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Privatization and the Non Profit Sector:
How Should Community Agencies Respond?

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Much to the surprise and consternation of the senior mandarins of Alberta's Department of Social Services the issue of privatization of social services has generated considerable public debate throughout the province. Even the cosmetic change of name to "community enterprise" has failed to lessen the concerns that have been expressed. The fact that non profit organizations, such as the FCSS, have taken this particular initiative to discuss the issues and implications of privatization is especially significant. All too often we of the non profit sector have failed to respond to major policy initiatives of government until it is much too late, and we are then left to adjust, in silent dismay, to a changed environment. Privatization is, after all, a relationship between the public and private sectors. If we are not prepared, the relationship will be lopsided and a true partnership will be difficult to achieve.

The purpose of my presentation today is 1) to contribute to a better understanding of the motivations behind privatization, 2) to examine its likely impact on the non profit sector and 3) to consider how we as agencies might respond to these important initiatives.

We live in a society that has encouraged the growth of a welfare state in the belief that a decent standard of living for all should not depend exclusively upon the market place, family connections or private resources. The development of the welfare state is largely a result of the inability of the market place and the family to attend adequately to large segments of our populations, especially in times of economic strife. However, in recent years we have heard more and more about the virtues of dismantling parts of the welfare state currently provided by government and turning them over to either private entrepreneurs or non profit organizations. This then is privatization - a policy which is intended to lessen the involvement of government in the delivery, regulation and funding of human services by encouraging added responsibilities for families, private enterprise, community agencies and volunteers.

It is important to appreciate that the provision of human services in Alberta has for decades been provided through a 'mixed economy' of government, non profit agency and commercial operators. Consequently it is not the existence of privatization that is particularly significant. Instead it is the dramatic shift in the relationship between the three elements - government, non profit and private - that must give us cause for concern. We must be prepared to question the values and assumptions that are used to rationalize this shift, to challenge the purposes it pretends to serve, to examine carefully the context and the processes used to carry it out and above all else to understand the impact upon those it is intended to serve.

What are some of the motives which gives privatization its appeal? First, ideologically it strikes a chord in those who have never been comfortable with a welfare state philosophy. They have been quick to remind us that a network of publicly operated human services weakens the work ethic, individual initiative and family responsibility. Instead, they argue that the welfare state rewards improvidence and encourages an unhealthy dependence on the state. This thinking suggests that people are innately lazy and anti-social, and must be forced to be responsible and productive citizens. This 18th century thinking is the very antithesis of the values that are so central to the work of the non profit sector.

Secondly, when we hear the word 'privatization' we almost invariably

hear the word 'restraint'. 'Restraint' is a word which has attained such exalted status that we no longer question its validity. The word 'restraint' conjures in our minds a variety of desirable qualities such as will-power, responsibility and obedience. Tacking on the word 'fiscal' to 'restraint' is a clever mechanism for pre-empting debate about government budget priorities. Those who support increasing privatization will frequently tell us that overspending by governments on social programs has been responsible for our economic decline. High costs of human services, they argue, reduce the ability of governments to invest in the economy and at the same time increase taxation with the result that economic growth is seriously restricted. On the basis of this rather perverse logic the blame for all of our economic woes is conveniently laid at the feet of the disadvantaged groups in our society who most need our help. Again this argument can be seriously questioned. You may recall that the MacDonald Commission and more recently the Neilsen Taskforce on the Canada Assistance Plan, presented a spirited defence of the Welfare State and its costs. In stark contradiction to the conservative thinking mentioned above the MacDonald Commission firmly rejected the view that the Welfare State is an unacceptable burden on the economy. The Commission opposed the suggestion that the country's deficit should be lowered by slashing social programs. The Commission also provided a timely reminder that in comparison with other western industrial nations Canada's spending on health, education and social services is quite modest - 21% of our gross domestic product, which is just above that of the United States. A recent report by the Organization for Economic Co-operation and Development (OECD) also showed that social spending was in fact highest in some of the most productive European countries such as West Germany, Belgium and the Netherlands.

We have examined two motives for privatization, namely reduced personal initiative and economic restraint.

The third major argument we hear in support of privatization results from a growing dissatisfaction with government. We are told that government activity is by nature non productive and inefficient, that governments are too large, too bureaucratic, too intrusive and too regulating. It is argued that the only way we can restore our trust in government is to shrink the size of the public sector. While we may quickly agree with many of these criticisms there are some alternative arguments worthy of consideration. Why should government expenditures be accepted as less productive than private investment? Why dismantle something which is largely effective, especially when no alternative has demonstrated its efficiency. It can be argued that expenditures on government social programs are an investment in people, which is in fact a prerequisite for economic growth and prosperity. The welfare state was largely created to ensure a stable labour supply (and armed forces) it is the basis for a healthy economy not an adversary. Rigidity and inflexibility may indeed be problems of government, but are there not similar criticisms voiced about corporations in the business sector? Why should we believe that politicians and bureaucrats are any better at controlling cost over-runs from a private supplier than they are at controlling expenditures in their own departments?

A fourth motive for privatization is the avoidance of government responsibility for embarrassing service delivery errors. Private agencies will find it difficult to weather public or media criticism, be the criticism justified or not.

Finally we have those who support privatization because they believe that market place competition will also be the key to ensuring that the best

quality service is provided at the lowest possible cost. It is argued that even in the human services field the sovereignty of the consumer and the laws of the supply and demand will bring high standards at competitive prices. Is there evidence to support this suggestion that privatization can be more efficient? Not surprisingly, given the difficulty of measuring the 'output' of a human service, there are very few studies that compare the relative efficiency of public and private provisions. The MacDonald Commission research investigated the available evidence for us and came to the conclusion that private enterprise superiority could only be demonstrated in the case of garbage collection! Yet even this was carefully qualified because it was evident that what was crucial was not the form of ownership - private or public, but the degree of competition that was available in any community. An American researcher John Hanrahan is even more critical of the last argument. Hanrahan commented that:

"contracting out, far from being a potential financial boon for state and local governments is a major source of government corruption, financial waste and inefficiency. In recent years some of the worst political scandals, some of the biggest fleecing of the taxpayers were directly due to contracting out of government services - work which in most cases could have been performed more efficiently and at less cost by public employees. The overwhelming weight of evidence shows that the more contracting out the more the taxpayers suffer - through graft, kickbacks, overcharges and poor service."

We almost must consider the cost of monitoring standards as well as negotiating contracts and policies. Some argue that this monitoring, if properly done, would increase current expenditures. Of course even if costs were reduced the question remains 'costs for whom'? Shifting the burden from the tax supported public system to the users of the service - through user fees - as in daycares and hospitals, extra billing and government immigration policies, would mean that the biggest cost burden would fall on individuals who have the lowest incomes. Clearly the poor and the already vulnerable would be the losers in a system heavily reliant on market place competition as the best guarantee of quality services at reasonable prices. Consumers of human services should not be faced with the task of evaluating the competence of doctors or social workers before deciding on a course of treatment.

There is also the inherent contradiction between the goals of human services and the profit orientation of market competition. The desire for profit, coupled with the fact that human services are labour intensive, means that any cuts will be at the expense of staff, salaries and training. This is particularly true for women. Public sector jobs account for twenty percent of women's jobs. The stability and remuneration offered by public service jobs have made it economically feasible for some women to escape their involuntary and unrecompensed role as caregivers to the young and elderly. Daycare salaries give some idea of the possible outcome of privatizing human service jobs for women. The eventual outcome must be the deterioration of service quality. There is growing concern in the United States and Canada that corporate concentration in some areas of human services - such as nursing homes, prisons, hospitals and day cares - has had a serious impact on service quality. There are now very strong lobby groups working to remove regulations and standards because of the cost implications of meeting those that exist at present. Alberta has a poor record, notwithstanding privatization, for affirming standards. Witness the absence of standards for daycare personnel or program standards for group homes. A study

What is the government's policy on privatization? Recently, Social Service Minister Osterman disclaimed any privatization policy. However, the current Social Service Deputy Minister has indicated that all services potentially might be privatized. It is also public knowledge that the Progressive Conservative Party, the government party, favors privatization. Certainly, there has been virtually no consultation between the government and the public about the efficacy of such a fundamental shift in service delivery.

The movement of money towards the non profit sector has already encouraged a much greater use of contracts between agencies and the government. While a contractual relationship may appear to be a satisfactory means of transferring funding and delivering responsibilities to an agency there are serious limitations that must be appreciated. First a contract offers no guarantee of continuity from one year to the next and participating agencies can become very vulnerable to sudden changes of government policy. Agencies naturally find it expedient to orient their services to those areas where funding seems possible, rather than to the evident needs in the community. Evidence from Ontario and Alberta has shown that both agencies and governments are often unrealistic about the real costs of providing a service, especially with regard to overhead costs and management time. In any system of contracting it is fundamental that potential contractors be selected in an impartial and systematic way. There are far too many examples already in this province that show that a contract approach generates a pattern of inequality and patronage where friends of the government find it comparatively easy to obtain the support they require (Jobcentre example). My reading of the situation in the U.S.A. and my observations here in this province suggest that for small agencies annual contract competitions can involve considerable effort and paper work which must inevitably be taken away from service delivery time. There is also a tendency for governments to limit the competition to larger agencies because of the bureaucratic desire for simplicity and neatness. While this may facilitate contract renewal it does open up the possibilities of inside dealing and sweetheart arrangements. In this province the Department of Social Services has also been encouraging their own staff to strike out into the private market on the promise that business will be directed their way.

But perhaps the most alarming impact of privatization for the non profit sector is the potential damage to one of its principle virtues - its ability to conduct collective advocacy on behalf of its clients. In a for profit service users often become part of a captive clientele who have little opportunity to question the services or treatment that they are receiving. As well public information on the quality of services or the financial records of the ownership are impossible to obtain. With a government contract as a significant source of funding to be critical of government in this province, even if the criticism is not directly related to the service that the agency is providing on the government's behalf, is tantamount to financial suicide. Lawful dissent is the stuff of democracy and the heart of social justice, but because the advocacy activities of voluntary agencies are seen to threaten the status quo we deny the valuable contribution that non profit agencies can make to society by enhancing the visibility of important social and economic issues and protecting the collective interests of their clients.

So what must we do in response?

First, I believe we must take a serious look at ourselves. We must reaffirm our faith in the essence of a voluntary association - it is voluntary because it is controlled by its volunteers. The officers who are elected must have real control over policy or the agency is really no longer voluntary. It is here at the board level that accountability really must be exercised - accountability for the fiscal and programmatic aspects of the agency, accountability to our members, accountability to our clients and accountability to the community.

We must reassure ourselves that as an agency we are in fact more sensitive to the needs of local citizens, that we are more democratic and more community minded. We must work hard to be certain that the board is not a small self perpetuating group made up of selected candidates presented for approval to a very small membership. We must search with determination to find board members with the talents, experience and time to take on the important responsibilities of directing the affairs of the agency. All too often boards of agencies are ill equipped to handle these responsibilities - a weakness that will only be magnified if the agency decides to take on the provision of a social service on behalf of a government department - at a time when liabilities and accountabilities have increased dramatically.

Second, we must as agencies, and as boards of agencies, be determined that our priorities and objectives are paramount. We must at the same time educate governments to accept and respect the independent nature of voluntary action and the principle that a voluntary agency should be first and foremost accountable to its membership.

Third, in deciding to consider a contract with government we must make a conscious judgement as to the proportion of our total income that might come from government without it interfering with the basic independence of the agency.

Fourth, we must use the expertise of our board members to ensure that the terms of any contract with government are clear, balanced and equitable and that all costs are included.

Fifth, we must demand that if non profit agencies are to become service deliverers there is a quid pro quo. We must have a major part to play in helping shape legislation. Government departments must be encouraged to establish opportunities for consultation at the earliest possible stage in program development and they must provide us with timely, relevant and accurate information on the department's priorities and long range plans.

Sixth, we must continue to find the courage to exercise that fundamental virtue of the non profit sector. Our ability to advocate for the collective interests of our clients - to press for reforms, to redress wrongs and to represent the interests of the disadvantaged, to highlight oversights, weaknesses or blatant obstruction in the delivery of social services. We must all be partisans for the poor and the disadvantaged.