Privatization of Public Services: Organizational Reform Efforts in Public Education and Public Health

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The public health and the public education systems in the United States have encountered problems in quality of service, accountability, and availability of resources. Both systems are under pressure to adopt the general organizational reform of privatization. The debate over privatization in public education is contentious, but in public health, the shift of functions from the public to the private sector has been accepted with limited deliberation.

We assess the benefits and concerns of privatization and suggest that shifting public health functions to the private sector raises questions about the values and mission of public health. Public health officials need to be more engaged in a public debate over the desirability of privatization as the future of public health. (Am J Public Health. 2006;96:1733–1739. doi:10.2105/AJPH.2005.068007)

THE INSTITUTE OF MEDICINE’S report, The Future of Public Health in the 21st Century, describes a system badly in need of reform. Underfunded and technologically immature, the United States’ public health system is characterized by quality problems, disparities across racial and socioeconomic groups, and unclear accountability within a fragmented authority structure. New threats, including bioterrorism, have brought attention to weaknesses in the public health infrastructure and the need to reconsider how public health services are delivered. We define “public health system” as the governmental and nongovernmental entities that together provide public health services encompassing the population-based core functions of assessment, policymaking, and assurance; the related 10 essential services; and, in many areas, the direct provision of personal health services to vulnerable populations.

Because the public health system is not the only social system facing similar concerns, it is useful to examine how other public systems that share characteristics with public health have reacted to similar challenges. A particularly striking similarity is found in the public education system. The 1983 report, A Nation At Risk, characterized the education system as a “rising tide of mediocrity that threatens our very future as a Nation and a people.” New threats, including bioterrorism, have brought attention to weaknesses in the public health infrastructure and the need to reconsider how public health services are delivered. We define “public health system” as the governmental and nongovernmental entities that together provide public health services encompassing the population-based core functions of assessment, policymaking, and assurance; the related 10 essential services; and, in many areas, the direct provision of personal health services to vulnerable populations.

The debate over privatization in public education is loud and contentious; in public health, the debate is barely audible. In education, scholarly and media arguments over privatization are common. By contrast, there have been only a few similar
analyses of privatization in public health.14-20

Even though the privatization tactics in education differ from those being pursued within public health, and there are certainly organizational differences between them, we suggest that the arguments within education, and the lessons learned, are meaningful for a public health audience. Analyzing the analogous experience in public education can broaden the debate about public health privatization and elucidate key issues for the public, practitioners, and policymakers to consider.

BACKGROUND ON PRIVATIZATION

Privatization is the transfer of decisionmaking authority, delivery, or financing from a public to a private entity.21 Such shifts may occur by directly contracting out services to the private sector or may result indirectly from other arrangements, including partnerships with private sector entities and introducing competitive forces into government services.22-24 Regardless of whether the private partner is nonprofit or for-profit, the consistent feature is that control of service delivery may shift to the private sector.

These arrangements are neither new nor unique to public education and public health. Throughout its history, the US government has delegated responsibility to private partners to provide goods and services.22 Yet contracting out public services to nongovernmental organizations appears to be increasing in frequency. A 1988 survey of local governments found that a majority of larger cities and counties were contracting out vehicle towing and legal services, and nearly half were contracting out street light operation and waste disposal.25 A December 2002 Council of State Governments survey reflected states’ increasing use of privatization in education, health and human services departments, personnel agencies, corrections agencies, and transportation.26

For this analysis, we adopted the Public Health Foundation’s broad working definition of privatization, developed through discussions with public health professionals:

Privatization encompasses those activities/services for which the state or local health department has reached a formal decision to withdraw from or contract out for provision of a public health service, in whole or in part, and a non-governmental entity has taken over responsibility for provision of that service. This may include development of formal partnerships with the private sector to offer public health activities/services not previously provided by the public health department.26

In theory, privatization approaches are based on the premise that the private sector can deliver goods and services more effectively and efficiently than the public sector.27 In practice, however, the justification for public health privatization is not limited to expected efficiency gains.28 Recent empirical research conducted by Keane et al.20 demonstrates that local health department directors’ commonly stated reasons for contracting out services also include lack of capacity or expertise and the desire to forge collaborative partnerships.

For any type of public service, shifting the provision of services to the private sector is not a simple solution. Privatization is complicated by many theoretical and practical challenges. (See Keane et al.’s empirical articles for discussion of some of the challenges specific to local public health department privatization.15,20,29) First, there are rarely numerous competing sellers (i.e., contracting organizations), and the government may be the only buyer. Both parties are often interdependent entities instead of the multiple independent buyers and sellers that market theory requires for efficiency gains.27 Second, the public sector has other values besides efficiency that a private sector organization may not have, including effectiveness, responsiveness, and trust.22 Third, the process and outcome objectives of the public sector are often uncertain, making it difficult to draft unambiguous contracts. Public health exemplifies this challenge; its goals may be nebulous, and there are few satisfactory performance and outcome measures to evaluate public health service delivery.30,31 Fourth, there may be significant transaction costs associated with contracting out services that may outweigh potential gains.27 Finally, for some public–private partnerships, shared arrangements may be difficult to operate in practice.22,32,33

Among public services, public health and public education in particular pose a common theoretical challenge for privatization because they can be characterized as public goods. Public goods have 2 essential properties: nondiminishability (or nonrivalry) and nonexcludability. When one person uses the service, it is not taken away from someone else, and it is difficult to prevent others from using it.34

Opponents of privatization argue that the government should provide public goods to ensure social equity.35 Both education and public health services exhibit public benefits: education conveys common language, skills, and behaviors; public health services offer community benefits of communicable disease control, environmental health, sanitation, health education, and vaccinations.36 A further complication is that each system simultaneously provides individuals with private benefits. Personal health services that the public health system provides (such as HIV testing and counseling) convey health care benefits exclusively to certain individuals, but also have public benefit.35 Similarly, as an individual becomes more educated, he or she receives improved employment prospects or income. In turn, the acquired skills can benefit the citizenry as a whole.36

WHAT CAN WE LEARN FROM THE PUBLIC EDUCATION EXPERIENCE?

Critics of public schools’ performances have advocated shifting education delivery to the private sector as a reform strategy. Such strategies in education
promote consumer choice by substituting new structures (including charter schools, magnet schools, and private schools) for traditional public schools and using vouchers or tax credit systems for students to attend alternatives to public schools. Other strategies include contracting out services such as food preparation or transportation to private companies and relying on private management of public schools through for-profit educational management organizations.

Critics of education privatization have argued that these approaches represent “a war being waged on America’s public schools.” Supporters counter that these strategies can improve schools’ performance and satisfy parental preferences. The arguments for privatization in education can be summarized as improving efficiency, quality, equity, and professionalism. Giving consumers options beyond their local public school breaks the public school monopoly, creating competition that theoretically improves the quality of the education provided and forces schools to provide that education more efficiently. Others have argued that the market improves the quality of education because schools will respond to specific communities’ needs.

Some suggest that private structures are more equitable, giving disadvantaged students choices beyond their local school districts and allowing families to become more engaged in education. Finally, if schools were more decentralized and less hierarchical, theory suggests that teachers would experience more professional autonomy and have better attitudes toward their work, improving the learning environment for students.

Yet there are several major concerns about privatization. First, an important value of the public educational system is its role in promoting democracy, social cohesion, student achievement, and equity. Those services unrelated to the central values of education, such as transportation and food preparation, have been contracted to private companies with relatively little controversy, but the overall desirability of market forces in public education remains contested. Opponents argue that the quality of education will suffer if schools become increasingly specialized for niche audiences, because there will no longer be an emphasis on values common to all students. Second, there remain questions about how to ensure that alternative models are held accountable to the public and to the government and what mechanisms for oversight should be in place.

Third, privatization may negatively influence teachers’ professional attitudes if educators become more concerned about their institution’s competitive advantage than about doing what is right and sharing their expertise. Fourth, there are administrative problems that private-oriented reform models create. School choice models require that parents and students have adequate information to choose a quality school that fits their interests, but consumers do not reliably seek this information nor do schools readily make this information available. Information that does not reach students of all backgrounds raises concerns about exacerbating existing disparities. Finally, although improving equitable access to education has been promoted as a benefit of private models, others argue that these approaches may not improve access for students of lower socioeconomic status if there are no incentives to reach these students.

Evaluations of the impact of privatization approaches in education on student performance are numerous, and their results are mixed. Overall, there is little evidence to suggest that voucher or charter school programs have a significant positive or negative impact on performance, either for students who choose the new options or for those who stay in public schools.

**PRIVATIZATION IN PUBLIC HEALTH**

Dan Beauchamp, in discussing the renewed emphasis on introducing the market into public health in the mid-1990s, warned that “local and state health departments are placed at greatest risk by the politics of market populism.” Nonetheless, private organizations now compose a critical and valued part of the local and state public health infrastructure. Private agencies are increasingly performing public health functions, such as primary care services and chronic disease testing and treatment, as public health agencies seek to balance the personal health and population health services they can provide. Many approaches for reforming the public health system involve the creation of partnerships with nongovernmental and private entities to deliver public health services.

Health departments have developed partnerships with managed care organizations, and many contract out service delivery to for-profit and nonprofit organizations.

According to the authors of nationally representative assessments of public health privatization, local health departments contracting with private organizations to deliver public health services has become “quietly and quickly commonplace.” Keane et al. surveyed local health department administrators from 1998 to 1999 and found that 73% of 347 local health departments had contracted with a private organization to perform at least one public health service (one that was either formerly performed in-house or a new service). During the past decade, local health departments have contracted out for primary care services, communicable disease control services, chronic disease testing and treatment, personal health services laboratory work, home health care, substance abuse services, health education, and environmental health services.

Newborn screening is another function that has been shifting to a private contracting model for some state health departments, as screening capabilities have expanded. Several...
studies have characterized these arrangements and analyzed their perceived benefits and limitations, but more work is needed to evaluate the impact these arrangements have on public health outcomes.

The privatization arguments in education provide the context for understanding the implications of privatization in public health. For both systems, the potential benefits of privatization include improving efficiency, access, and quality. The most frequent positive outcomes local health departments directors cite for contracting out services include increased access to services, gains in expertise, and improved efficiency. Partnerships between local health departments and private organizations have the potential to sustain or expand public health activities, reduce redundancies and inefficiencies, build relationships within the community, and allow the local health departments to specialize on key functions or expand expertise.

At the same time, concerns about shifting functions to the private sector relate to ensuring accountability, quality, and coordination. Local health department directors perceive the major negative effects of contracting out services to be loss of control and accountability for services. Management of contracts becomes a major responsibility of the public sector employee, yet public health professionals may not be adequately trained for this function. Nearly half of local health department directors who privatized services reported an increase in the time their staff spent on administration and program management after privatizing those services.

Evidence indicates that relying on private companies to deliver certain specific public health services may be problematic. The flu vaccine shortage of 2004 has been attributed to the government’s short-sighted dependence on 2 companies for the production of the vaccine, with little governmental assurance of the vaccine’s availability. Keane et al. found that local health department directors are concerned that privatization introduces a loss of control that impedes their ability to respond to emergencies and communicable disease outbreaks. Keane et al. also raised concerns about contracting out environmental health services to for-profit organizations. In Pennsylvania, health centers in 3 counties were privatized on a pilot basis in 1997, contracting out services for HIV testing and counseling, immunizations, sexually transmitted disease screening, and tuberculosis screening and treatment. An initial evaluation by Lopez et al. describes concerns about accountability for the management of patients with tuberculosis, decreased access to sexually transmitted disease services, fragmented communication with the Department of Health, and potential weaknesses in responding to emergencies and disease outbreaks.

Additional unease about shifting functions relates to equity. Just as there is concern that private schools may not serve the most vulnerable students, the private sector may be unwilling to serve the uninsured and underinsured populations who currently receive care from the public health care safety net. In some areas, there are few private sector entities to deliver safety net services. If health departments stop providing these services, it is unclear how these populations will receive needed services. A large majority of local health department directors interviewed in 2000 and 2001 believed that local health departments ought to provide personal health services to the uninsured and also deliver the population-based core functions. Achieving a balance between these 2 aims remains a significant challenge for local health departments, and public health at large, to address. Of equal concern are the ethical, pragmatic, and professional issues for public health practitioners raised by privatization (including some public–private partnerships) that have not yet been resolved. The National Association of County and City Health Officers has developed a tool to help local health departments make strategic decisions to balance the personal health and population-based services they provide, but this effort may not ameliorate practitioners’ concerns. In recent focus groups, public health practitioners reported confusion about selecting partners and expressed a need for ethical guidelines, especially in the context of scarce public resources.

One study of safety net providers in Michigan identified public–private partnerships as a source of dissatisfaction, with several practitioners noting that such partnerships seem to favor the private entity. Finally, there is likely to be professional resistance to privatization strategies. More than one third of the local health department directors surveyed reported employee resistance to privatization. This resistance may emerge from employee concerns about a shift in the focus and mission of their work and apprehension that contract workers will negatively affect the quality of services provided.

**WHY HAVING THE DEBATE MATTERS**

**The Values and Mission of Public Health**

At the heart of the privatization debates in both public health and education lies the need to clarify the mission and values of each sector to determine whether to divide public and private responsibilities and how to divide them. For public health, core values center on communal well-being—disease prevention and health promotion for populations—and distributive justice. Many believe that the mission of public health includes treating illnesses as well as their social and economic determinants.

It is clear from previous empirical research that decisions made at the local health department level about the services that should be privatized confront the larger issues concerning the scope, mission, and values of the...
In the public health field, in their second survey study of local health department privatization, Keane et al. demonstrate that directors who perceive their mission to be limited to the core public health functions of assessment, assurance, and policy development were more likely to discontinue delivery of personal health services than were directors who held the belief that their departments should provide these services. Keane et al. explain these findings as a trend in public health toward adopting a managerial orientation that limits public health activities to the 3 core functions, thereby preserving resources for population-based services.

Local health department directors stated that there are some population-based services that should never be delivered through the market, including communicable disease control services, regulatory services, and emergency response services. Instead of individual directors making local decisions about which public health functions should be privatized, thus suggesting normative positions on the scope and mission of public health, the conceptual and philosophical bases underlying these decisions should be deliberated openly. There should be criteria to determine which of the numerous public health functions must remain public and which can become the responsibility of private organizations. As political scientist Don Kettl noted, “Just where the line should be drawn between the functions that are inherently governmental and those that can be legitimately contracted out is perhaps the most difficult puzzle of the public–private relationship.”

**Inevitability and Desirability**

One might argue, either from resignation of its inevitability or from conviction of its desirability, that shifting public health functions to the private sector is the most effective way of preserving the values animating the public health system. Even though partnerships and contracting with private organizations have been endorsed as inevitable and necessary mechanisms for delivering public health services, there are several reasons for provoking additional discussion.

First, the education debate demonstrates that an aggressive defense of public education has posed a challenge to privatization, triggering broad public and policy attention to strengthening the public system while promoting rigorous evaluations of alternatives. Second, the increasing use of privatization raises provocative questions about the future of public health that have yet to be adequately addressed: what public health services should never be delivered through private entities but must remain governmental functions? What are the criteria for deciding which functions can be shifted to the private sector? Who will be held accountable as the public role declines? What will remain of the “public” in public health over time? What are the implications of a weakened (or absent) public role in the system? Third, escalating the debate over privatization may encourage more systematic evaluations of whether the private sector is meeting its contracted public health responsibilities.

**A Role for the Public**

A major difference between the public education system and the public health system is their relative visibility to the public. In a 2002 public opinion poll, 69% of the public responded that the public education system should be strengthened instead of relying on voucher systems for children to attend private options. A similar proportion believed that reforming the existing public school system was preferable to finding alternatives. But what does the public believe about the public health system? In a 1996 Harris poll, even though 57% of respondents stated that government should be responsible for public health, less than 4% responded to a question about what “public health means to you” with answers that approximate the major functions of public health. More troubling is that 57% of respondents in a 1999 public opinion survey were unable to appropriately define public health. As voters and taxpayers, the public’s expectation for the public health system is their relative visibility to the public. What does the public believe about the public health system? In a 1996 Harris poll, even though 57% of respondents stated that government should be responsible for public health, less than 4% responded to a question about what “public health means to you” with answers that approximate the major functions of public health. More troubling is that 57% of respondents in a 1999 public opinion survey were unable to appropriately define public health. As voters and taxpayers, the public’s expectation for the public health system is their relative visibility to the public. In a 1996 Harris poll, even though 57% of respondents stated that government should be responsible for public health, less than 4% responded to a question about what “public health means to you” with answers that approximate the major functions of public health. More troubling is that 57% of respondents in a 1999 public opinion survey were unable to appropriately define public health.

**Alternatives**

Aside from privatization approaches, there are undoubtedly alternative and innovative ways to reconceptualize and strengthen the governmental public health system. For example, regionalizing public health authorities in some areas might make service delivery more effective and efficient. To determine whether alternative structures are effective, evaluators must pay attention to the underlying mission and the public health functions the alternatives aim to provide. More work to assess the value and performance of public health systems must be done, so that limited public funds can be directed toward those services that will have the greatest impact on public health outcomes.

**CONCLUSION**

Public health professionals in the United States should continue to make their voices heard in the policy debate over privatization.
fundamental questions about the essential public nature of public health, ensuring equity, and the appropriate scope of public health to balance personal health and population services. Privatization approaches, with their claims to improve efficiency, access, and quality, have an undeniable appeal, but they should be subject to rigorous research and evaluation. Political or ideological justifications for these arrangements are not sufficient when the health of communities is at stake.

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