you have worked here?
- ↳ c. Approximately what percentage of the total number of contracts awarded in this area is that?

38. Have any firms or agencies been suspended or debarred from further contracting with the state/county?

- ☒ 1. yes
- ☐ 2. no

- ↳ a. If yes, how many?
- ↳ b. If yes, why?

39. How frequently are contracts renewed from one year to the next? (If possible, give the percentage of all contracts.)

- ☐ 1. always
- ☐ 2. usually
- ☐ 3. often
- ☐ 4. sometimes
- ☐ 5. never

Why would a contract not be awarded to a previous contractor?

40. Is there a formal process for hearing contractor complaints in your contract area?

- ☒ 1. yes
☐ 2. no
- a. If yes, where can a contractor go if he/she has a complaint about the ward of a contract?
- b. If a contractor has a complaint about regulations or payments for services, to whom can he/she go?
- c. What authority does the official have to change decisions about contracts, regulations, or payments?
- d. Approximately how many complaints have been registered concerning contracts in your area during the time you have worked here?

41. What kinds of review procedures are used in your program area for contracted services? (may check more than one)

- ☐ 1. pre-audit
☐ 2. continuous monitoring of expenditures
☐ 3. progress reports on performance or work accomplished
☐ 4. on-site field monitoring of programs or projects
☒ 5. in-depth evaluations
☒ 6. post-audit of expenditures
☐ 7. post-audit/review of performance
☐ 8. some other review procedure (specify)
- a. Which of these review methods are required of all contracts?
- b. Are any of them used for sub-contracted services?
- c. If an in-depth evaluation is done, who does it?
- ☐ 1. the county department's evaluation unit
☐ 2. the state department evaluation unit
☐ 3. another county agency or department
☐ 4. another state agency or department
☐ 5. an independent evaluator
☐ 6. county evaluators in the unit that grants contracts
☐ 7. state evaluators in the unit that grants contracts
☐ 8. some other source (specify)
- d. Why would an in-depth evaluation be done?

- e. If a post-audit is done, who does it?
 - ___ 1. another state agency or department
 - ___ 2. a state departmental unit
 - ___ 3. a county departmental unit
 - ___ 4. another county agency or department
 - ___ 5. an independent accounting firm
 - ___ 6. some other audit source (specify)
 - f. Why would a post-audit be done?
 - g. What do you believe are the major problems in monitoring and evaluating contractor performance?
42. In your department, are there any advisory boards, commissions, or councils that have a role in the contracted services you work with?
- ☒ 1. yes
 - ___ 2. no
 - a. What are their names?
 - b. Who are on these bodies?
 - c. How are they appointed?
 - d. Why was this advisory body formed?
 - e. What is their role in the contracted programs and projects?
43. What are the major groups or associations that are active in your area of contracting? (specify with names)
- a. Who do they represent?
 - b. How many members is that?
 - c. What is their role in the contracting process?
44. Are there any client, recipient, or consumer groups that contact you or others in your section about contracted programs or projects?
- ☒ 1. yes
 - ___ 2. no
 - a. Please specify with names of organizations.
 - b. Who do they represent?
 - c. What is the size of their membership?

45. How are your contracts funded? (may check more than one)

- ☒ 1. through federal grants
☒ 2. through donated funds from private sources
☒ 3. through donated funds from public sources
☐ 4. through the general division's appropriation from the state legislature
☐ 5. through a specific appropriation from the legislature for the contracted services alone
☐ 6. some other source (specify) _____
- a. If through federal grants, specify program and title.
 b. If through private donated funds, specify the donors.
 c. If through public donated funds, specify the donors.

d. Approximately how much money will be spent this FY for contracted services in your section of _____?

About what percent is that of the section's entire budget for FY80?

46. Do you have the names of organizations or firms that have tried to receive contracts in your area but have been unsuccessful?

C. Opinion Questions

47. In general, how much say or influence do you think the people or agencies listed below have over whether a contract is made for a service with an outside agency?

| | No influence at all | Very little influence | Moderate amount of influence | Great deal of influence | Very great deal of influence |
|--|---------------------|-----------------------|------------------------------|-------------------------|------------------------------|
| ___ 1. Civil Service--contracts division | 1 | 2 | 3 | 4 | 5 |
| ___ 2. The Attorney General's Office | 1 | 2 | 3 | 4 | 5 |
| ___ 3. The Civil Rights Departments | 1 | 2 | 3 | 4 | 5 |
| ___ 4. Department of Management & Budget | 1 | 2 | 3 | 4 | 5 |
| ___ 5. Your department director | 1 | 2 | 3 | 4 | 5 |
| ___ 6. Department deputy director(s) | 1 | 2 | 3 | 4 | 5 |
| ___ 7. Bureau chief | 1 | 2 | 3 | 4 | 5 |
| ___ 8. Division chief | 1 | 2 | 3 | 4 | 5 |
| ___ 9. Section chief | 1 | 2 | 3 | 4 | 5 |
| ___ 10. Program specialists (state) | 1 | 2 | 3 | 4 | 5 |

| | No influence at all | Very little influence | Moderate amount of influence | Great deal of influence | Very great deal of influence |
|--------------------------------------|---------------------|-----------------------|------------------------------|-------------------------|------------------------------|
| ___ 11. Contract specialists (state) | 1 | 2 | 3 | 4 | 5 |
| ___ 12. Private agencies | 1 | 2 | 3 | 4 | 5 |
| ___ 13. State legislature | 1 | 2 | 3 | 4 | 5 |
| ___ 14. County commissions | 1 | 2 | 3 | 4 | 5 |
| ___ 15. County contract supervisor | 1 | 2 | 3 | 4 | 5 |
| ___ 16. Yourself | 1 | 2 | 3 | 4 | 5 |

48. In general, how much say or influence do you think the people or agencies listed below have over who receives a contract?

| | | | | | |
|--|---|---|---|---|---|
| ___ 1. Civil Service--contracts division | 1 | 2 | 3 | 4 | 5 |
| ___ 2. The Attorney General's Office | 1 | 2 | 3 | 4 | 5 |
| ___ 3. The Civil Rights Department | 1 | 2 | 3 | 4 | 5 |
| ___ 4. Department of Management and Budget | 1 | 2 | 3 | 4 | 5 |
| ___ 5. Your department director | 1 | 2 | 3 | 4 | 5 |
| ___ 6. Department deputy director(s) | 1 | 2 | 3 | 4 | 5 |
| ___ 7. Bureau chief | 1 | 2 | 3 | 4 | 5 |
| ___ 8. Division chief | 1 | 2 | 3 | 4 | 5 |
| ___ 9. Section chief | 1 | 2 | 3 | 4 | 5 |
| ___ 10. Program specialists (state) | 1 | 2 | 3 | 4 | 5 |
| ___ 11. Contract specialists (state) | 1 | 2 | 3 | 4 | 5 |
| ___ 12. Private organizations | 1 | 2 | 3 | 4 | 5 |
| ___ 13. State legislators | 1 | 2 | 3 | 4 | 5 |
| ___ 14. County commissioners | 1 | 2 | 3 | 4 | 5 |
| ___ 15. County contract supervisor | 1 | 2 | 3 | 4 | 5 |
| ___ 16. Yourself | 1 | 2 | 3 | 4 | 5 |

49. In your area of work, what have been the major problems with contracting with outside agencies or firms for services?

50. In the contracts and services you work with, do you think contracting with private agencies or firms costs less than, about the same as, or more than, government delivery of those services would?

☐ 1. less than government delivery
☐ 2. about the same as government delivery
☐ 3. more than government delivery

Why do you say that?

51. For the contracts and services you work with, do you think contracting with private agencies or firms results in poorer service, about the same quality of service, or better service for recipients than government service delivery would?

☐ 1. poorer service
☐ 2. about the same quality
☐ 3. better service

Why do you say that?

52. In general, for a wide variety of state services, do you think contracting with private agencies or firms results in poorer service, about the same quality of service, or better service for recipients than government service delivery would?

☐ 1. poorer service
☐ 2. about the same quality of service
☐ 3. better service
☐ 4. don't have any idea

53. In general, for a wide variety of state service, do you think contracting with private agencies or firms costs less than, about the same as, or more than government delivery of those services?

☐ 1. less than government delivery
☐ 2. about the same as government delivery
☐ 3. more than government delivery
☐ 4. don't have any idea

54. Rank the following in order of importance (from 1 to 7 with 1 being the most important) as to why outside agencies/firms are used to supply public services in your program area instead of state (or county) public employees.

- ___ 1. lower cost
- ___ 2. better services
- ___ 3. greater flexibility in hiring and firing
- ___ 4. better oversight over cost and performance
- ___ 5. mandated by federal or state laws or regulations
- ___ 6. a way of strengthening private agencies or firms
- ___ 7. political pork barreling
- ___ 8. some other reason(s)

| | | Always | Often | Sometimes | Never |
|-----|---|--------|-------|-----------|-------|
| 55. | Use the following terms to describe your own relationships with contractors in your work: | | | | |
| ___ | 1. close and personal | 1 | 2 | 3 | 4 |
| ___ | 2. warm and friendly | 1 | 2 | 3 | 4 |
| ___ | 3. strictly businesslike | 1 | 2 | 3 | 4 |
| ___ | 4. cool and distant | 1 | 2 | 3 | 4 |
| ___ | 5. hostile and antagonistic | 1 | 2 | 3 | 4 |

56. Do you belief that using private contractors to produce and deliver public services is somehow more democratic or less democratic than using public employees:

- ☐ 1. more democratic
☐ 2. less democratic
☐ 3. doesn't have anything to do with democratic ideals
 Why?

57. In your area, do you believe that the monitoring and evaluation of contractors is:

- ___ 1. too strict, with too much unnecessary and burdensome paperwork involved
- ___ 2. not adequate to oversee expenditures
- ___ 3. not adequate to evaluate performance
- ___ 4. not strict enough to oversee expenditures or to evaluate performance adequately
- ___ 5. just about right
- ___ 6. some other response?

58. In your experience in contracting, how do you evaluate the role of most politicians (e.g., state legislators, county commissioners, city councilmen) in the contracting process?
- ☐ 1. generally quite helpful
 - ☐ 2. not involved enough in contracting
 - ☐ 3. too interfering in decision making
 - ☐ 4. hardly involved in contracting at all, but that's the way I prefer it
 - ☐ 5. only involved in contracts that their constituents want, but otherwise hardly involved at all
 - ☐ 6. some other response(s)
59. How frequently do you see yourself acting as an advocate for service providers in your work? (e.g., as with other state officials)
- ☐ 1. always
 - ☐ 2. often
 - ☐ 3. sometimes
 - ☐ 4. never
60. In your area of contracting, if two units disagree over procedures, awards, etc., how are these conflicts resolved?
- In what matters are disagreements more likely between units or between various individuals involved in contracting?
61. What are the major problems you see in the relationship between the state department and the county?
62. What are the major problems or tensions in your own job, at least as it relates to contracting for services?

APPENDIX B

APPENDIX B
SERVICE CONTRACT INTERVIEW SCHEDULE
SHORT FORM

In this interview, I am interested in learning more about service contracting in the state of Michigan in general, and in your area of contracting, in particular. Not only do I want to know factual information about the process, but I would most of all like to hear your point of view and opinions about your work in contracting. Therefore, many questions do not have a strictly right or wrong answer, since people see things differently. I assure you that the responses you give will be kept confidential. Your answers to all questions will be used for statistical purposes and will not be reported on an individual basis, with your name or position identified. In the interest of time, please try to keep your answers short and to the point.

A. Background Questions

1. For public employees--department of employment:

- ☐ 1. Labor
- ☐ 2. Management and Budget
- ☐ 3. Social Services--state
- ☐ 4. Social Services--county
- ☐ 5. Transportation

Contractual program affiliated with:

2. Job of respondent:

- ☐ 1. contract specialist
- ☐ 2. contract supervisor
- ☐ 3. program specialist
- ☐ 4. program supervisor
- ☐ 5. county contract coordinator
- ☐ 6. program evaluator
- ☐ 7. contractor
- ☐ 8. other (specify)

- a. What are the major tasks that you are responsible for in your position, as it relates to contracting for services?

b. Who is your immediate supervisor?

c. Number of years in this unit?

3. Personal background information:

a. Age:

- ☐ 1. 21-30
- ☐ 2. 31-40
- ☐ 3. 41-50
- ☐ 4. 51-60
- ☐ 5. 61-70

b. Highest level of education completed:

- ☐ 1. high school
- ☐ 2. some college
- ☐ 3. 4-year college degree
- ☐ 4. Master's degree
- ☐ 5. some graduate school
- ☐ 6. Ph.D.
- ☐ 7. some other graduate degree (specify)

Major area of study in college or graduate school:

- ☐ 1. public administration
- ☐ 2. social work
- ☐ 3. law
- ☐ 4. business
- ☐ 5. social sciences
- ☐ 6. humanities
- ☐ 7. other (specify)

4. From which of the following outside sources do you (or your unit) purchase services by contract: (may check more than one)

- ☐ 1. private, non-profit agencies
- ☐ 2. private, proprietary (profit-making) firms
- ☐ 3. public agencies

a. What are the names of some of the largest contractors that you deal with?

b. If more than one type of source is contracted with, are there differences among them, at least as you work with them in your job, because of the type of agency?

- ☐ 1. no differences at all
- ☐ 2. very few differences
- ☐ 3. several differences
- ☐ 4. many differences

If some differences exist, what are the major differences you have found?

7. Approximately how many contracts have you personally worked on in the last calendar year? (or any other recent one-year period)
28. On what basis is it usually decided that a certain firm or agency will receive a contract in your program area? (choose 1st, 2nd, and 3rd reasons)
- ☐ 1. lowest cost
 - ☐ 2. previous satisfactory work in state projects or services
 - ☐ 3. adequate staff and equipment to do the job
 - ☐ 4. previous experience in this general type of service
 - ☐ 5. plan to fulfill all criteria provided in solicitation package
 - ☐ 6. well-reasoned arguments why program elements will accomplish the desired goals, as given in the proposal
 - ☐ 7. some other reason (specify)
41. g. What do you believe are the major problems in monitoring and evaluating contractor performance?
49. In your area of work, what have been the major problems in contracting with outside agencies or firms for services?
50. In the contracts and services you work with, do you think contracting with private agencies or firms costs less than, about the same as, or more than, government delivery of those services would?
- ☐ 1. less than government delivery
 - ☐ 2. about the same as government delivery
 - ☐ 3. more than government delivery
- Why do you say that?
51. For the contracts and services you work with, do you think contracting with private agencies or firms results in poorer service, about the same quality of service, or better service for recipients than government service delivery would?
- ☐ 1. poorer service
 - ☐ 2. about the same quality
 - ☐ 3. better service
- Why do you say that?

52. In general, for a wide vareity of state services, do you think contracting with private agencies or firms results in poorer service, about the same quality of service, or better service for recipients than government service delivery would?

☐ 1. poorer service
☐ 2. about the same quality
☐ 3. better service
☐ 4. don't have any idea

53. In general, for a wide variety of state services, do you think contracting with private agencies or firms costs less than, about the same as, or more than government delivery of those services?

☐ 1. less than
☐ 2. about the same as
☐ 3. more than
☐ 4. don't have any idea

56. Do you believe that using private contractors to produce and deliver public services is somehow more democratic or less democratic than using public employees?

☐ 1. more democratic
☐ 2. less democratic
☐ 3. doesn't have anything to do with democratic ideals

Why?

54. Rank the following in order of importance (from 1 to 7, with 1 being the most important) as to why outside agencies/firms are used to supply public services in your program area instead of state (or county) public employees?

☐ 1. lower cost
☐ 2. better services
☐ 3. greater flexibility in hiring and firing
☐ 4. better oversight over cost and performance
☐ 5. mandated by federal or state laws or regulations
☐ 6. a way of strengthening private agencies or firms
☐ 7. political pork barreling
☐ 8. some other reason(s)

- | | | Always | Often | Sometimes | Never |
|-----|--|--------|-------|-----------|-------|
| 55. | Use the following terms to describe your own relationships with contractors in your work: | | | | |
| ___ | 1. close and personal | 1 | 2 | 3 | 4 |
| ___ | 2. warm and friendly | 1 | 2 | 3 | 4 |
| ___ | 3. strictly businesslike | 1 | 2 | 3 | 4 |
| ___ | 4. cool and distant | 1 | 2 | 3 | 4 |
| ___ | 5. hostile and antagonistic | 1 | 2 | 3 | 4 |
| 57. | In your area, do you believe that the monitoring and evaluation of contractors is: | | | | |
| ___ | 1. too strict, with too much unnecessary and burdensome paperwork involved | | | | |
| ___ | 2. not adequate to oversee expenditures | | | | |
| ___ | 3. not adequate to evaluate performance | | | | |
| ___ | 4. not strict enough to oversee expenditures <u>or</u> to evaluate performance adequately | | | | |
| ___ | 5. just about right | | | | |
| ___ | 6. some other response? | | | | |
| 58. | In your experience in contracting, how do you evaluate the role of most politicians (e.g., state legislators, county commissioners, city councilmen) in the contracting process? | | | | |
| ___ | 1. generally quite helpful | | | | |
| ___ | 2. not involved enough in contracting | | | | |
| ___ | 3. too interfering in decision making | | | | |
| ___ | 4. hardly involved in contracting at all, but that's the way I prefer it | | | | |
| ___ | 5. only involved in contracts that their constituents want, but otherwise hardly involved at all | | | | |
| ___ | 6. some other response(s)? | | | | |
| 59. | How frequently do you see yourself acting as an advocate for service providers in your work? (e.g., as with other state officials) | | | | |
| ___ | 1. always | | | | |
| ___ | 2. often | | | | |
| ___ | 3. sometimes | | | | |
| ___ | 4. never | | | | |
| 60. | In your area of contracting, if two units disagree over procedures, awards, etc., how are these conflicts resolved? | | | | |
| | In what matters are disagreements more likely between units, individuals, or levels (e.g., county vs. state) involved in contracting? | | | | |

61. What are the major problems you see in the relationship between the state department and the county?
62. What are the major problems or tensions in your own job, at least as it relates to contracting for services?

APPENDIX C

APPENDIX C
SERVICE CONTRACT INTERVIEW SCHEDULE
PROVIDER FORM

In this interview, I am interested in learning more about service contracting in the state of Michigan in general, and in your area of contracting, in particular. Not only do I want to know factual information about the process, but I would most of all like to hear your point of view and opinions about contracting. Therefore, many questions do not have a strictly right or wrong answer, since people see things differently. I assure you that the responses you give will be kept confidential. Your answers to all questions will be used for statistical purposes and will not be reported on an individual basis, with your name or position identified. In the interest of time, please try to keep your answers short and to the point.

A. Background Questions

1. Department of contract and recommendation:

- ☐ 1. Labor
- ☐ 2. Management and Budget
- ☐ 3. Social Services--state
- ☐ 4. Social Services--county
- ☐ 5. Transportation

Contractual program:

3. Personal background information:

a. Age:

- ☐ 1. 21-30
- ☐ 2. 31-40
- ☐ 3. 41-50
- ☐ 4. 51-60
- ☐ 5. 61-70

b. Highest level of education completed:

- ☐ 1. high school
- ☐ 2. some college
- ☐ 3. 4-year college degree
- ☐ 4. Master's degree
- ☐ 5. some graduate school
- ☐ 6. Ph.D./D.P.A./M.D.
- ☐ 7. some other graduate degree (specify)

Major area of study in college or graduate school:

- ☐ 1. public administration
- ☐ 2. social work
- ☐ 3. law
- ☐ 4. business
- ☐ 5. social sciences
- ☐ 6. humanities
- ☐ 7. other (specify)

4. What are the major tasks that you are responsible for, as it relates to service contracting?

- a. Number of years in this position?
- b. In this agency/firm?
- c. Any previous positions with public agencies? (specify)
- d. When was this agency/firm started?
- e. Is it affiliated with or part of another organization?
(If so, specify)
- f. How many people are employed by your agency/firm?

5. From which of the following does your agency have service contracts at the present time?

- ☐ 1. city government
- ☐ 2. county government (if more than one, state total number)
- ☐ 3. state government (specify departments)
- ☐ 4. private, non-profit agencies
- ☐ 5. private, profit-making firms
- ☐ 6. some other unit

- a. What percentage of your revenues come from contracts with city, county, or state governments, approximately?
- b. How many contracts do you currently have with state or county governments in the area of _____?

- c. Have you had additional contract(s) with any of the above units in the past, that has not been renewed for this year?
- d. How many separate contracts have been made with the state and county governments in the last two years?

B. Descriptive Process Questions

- 9. In the projects/programs for which your agency has attempted to receive a contract, how did you first learn of the possibility of the department letting a contract?
 - ☐ 1. newspaper notice
 - ☐ 2. trade or professional newsletter or magazine
 - ☐ 3. posted notice in a state office
 - ☐ 4. letter
 - ☐ 5. other contractors or service providers
 - ☐ 6. telephone call or conversation with a state/county employee
 - ☐ 7. other means (specify)
- 12. When informed about the particulars of a contract, do you receive information that certain requirements must be met by contractors?
 - ☐ 1. yes
 - ☐ 2. no
 - ☐ 3. sometimes
 - a. If yes, or sometimes, what kinds of requirements are explicitly stated?
 - ☐ 1. cost
 - ☐ 2. equal opportunity employment
 - ☐ 3. affirmative action program
 - ☐ 4. length of the contract
 - ☐ 5. specifications about the quality of service
 - ☐ 6. specifications about the number of clients served
 - ☐ 7. other performance specifications
 - ☐ 8. bookkeeping requirements
 - ☐ 9. other requirements (specify)
- 13. When bids or proposals are invited, are the criteria by which proposals will be evaluated included in the package or notice?
 - ☐ 1. yes
 - ☐ 2. no
 - ☐ 3. sometimes

14. When a bid or proposal for a program is solicited, are contractor review methods and criteria included in the notice?

☐ 1. yes
☐ 2. no
☐ 3. sometimes

15. Does your agency/firm include a budget with the proposal?

☐ 1. always
☒ 2. usually
☐ 3. sometimes
☐ 4. never

→ If usually or sometimes, under what circumstances would a budget not be submitted?

16. Who writes up the proposal (or letter of intent) for your agency/firm?

17. Do you know who evaluates contractor proposal (or letters of intent) in your program area of _____?

☐ 1. department contract administrator (central office)
☐ 2. contracting official in program area
☐ 3. a panel of evaluators in the state/county office (circle one)
☐ 4. county services or contracts coordinator
☐ 5. some other group or individual (specify)
☐ 6. don't know

18. Do these individuals know which contractors have submitted which proposals?

☐ 1. always
☐ 2. sometimes
☐ 3. never
☐ 4. don't know

19. How frequently has your agency/firm submitted unsolicited proposals (or letters of intent) for programs with the state or county governments?

☐ 1. often
☒ 2. sometimes
☐ 3. never

→ How frequently has your agency received a contract as a result?

☐ 1. always
☐ 2. often
☐ 3. sometimes
☐ 4. never

26. In the contracted programs you are acquainted with, about how many different contractors are usually considered before a contract is granted?
27. In your contracts, is a written proposal or an oral presentation required before the decision is made on who will be awarded a contract?
- ☐ 1. written proposal
 - ☐ 2. oral presentation
 - ☐ 3. neither is required
 - ☐ 4. neither is required, but one of the two is sometimes done
28. On what basis is it decided that a certain agency or firm will receive a contract in your program area (choose 1st, 2nd, and 3rd reasons)?
- ☐ 1. lowest cost
 - ☐ 2. previous satisfactory work in state projects or services
 - ☐ 3. adequate staff and equipment to do the job
 - ☐ 4. previous experience in this general type of service
 - ☐ 5. plan to fulfill all criteria in the solicitation package
 - ☐ 6. well-reasoned arguments why program elements will accomplish goals
 - ☐ 7. an innovative approach to dealing with the perceived problem
 - ☐ 8. political influence
 - ☐ 9. some other reason (specify)
29. How often in the last two years has your agency submitted a proposal (or letter of intent) for a program/project with the state or county government?
- a. How many of these were in the program area of _____?
 - b. Of these, how many of the proposals did not lead to an award?
 - c. If no contract was given, what do you believe were the reasons?
 - d. If a proposal is not accepted for a contract, are you or your agency/firm informed as to the reasons?
30. If contracts are negotiated between your agency and the government unit, which parts of the contract are usually most flexible or negotiable?

33. Do the contracts usually state that payments will be in:

- ☐ 1. lump-sum amounts
- ☐ 2. per-unit rates
- ☐ 3. to reimburse approved costs
- ☐ 4. some other form (specify)

a. How frequently does your agency receive an advance payment for part of the contract?

- ☐ 1. always
- ☐ 2. often
- ☐ 3. sometimes
- ☐ 4. never

35. Has your agency received state (or county) sub-contracts in recent years in the program area of _____?

- ☐ 1. yes
- ☐ 2. no

→ Who was the original contract from?

→ Who gave your agency/firm the sub-contract?

34. Do you sub-contract for some or all of the services for which you receive contracts through the state (or county) government?

- ☐ 1. yes
- ☐ 2. no

→ If yes, who do your sub-contract with?

→ And for what services?

→ How do you choose your sub-contractors?

39. How frequently have your contracts been renewed from one year to the next? (given percentage of all contracts)

- ☐ 1. always
- ☐ 2. usually
- ☐ 3. often
- ☐ 4. sometimes
- ☐ 5. never

→ Why have any contracts not been renewed?

40. Is there a formal process for hearing contractor complaints?

- ☐ 1. yes
- ☐ 2. no

- a. If you have a complaint, who do you usually go to?
 - b. What kinds of complaints or protests have you put in writing over the past years?
 - c. What action was taken as a result, if any?
41. What kinds of review procedures are used in your program area for contracted services?
- ___ 1. pre-audit
 - ___ 2. continuous monitoring of expenditures
 - ___ 3. progress reports on performance or work accomplished
 - ___ 4. on-site field monitoring of programs or projects
 - ___ 5. in-depth evaluations
 - ___ 6. post-audit of expenditures
 - ___ 7. post-audit/review of performance
 - ___ 8. some other review procedure
- e. Has your program(s) ever been audited by the state?
 - g. What do you believe are the major problems involved in the monitoring and evaluation of performance?
43. What are the major groups or associations that your agency/firm is a member of in your area of work?
- c. What is their role in the contracting process, if any?
44. Are there any client, recipient, or consumer groups that contact you about contracted programs/projects? (if so, specify)
45. How are your contracts funded? (may check more than one)
- ___ 1. through federal programs
 - ___ 2. through federal grants
 - ___ 3. through donated funds from private sources
 - ___ 4. through donated funds from public sources
 - ___ 5. through an appropriation from the state legislature
 - ___ 6. through county discretionary funds
 - ___ 7. some other source (specify)

If a donation is required, who donates the amount for your service contract?

If your agency donates the amount required, how does it raise the money?

Has your agency ever failed to get a contract because it could not get the required donation?

C. Opinion Question

47. In general, how much say or influence do you think the people or agencies listed below have over whether a contract is made for a service with an outside agency?

| | No influence at all | Very little influence | Moderate amount of influence | Great deal of influence | Very great deal of influence |
|--|---------------------|-----------------------|------------------------------|-------------------------|------------------------------|
| ___ 1. Civil Service--contracts division | 1 | 2 | 3 | 4 | 5 |
| ___ 2. The Attorney General's Office | 1 | 2 | 3 | 4 | 5 |
| ___ 3. The Civil Rights Department | 1 | 2 | 3 | 4 | 5 |
| ___ 4. Department of Management and Budget | 1 | 2 | 3 | 4 | 5 |
| ___ 5. Your department director | 1 | 2 | 3 | 4 | 5 |
| ___ 6. Department deputy director(s) | 1 | 2 | 3 | 4 | 5 |
| ___ 7. Bureau chief | 1 | 2 | 3 | 4 | 5 |
| ___ 8. Division chief | 1 | 2 | 3 | 4 | 5 |
| ___ 9. Section chief | 1 | 2 | 3 | 4 | 5 |
| ___ 10. Program specialists (state) | 1 | 2 | 3 | 4 | 5 |
| ___ 11. Contract specialists (state) | 1 | 2 | 3 | 4 | 5 |
| ___ 12. Private agencies | 1 | 2 | 3 | 4 | 5 |
| ___ 13. State legislature | 1 | 2 | 3 | 4 | 5 |
| ___ 14. County commissions | 1 | 2 | 3 | 4 | 5 |
| ___ 15. County contract supervisor | 1 | 2 | 3 | 4 | 5 |
| ___ 16. Yourself | 1 | 2 | 3 | 4 | 5 |

48. In general, how much say or influence do you think the people or agencies listed below have over who receives a contract?

| | | | | | |
|--|---|---|---|---|---|
| ___ 1. Civil Service--contracts division | 1 | 2 | 3 | 4 | 5 |
| ___ 2. The Attorney General's Office | 1 | 2 | 3 | 4 | 5 |
| ___ 3. The Civil Rights Department | 1 | 2 | 3 | 4 | 5 |
| ___ 4. Department of Management and Budget | 1 | 2 | 3 | 4 | 5 |
| ___ 5. Your department director | 1 | 2 | 3 | 4 | 5 |
| ___ 6. Department deputy director(s) | 1 | 2 | 3 | 4 | 5 |
| ___ 7. Bureau chief | 1 | 2 | 3 | 4 | 5 |
| ___ 8. Division chief | 1 | 2 | 3 | 4 | 5 |
| ___ 9. Section chief | 1 | 2 | 3 | 4 | 5 |
| ___ 10. Program specialists (state) | 1 | 2 | 3 | 4 | 5 |
| ___ 11. Contract specialists (state) | 1 | 2 | 3 | 4 | 5 |
| ___ 12. Private organizations | 1 | 2 | 3 | 4 | 5 |
| ___ 13. State legislators | 1 | 2 | 3 | 4 | 5 |
| ___ 14. County commissioners | 1 | 2 | 3 | 4 | 5 |
| ___ 15. County contract supervisor | 1 | 2 | 3 | 4 | 5 |
| ___ 16. Yourself | 1 | 2 | 3 | 4 | 5 |

50. In the contracts and services you work with, do you think contracting with private agencies or firms costs less than, about the same as, or more than, government delivery of those services would?

___ 1. less than government delivery
 ___ 2. about the same as government delivery
 ___ 3. more than government delivery

Why do you say that?

51. For the contracts and services you work with, do you think contracting with private agencies or firms results in poorer service, about the same quality of service, or better service for recipients than government service delivery would?

___ 1. poorer service
 ___ 2. about the same quality
 ___ 3. better service

Why do you say that?

52. In general, for a wide variety of state services, do you think contracting with private agencies or firms results in poorer service, about the same quality of service, or better service for recipients than government service delivery would?

___ 1. poorer service
 ___ 2. about the same quality of service
 ___ 3. better service
 ___ 4. don't have any idea

53. In general, for a wide variety of state services, do you think contracting with private agencies or firms costs less than, about the same as, or more than government delivery of those services?

___ 1. less than government delivery
 ___ 2. about the same as government delivery
 ___ 3. more than government delivery
 ___ 4. don't have any idea

49. What have been the major problems with receiving contracts from the state/county?

What have been the major advantages?

What would you like to see done differently (or better)?

54. Please rank the following in order of importance (from 1 to 7, with 1 being the most important) as to why you believe outside agencies/firms are used to supply public services in your program area instead of state (or county) public employees.

- ☐ 1. lower cost
- ☐ 2. better services
- ☐ 3. greater flexibility in hiring and firing
- ☐ 4. better oversight over cost and performance
- ☐ 5. mandated by federal or state laws or regulations
- ☐ 6. a way of strengthening private agencies or firms
- ☐ 7. political pork barreling
- ☐ 8. some other reason(s)

55. Use the following terms to describe your own relationships with public officials in your area of contracting:

- | | Always | Often | Sometimes | Never |
|--|--------|-------|-----------|-------|
| <input type="checkbox"/> 1. close and personal | 1 | 2 | 3 | 4 |
| <input type="checkbox"/> 2. warm and friendly | 1 | 2 | 3 | 4 |
| <input type="checkbox"/> 3. strictly businesslike | 1 | 2 | 3 | 4 |
| <input type="checkbox"/> 4. cool and distant | 1 | 2 | 3 | 4 |
| <input type="checkbox"/> 5. hostile and antagonistic | 1 | 2 | 3 | 4 |

56. Do you believe that using private contractors to produce and deliver public services is somehow more democratic or less democratic than using public employees?

- ☐ 1. more democratic
- ☐ 2. less democratic
- ☐ 3. doesn't have anything to do with democratic ideals
- Why?

57. In your area, do you believe that the monitoring and evaluation of contractors is:

- ☐ 1. too strict, with too much unnecessary and burdensome paperwork
- ☐ 2. not adequate to oversee expenditures
- ☐ 3. not adequate to evaluate performance
- ☐ 4. not adequate to oversee expenditures or to evaluate performance
- ☐ 5. just about right
- ☐ 6. some other response?

58. In your experience in contracting, how do you evaluate the role of most politicians (e.g., state legislators, county commissioners, city councilmen) in the contracting process?
- ☐ 1. generally quite helpful
 - ☐ 2. not involved enough in contracting
 - ☐ 3. too interfering in decision making
 - ☐ 4. hardly involved in contracting at all, but that's the way I prefer it
 - ☐ 5. only involved in contracts that their constituents want, but otherwise hardly involved at all
 - ☐ 6. some other response?
59. How frequently do you think that the service contract coordinator(s) in the state/county acts as an advocate for your agency and other service providers (e.g., as with other state officials)?
- ☐ 1. always
 - ☐ 2. often
 - ☐ 3. sometimes
 - ☐ 4. never

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