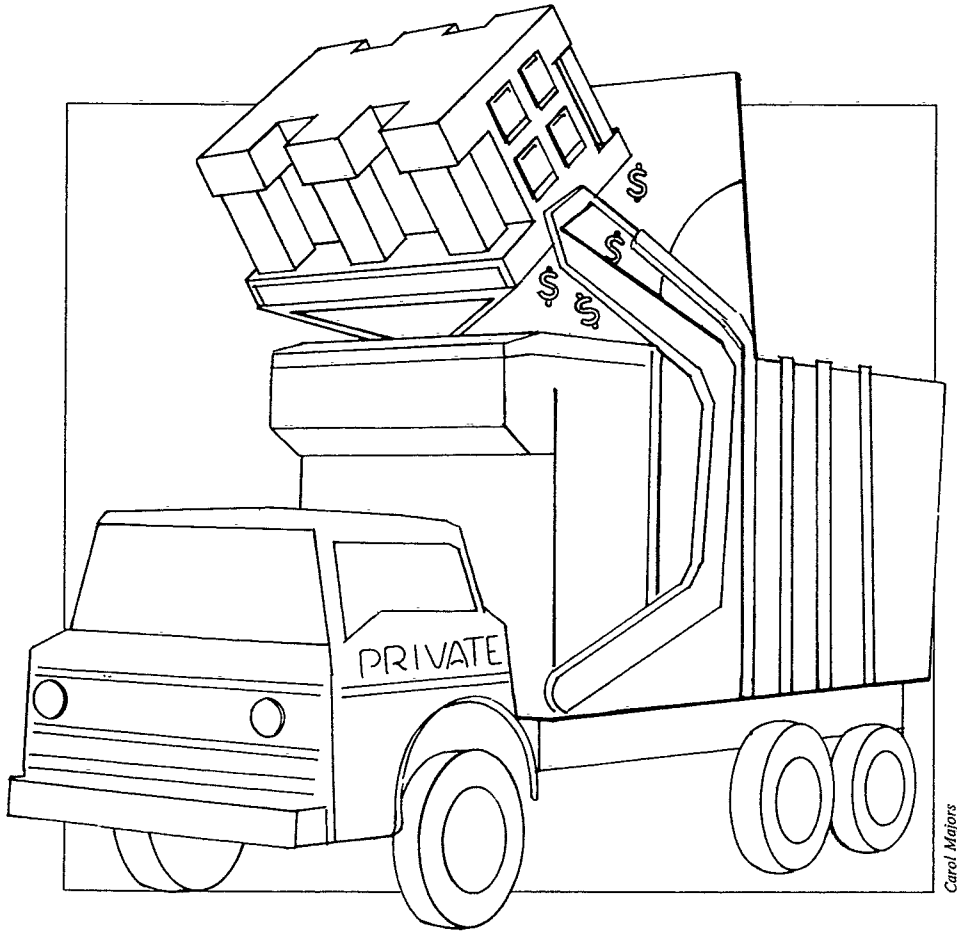


# Public or Private?



Carol Majors

## The State of North Carolina: Getting Down to Business

by Bill Finger and George Frink

*"We run our business as well as any private business can. We have no inclination to change."*

—Doug Bean, Morganton City Manager

*"We like to see the private sector do it if they can do it as cheap as the public sector."*

—J. D. Foust, director, N.C. Local Government Commission

*Three general types of public-private cooperative arrangements exist: "privatization," private-sector initiatives, and public-private partnerships. "Privatization" refers to a governmental body turning a function it has traditionally provided over to a private company. Private-sector initiative refers to a private company providing a service before government becomes involved or to a company both delivering and funding a service once provided by government. Public-private partnership describes a cooperative arrangement between a governmental unit and a private company.*

*Recent budget constraints and the "private-is-better" philosophy of the Reagan administration have prompted a vigorous debate on whether the public sector can deliver services to citizens as well as the private sector can. This article examines each of the three types of arrangements as they apply to North Carolina—from refuse collection and water systems to hospitals and prisons, from downtown revitalization to historic preservation.*

**I**f you live in Morganton, N.C., you pay 8 percent less for your electricity than if you live in Charlotte—even though Duke Power Company generates the electricity for both cities. Duke Power holds the franchise to the electric system in Charlotte. But in Morganton, the city owns and operates the system. Morganton also runs its sanitation, water, and sewer systems; each stands alone financially and is in the black. Running Morganton "goes beyond just providing services," says City Manager Doug Bean. "We're running a business."

One hundred and twenty miles to the northeast, the town of Mayodan has had the opposite experience. In 1983, with a state moratorium on expanding its waste treatment system, City Manager Jerry Carlton determined "we had problems that we just couldn't handle ourselves." Carlton found a private company in nearby Winston-Salem to run the plant. "We hope Hydro (Management Inc.) will continue to operate it," says Carlton. "And we want to talk to them about taking over our water treatment plant as well."

Until a few years ago, the contrast in how these two towns provide basic municipal services (and even electricity) would not have attracted attention beyond those who study how water or electric systems function. But now, the actions of Morganton and Mayodan fall into the growing debate over who can do it better—the public or private sector, government or private agencies. Should Morganton follow the route taken by Mayodan, for example? Should small towns, which have less in-house expertise on technical matters, rely on private companies more than larger towns? Should public agencies, in general, turn over more of their services to private providers?

The relationship between private enterprise and government has been under study since at least *The Federalist Papers*, if not since Plato. In recent years, presidents have drawn on business principles to try to implement their ideas. "President Nixon instituted management by objectives, and President Carter gave us, with much fanfare, zero-base budgeting," writes Terry Hartle of the American Enterprise Institute, a conservative think-tank. "Both were based on successful private-sector practices, and both failed to have significant government-wide impact."<sup>1</sup>

In 1981, the promotion of private-sector principles took a quantum leap forward. "We're asking to form a partnership between the private and public sectors," newly elected President Ronald Reagan said in creating his "Task Force on Private Sector Initiatives" (commonly known as the Grace Commission). What's new since 1981 seems to be the *vocabulary* being used, together with recent fiscal pressures on governments to cut costs.

"Privatization is one of those buzzwords that's been out there for the last four or five years," says Jim Baugh, assistant city manager of Greensboro. "It forces us to keep in mind what we're here for—to provide services to a group of citizens at the least cost. If we find a private company that can provide that service without sacrificing quality, we believe that is part of our mission."

As this buzzword has entered the jargon of state and municipal officials, discussions over whether government agencies should turn over more services to private companies have often

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been simplistic or, ironically, too theoretical. "Private-is-better" advocates, led by former Reagan administration official E.S. Savas, contend that government is too big, unwieldy, and wasteful, and not to be trusted. Defenders of government, led by the American Federation of State, County, and Municipal Employees (AFSCME), the nation's largest union of government employees, portray "privatized" services as more corrupt, lower in quality, less efficient, and more costly than services provided by public agencies.

Three general types of public-private cooperative arrangements exist: "privatization," private-sector initiatives, and public-private partnerships. The Reagan administration's emphasis on private-sector involvement in government has stimulated some of these arrangements. Many others are part of longstanding situations that have little to do with recent changes at the federal level—or with the recent spate of books, articles, and public forums on "privatization."

All three types of arrangements exist at the federal, state, and local levels of government, and to some extent, always have. Depending upon the level of government, these arrangements can vary enormously. Consider, for example, the differences between NASA contracting with companies like General Electric for parts of the space program, the N.C. Microelectronics Center selling a patent to a private soft-

ware company, and Charlotte's urban revitalization efforts in its Third and Fourth Wards—all examples of public-private partnerships. In the case of "privatization," what about issues as complex as "privatizing" part of the federal Social Security system through Individual Retirement Accounts, contracting with a private company to operate part of the state's prison system, or turning over a town's garbage collection system to a private company—all subjects of recent articles in North Carolina.

The growing interest in relationships between private and public agencies stems from both money and philosophy. Various fiscal constraints have prompted local and state governments to look for a more cost-effective way to provide various services. Private companies can benefit more than a public agency from some tax provisions, such as depreciation write-offs for constructing and retaining a water system. "Then there's the philosophical judgment involved," says attorney Ellis Hankins of the N.C. League of Municipalities, who monitors public-private issues. "Some things are more appropriately done in the private sector."

The question becomes, then, what things are more appropriate and why? The best way to answer that question is to discuss three approaches to public-private arrangements: "privatization," private-sector initiatives, and public-private partnerships.



Jack Beris