

PLS 202—Fall 2000 (Dluhy)

Key Points

I. Public Choice Theory: Major theory of local governments and how they interact.

Comes from political science and economics. Local governments compete with each other for the consumer. They offer a life style for potential residents like a high amenities community, a protectionist community, a controlled growth community, a low tax community, a wide open community from a development perspective. They use local zoning and planning and their services to develop a life style image. The consumer moves with his/her feet and seeks the community that matches their life style expectations. However, this kind of market competition often results in very segregated communities by income, race, and social class. Proponents assume in this theory that:

- ***Consumer's have perfect information about communities***
- ***Consumer's try to maximize their preferences (utility function)***
- ***There is a competitive marketplace of communities that are clearly differentiated***
- ***Consumer is mobile and moves with their feet as life style needs change***

II. Privatization: Transfer responsibility for a variety of public services in whole or in part to the private sector.

- Contracting with private vendors for service
- Using vouchers where consumer makes the choice about the service provider
- Sale or lease of assets to private sector—land, facilities, marinas, airports, etc.
- Load shedding—abandon service to private sector, let them offer it at market price, ie., arts, employment programs, leisure or recreational activity

Pro's and Con's of contracting:

- Contracting is more efficient (10-29%), performance is better, removes subsidies and establishes a market price for the service, allows more economies of scale
- In the long run, contracting may actually cost more if a monopoly is developed in the private sector, quality may slip unless contract managers are vigilant in their oversight, allows hidden subsidies to the poor, tourists, and the middle class, and allows service equity rather than efficiency to be emphasized

Conditions under which privatization works:

- Service easily defined and measured
- Competition on price by vendors
- Cost savings are more than marginal, at least 10%
- Consumer or client contacts are minimal
- Costs of managing the contracts are not excessive
- Examples—trash pick up collection, street paving and maintenance, park maintenance, facility maintenance, accounting, payroll, conferences/meetings