

Entry

What Options Are Available for Delivering Public Services, and How Do Local Governments Choose Between Them?

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Definition

Local governments provide numerous services to their citizens. In doing so, they utilize two primary methods to deliver them: (1) producing them in-house with their own employees and equipment or (2) outsourcing them to external actors, which may take the form of other public agencies, for-profit firms, or non-profit organizations. In this entry, the authors review the logic of why local governments might choose one mechanism over another. The goal is to give readers a feel for the state of the academic literature in this regard. After reviewing basic concepts, such as the difference between the “provision” and “production” of services, the authors frame the discussion in terms of a variety of lenses used by scholars attempting to better understand the determinants of such decision-making. These include agency theory, transaction cost economics, and New Public Management. The authors also consider the role that management capacity plays in allowing cities to successfully deliver services to their constituents. Additionally, the authors offer a discussion regarding how local governments partner with non-profits in less formal ways than contracting to ensure their citizens have access to needed services. Finally, there is a review of the tradeoffs between efficiency and other values that should be accounted for when arranging service production.



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1. Introduction

Local governments “provide” (i.e., plan, finance, manage, and monitor) a wide variety of services to their citizens. This can include essential and highly visible services such as policing, fire protection, and emergency services, as well as important but more mundane services such as tree trimming and rodent control. To illustrate the breadth of such services, in 2017, the International City/County Management Association (ICMA) fielded a survey gathering information on 74 unique services that are commonly provided by local jurisdictions in the United States [1]. These services spanned seven functional categories: (1) public works/transportation; (2) public utilities; (3) public safety; (4) health, food, and social services; (5) parks and recreation; (6) community development; and (7) support functions. While expansive, the ICMA list should not be considered exhaustive.

For each service provided, public managers must answer a fundamental question: should the service be “produced” internally using their own resources (i.e., public employees and equipment), or is it better to outsource delivery to external actors (also known as the make-or-buy decision)? If the decision is to opt for external production, which types of vendors (e.g., for-profit, non-profit, or other governmental entity) should be utilized

(i.e., the sector choice decision) [2,3]? While government contracting for goods and services has a long history, going back, for example, to before the founding of the Republic in the United States [4,5], traditionally, local governments have tended towards in-house production. This began to change in the 1970s and 1980s when political figures such as Margaret Thatcher and Ronald Reagan, borrowing arguments from libertarian economic intellectuals such as Friedrich Hayek and Milton Friedman, promoted privatization and competitive contracting as ways to make the government more efficient.

Initially, therefore, the choice between internal and external production had ideological overtones, with conservatives generally more in favor of the latter and liberals more supportive of the former. Over time, however, as the practice of outsourcing, a hallmark of the neoliberal system, became more widespread in the wake of growing criticism of the administrative state worldwide, the choice between internal and external delivery became a generally pragmatic choice, an effort to find the most effective and efficient method to produce public services [6,7].

The purpose and contribution of this entry is to comprehensively review the literature that has been developed over several decades, exploring the underlying theoretical determinants of make-or-buy and/or sector choice decisions. These discussions primarily emphasize studies based on the U.S. local government context, although the authors do incorporate research centered on other parts of the world. Theory development in this vein of research has leaned heavily toward economic perspectives such as market theory, agency theory [8], and transaction costs economics (TCE) [9]. However, institutional approaches and various management theories have also been utilized to better understand outsourcing decisions, processes, and outcomes.

Given the diverse foci and theoretical lenses adopted by a wide spectrum of conceptual and empirical studies, recognizing coherent patterns of inquiries and related findings concerning local outsourcing decisions is challenging. However, a rough summary of the notable empirical findings in this body of literature includes the following: (1) while outsourcing is prevalent across local governments, in-house service production is still a dominant delivery mode in the majority of U.S. local jurisdictions [1]; (2) service characteristics such as asset specificity or measurement difficulty matter somewhat in terms of whether to outsource and to whom [10]; (3) joint delivery, whether with other governmental entities or for-profit firms, is quite common [11]; (4) organizational inertia, rather than other jurisdictional or service factors, is the strongest determinant of service production decisions, as both previously outsourced and internally produced services tend to retain their modes between survey periods [12,13]; (5) contracting back in (or reverse contracting) happens relatively frequently [14], commonly owing to concerns with not achieving cost savings or quality goals [1]; (6) the effects of jurisdictional characteristics such as the form of government (e.g., council–manager form) are inconsistent [6,15]; (7) local governments often do not fully fund but only partially contribute to service delivery, especially when non-profits are involved [16–18]; and (8) local governments tend to monitor less intensively when other governmental entities or non-profits deliver services [18,19]. These are, of course, only a few selected findings. In what follows in the next several sections, the authors further elaborate on how some of these factors come into play in making decisions regarding local service delivery.

Prior to articulating exactly how scholars examine make-or-buy and sector choice decisions, however, the authors suggest a couple of overarching analytical frameworks as organizing or synthesizing tools to more systematically understand the literature development and how it has evolved. The first framework is concerned with the different levels of analysis used in theorizing and empirically modeling factors that matter in outsourcing decisions. A micro-level perspective is frequently deployed by both economic

and institutional theorists. Economic theory (e.g., agency theory or TCE), for example, explores contract agents' self-interest-based motivations as well as individual service characteristics that enable or constrain agent behaviors and principals' ability to effectively monitor agents [10]. Neoinstitutional theory is also adopted to account for individual actors, for instance, regarding how local professional managers might internalize the ethos of managerialism/neoliberalism through training or professional networking [20], leading them to prefer "buying" rather than "making" services owing to expected efficiency gains.

Meso-level perspectives highlight organizational characteristics that are taken into consideration in decision-making. For example, the ownership characteristics of external service producers (e.g., private, for-profit firms, non-profit organizations, or special or general governmental entities) have been extensively studied as factors in vendor selection due to the different legal, governing, operational, and incentive structures associated with organizational forms. Ownership research largely adopts economic outlooks (e.g., profit-driven incentives for private, for-profit firms juxtaposed with the nondistributiveness of non-profit entities) [21,22], although management-related theories (such as management capacity and smart buyer, managing competition, or relational contract management based on trust) [23] developed across the fields of public and business management are also impactful in increasing our understanding of outsourcing decisions and outcomes.

Lastly, macro-level perspectives focus on examining political (e.g., ideology of the locale, citizen voting preference, partisanship of political leaders, etc.) [24] as well as socioeconomic and demographic factors (e.g., minority populations, poverty rates, education levels, etc.). Empirical research into the determinants of make-or-buy/sector choice decisions also incorporates municipal or county governments' jurisdictional characteristics such as place (urban, suburban, or rural) and fiscal conditions to gauge the nature of vendor markets as well as the governments' need for cost savings that might be achieved through outsourcing [25]. Thinking in terms of the micro-, meso-, and macro-level lenses helps us more clearly understand the complexity of local service outsourcing decisions where different variables and related dynamics contribute uniquely to decision-making.

The second analytical framework the authors suggest concerns competing public values that underlie the literature development. Until fairly recently, research, especially in the United States, has heavily focused on efficiency gains as the main public value to pursue in local government service production decisions. However, scholars have increasingly searched for alternative paradigms to New Public Management to balance their efficiency-centric views with a broader set of competing public values that emphasize democratic governance in service delivery arrangement decisions [26]. Citizen engagement or citizen co-production in local service delivery has been one of the growing topics seen at the center of this effort [27]. While the breadth and depth of the emerging literature are yet to be determined, it certainly has the potential to serve as an intellectual counterweight against the efficiency logic that has dominated the local service delivery literature. For this reason, it may be useful to think about organizing the literature in terms of studies based on efficiency logic versus those guided by democracy logic or public service logic [28].

Now, the authors move the discussion to the substantive literature developed in the U.S. setting, exploring make-or-buy and sector choice decisions.

2. Make or Buy?

As discussed above, by the 1970s, academic arguments for outsourcing public services, e.g., [29], were working their way into the political mainstream, most especially on the libertarian-influenced right. During this period, a number of public management scholars and practitioners published books and articles promoting the adoption of business practices by the government, e.g., [30]. The goal was to gain efficiencies through general management

techniques, such as introducing performance incentives and, most relevant to our concerns, leveraging market forces.

This movement, which came to be called “New Public Management” (NPM) [31], led to increased calls for divestment and service shedding (i.e., leaving provision to the market) by public entities but also for the outsourcing of publicly provided services. The underlying idea was that the “government should steer not row” [32]. That is, the government should set the direction (i.e., decide what services to provide) but leave service production to external actors whenever it makes sense to do so.

In this market-oriented view, traditional in-house production is seen as monopolistic in nature and, therefore, prone to being unresponsive and inefficient. Privatization advocates herald competition as the cure for this unsatisfactory condition [33]. Specifically, they argue that employing competitive processes forces external actors hoping to win contracts to differentiate themselves from their rivals in price and/or quality. The innovation resulting from such efforts benefits the contracting government and its constituents by lowering costs and ensuring high-value and responsive service delivery. Promoters of this approach leveraged studies showing the efficiency of contracting to make their case. For example, an early analysis focused on cities in the Los Angeles area found outsourcing to be less expensive than in-house production for seven of eight studied services. (There was not a statistically distinguishable difference between the sectors for the eighth service.) The cost savings ranged from 37 to 96 percent [34].

Relatedly, competition may offer protection against what are known as agency (or principal–agent) concerns, that is, the potential for opportunistic behavior on the part of vendors [8,35,36]. For example, cities, as principals, are expected to desire the timely delivery of the highest quality services at the lowest possible prices. On the other hand, vendors, as agents, may primarily be concerned with maximizing profits, minimizing effort, or otherwise acting in ways that benefit themselves to the detriment of the principals, if they can get away with it. The threat of replacement by a competitor if caught acting in this way, it is argued, should serve to curtail such behaviors.

Management scholars in general, however, see a number of potential concerns regarding these claims. A primary issue is that the markets for many government services are notoriously uncompetitive. One large-N quantitative study, drawing from a broad U.S. national sample, found an average of fewer than two potential vendors per service [25]. Similarly, a qualitative examination of social service contracting in five counties in New York found that only one, a large urban county, used competitive bidding processes to award contracts. For the other four, the service markets were so constrained such practices did not make sense since there existed only one potential vendor for most services [37]. Both of these studies point to thin markets containing well below the 3–5 bidders that are recommended to gain the full advantages of competitive bidding processes [38]. As such, the purported benefits of competition may prove elusive. Further, even if local public service markets are initially competitive, they may become less robust over time as the holders of contracts consolidate market share and competitors who were unable to win contracts eventually fade from the market. In essence, outsourcing may not truly address the concerns of monopoly service production in thin markets. Rather, privatization may simply be a formula for replacing a public monopoly with a private monopoly [39,40].

Rather than simply relying on the market to promote innovation and efficiency and enforce accountability, most researchers studying local service delivery believe robust public management is the key to successful service production [39]. They adopt the transaction cost economics (TCE) framework to guide their analyses [9,10,41]. TCE concerns itself with *all* the costs associated with market transactions. That is, while the price of a good or service is the most obvious cost, buyers face further expenses when making purchases.

The additional burdens may be minor when undertaking a simple market purchase (e.g., buying an “off-the-rack” shirt). However, the transaction costs are much higher when local jurisdictions procure complex, customized services. Rather than simply stopping by the store and picking up the desired item, they must expend time and effort in writing requests for proposals (RFPs) that lay out exactly what they want, evaluating submitted bids in an effort to determine which offer the best “bang for the buck,” and negotiating contracts with winning bidders. All these costs, in addition to the unit price, should be considered when deciding on how to produce a service.

An important additional point is that it cannot be assumed that agents’ opportunism will be curtailed simply by market forces, which, as noted above, tend to be weak in the local service delivery context. To address this concern, government managers must monitor and address vendor performance over the course of the contract to obtain the best results. The cost associated with these supervisory efforts (e.g., conducting inspections) should also be accounted for in transaction cost calculations. If the *totality* of the costs associated with contracting is less than the cost of in-house production, externalizing the service makes sense [39]. Otherwise, internal delivery may be preferable. A study focused on the bus transportation system in Barcelona, Spain, illustrates the hazard of not properly accounting for transaction costs. The authors of the entry estimate that transaction costs account for between 3.5 and 14 percent of the value of such contracts in this jurisdiction [42]. Not properly accounting for these costs could easily tip the production decision in favor of outsourcing when it is not warranted, to the detriment of the contracting government.

Public managers can also employ a hybrid form of service delivery that is often referred to as “joint” or “mixed” production. Under this scheme, “a government contracts with an external vendor while retaining a portion of the service production in-house” [10] (p. 444). With such arrangements, public and private workers may separately perform the same work (e.g., public crews collecting trash in one part of the jurisdiction, private crews in another) or different parts of the same service (e.g., public crews collecting the trash and private crews hauling it from transfer stations to the landfill) [10]. Joint production is associated with a number of purported benefits. First, it allows the contracting government to benchmark the service by offering the opportunity to compare the delivery performance of multiple producers [43]. This information can be leveraged to improve the quality and efficiency of service delivery and also provides the government with knowledge that assists in the monitoring of contract agents. A study of residential solid waste collection in Ottawa, Canada, found that the city realized cost savings and efficiency gains, in both the zone utilizing public production and the four outsourced districts, after adopting this technique [44].

Additionally, since the jurisdiction maintains at least some level of in-house capacity, it will be in a position to credibly threaten to take over the service if need be [45]. This can serve as a motivation for agents to maintain price and quality as well as avoid participating in opportunistic behavior. Put another way, it can assist the government in keeping the vendor in line, ensuring the jurisdiction gets the most out of its contracting relationships. The reverse is also true. That is, joint production makes more credible the threat that a private vendor may replace a poorly performing public agency, since existing tendering processes are already in place and being utilized. The previously mentioned study focused on Barcelona, which uses mixed delivery for its bus transportation system, found that the city has used such a threat when labor conflicts have arisen in the public sector [42].

As reviewed in the preceding discussion, the decision to outsource services itself implies management costs for jurisdictions. Therefore, governments must invest in what is termed contract management capacity. Specifically, they must have the necessary resources and capabilities to effectively undertake the above activities (i.e., write RFPs, evaluate bids,

negotiate contracts, monitor vendors) for privatization to be a successful alternative to in-house delivery [46]. Skimping on such capacity can adversely impact their ability to be “smart buyers” [47], diminishing any potential benefits associated with outsourcing.

Having appropriate management capacity can also assist local governments in dealing with the issue of weak service delivery markets. Rather than accepting the likelihood of low levels of competition, public officials can attempt to “manage the market” [48,49] to increase the number of potential bidders. This may entail efforts to identify and contact potential bidders rather than simply posting RFPs and passively accepting the results. The government might also actively nurture potential bidders. For example, public managers may offer technical expertise to assist small organizations in successfully navigating the bidding process. Such efforts may enlarge the bidding pool by allowing smaller firms to better compete with their larger peers who have the wherewithal to submit professional bids of their own accord. The Ottawa study mentioned above also speaks to this concern. In adopting the joint delivery model, the city attempted to remove barriers that were hampering the participation of smaller firms. This effort included holding meetings to identify specific barriers, as well as ways to streamline the procurement process and discover potential areas for technical innovation [44]. Of course, the resources associated with such endeavors must also be included in the overall transaction cost calculations when contemplating the externalization of service delivery.

A final option to deal with thin markets is termed “managed competition” [50]. Under managed competition, public agencies tender bids for service contracts alongside private entities. At a minimum, this adds an additional bidder to the process, which can be impactful given the tendency for local competitions to commonly attract fewer than two bids [25]. In a well-documented example, the Indianapolis Fleet Service (IFS), a department of the city of Indianapolis, was allowed to reorganize and compete against private firms for a contract to maintain the city’s vehicle fleet. The IFS eventually won the contract. While, in this instance, managed competition did not lead to the outsourcing of the service, exposing the IFS to the competitive process is credited with streamlining the organization [39]. In this way, the market was leveraged not for delivery itself but rather to improve the efficiency of in-house production.

3. Sector Choice

If, after accounting for the principal–agent and transaction cost concerns discussed above, the decision is to outsource the service, the next question is: what type of contractor should be selected? There are three primary options: (1) other government entities, (2) for-profit firms, and (3) non-profit organizations. In choosing between the possibilities, one should take into account the differing characteristics of the sectors as well as the traits of the service under consideration.

Beginning with the differing characteristics of the sectors, an obvious point of departure is that for-profits focus on financial rewards while non-profits and government entities do not. Privatization advocates tend to see this distinction as very much weighing in favor of selecting for-profit firms as contracting agents. From this perspective, the profit motive incentivizes innovation. That is, as previously discussed, in order to maximize market share and profits, firms must outperform their competitors on price and/or quality. This leads them to attempt to update their production processes to lower costs or devise improvements in the goods or services they deliver in the hopes of increasing the likelihood they will win and maintain contracts. Extending this logic, advocates contend that other government or non-profit contractors, lacking such incentives, will tend to be less dynamic in their efforts, which reduces the probability they will innovate to lower costs or improve the attributes of their services [51].

Most management scholars, however, take a more nuanced view. While they concede that the search for profit can lead to useful innovation, they point out it can also lead to the previously mentioned agency problems, such as cutting corners to enhance earnings. In contrast, rather than seeking profit, public and non-profit organizations tend to view themselves as stewards of the public good. Owing to this, their goals are posited to be more closely aligned with those of contracting governments [52–55]. This orientation, it is argued, may alleviate some concerns regarding the likelihood of vendor opportunism. In support of this proposition, a study examining federal contracts in the United States found non-profit vendors to be less likely to run into serious performance issues or have their contracts terminated early for performance than for-profits performing similar tasks [56]. Additionally, non-profits could theoretically be a low-cost option owing to their ability to leverage volunteer labor and supplement their budgets with donations [2,47], which might serve to temper the purported cost advantages of for-profits.

In the end, it is a balancing act. For-profits may tend to be more innovative and cheaper but prone to opportunism. Public and non-profit organizations may be more trustworthy in terms of principal–agent concerns but potentially less innovative and efficient and, hence, more expensive. How does one resolve this conflict when attempting to choose between the sectors? Accounting for the characteristics of the services under consideration can assist in this endeavor.

While not always clearly defined, what are generally labeled as “hard” and “soft” services could be relevant to the vendor opportunism and monitoring issues local governments encounter when utilizing outsourcing [57–59]. For hard services, it is generally easy to describe exactly what the principal wants the agent to do and, after the fact, determine if those obligations have been met due to the tangible and measurable traits of such services. A common example of a hard service is residential solid waste collection. It is fairly simple for local jurisdictions to articulate the actions expected of potential vendors and hold them accountable for how well they deliver the service. For instance, the contract may explicitly require the weekly emptying of garbage bins that are left at the curbside of each residence. Failure to complete the task in an acceptable manner is easy to detect since residents will complain if their trash is not picked up or if the contractor causes damage or leaves a mess in the streets. Owing to these traits, the costs associated with the bidding process (i.e., writing RFPs, evaluating bids, and negotiating contracts) are relatively low. Monitoring production to protect against poor performance or opportunistic behavior is also straightforward and cheap. Hence, agency concerns are not costly to mitigate. As such, contracting with for-profit firms makes sense for hard services. Indeed, several studies employing meta-analyses have found supporting evidence for cost savings from externalized refuse collection services, although the statistical significance or size of the savings are not always consistent [60,61].

Soft services, on the other hand, are challenging to describe and measure. Health and human services often fall into this category. Treatment for substance abuse is a prime example. While what the city wants is unambiguous—citizens cured of addiction—it is not clear exactly how this goal is best achieved. That is, while there are many accepted ways of treating drug addiction, no universally accepted standardized method exists. As such, unlike in the garbage collection example, jurisdictions attempting to outsource will not be able to explicitly tell contractors what actions to undertake. Furthermore, they will find it challenging to hold vendors accountable, since a person’s falling back into addiction after treatment will not necessarily indicate that the contractor delivered an inferior product. It might simply mean an appropriate and competently delivered treatment did not work for that person at that time.

Relatedly, such ambiguity can make it challenging to identify and address vendor misbehavior, since contractors, as agents, may be in a position to leverage the uncertainty to mislead the principal in ways that benefit themselves to the detriment of the government. For example, an agency with a contract for drug counseling and treatment might limit its clientele to those who are most motivated to overcome their addiction in an effort to boost its success rate, strengthen its reputation, and increase revenue, especially if performance-based payment metrics are utilized. This type of behavior, referred to as “cream skimming” [62,63], however, may leave the most challenging cases untreated.

In sum, the lack of clarity associated with soft services tends to elevate both the front-end (i.e., the procurement process) and back-end (i.e., managing and holding vendors accountable) transaction costs involved with the delivery of such services. Owing to this, other government agencies or non-profits might be better choices than for-profits when faced with outsourcing soft services. Specifically, the higher levels of goal congruence associated with the former can lower transaction costs to some extent, by lessening the need for stringent monitoring, for example. Empirical studies report supporting evidence for positive associations between measurement difficulties in services and outsourcing to non-profits. The same studies find negative relationships when for-profits are involved [10,13]. We should note, however, that supposed goal congruence mitigates but does not completely eliminate the potential for agency problems, such as cream skimming, or other opportunistic behaviors, especially when performance-based or capitation-based payment schemes are used [64–66].

Ambiguity is not the only trait for which goal congruence might advantage public and non-profit vendors in sector choice decisions, however. Service continuity and stability, while concerns for all services, can be especially important in certain instances [67]. This is commonly the case with health and human services, where interruptions in treatment can prove very detrimental to outcomes. Other services, such as policing, are highly relevant to citizens. Local jurisdictions may choose to produce such services in-house to maintain as much control as possible [68,69]. However, if they decide to externalize delivery, other government agencies or non-profits may be the preferred options [25], since they have an intrinsic motivation to deliver services in the name of the public good as opposed to only doing so in pursuit of the extrinsic motivation of profit. Again, it is important to note the potential limitations for goal alignment to protect against opportunism. Some studies have found that non-profits may divert contract funds in an attempt to cross-subsidize their own programs [54] or pursue monopolistic positions to secure revenue streams [70], to the detriment of government interests. This possibility should be accounted for when deciding whether to externalize a service or not and, if electing to do so, choosing between non-profits or other public entities for production.

4. Beyond Contracting

Up to this point, this discussion has envisioned the production choice decision as exclusively a question of contracting. This is commonly how it is framed in the literature [71]. However, not all service relationships with third parties are necessarily so rigidly structured. Local jurisdictions may opt for more informal arrangements and, at the extreme, may simply have “handshake agreements” with service producers [72,73]. A discussion of the full range of such possible relationships is beyond the scope of this entry. However, as more casual arrangements are fairly common when non-profit organizations deliver services [17,18], a brief review concerning this sector is in order.

The commonality of governments entering into informal service delivery arrangements with non-profits finds its roots in the fact that non-profits have historically delivered, and to a great extent continue to deliver, some services (e.g., human services, culture and

arts) independent of government interventions in those areas [62,74,75]. As such, rather than taking on the responsibility of service provision themselves, local governments can choose to assist, and possibly enhance, the work of non-profit organizations who are already providing public services to the community. This support could take on a variety of forms. It is common for jurisdictions to offer grants to assist local non-profits in service production [16,17]. Such grants may come with formal agreements that impose requirements and accountability mechanisms similar to those of contracts. But they can also be much more informal in nature with the government offering small financial supplements to agencies with minimal “strings attached” [18].

In-kind donations are also common, with one study finding that more than 60 percent of North Carolina cities and counties reported providing such support [16] to non-profits operating within their jurisdictions. This form of aid often consists of offering free or discounted office space to non-profits entities [18] but can also include sharing government staff, expertise, and other resources [16,17] with the goal of augmenting service delivery. Regardless of how they are organized, more-informal delivery arrangements can supplement the direct public provision of services, enhancing the ability of local governments to meet the needs of their citizens.

5. Competing Public Values and Democratic Governance

Just as the local service delivery literature is inclined to focus on contractual relationships, it, as well as the New Public Management movement more generally, has historically tended to tacitly accept efficiency as the ultimate criterion in the service delivery decision-making calculus [76]. While efficiency is certainly an integral concern, there are many other potentially competing values that might come into play when the government interacts with its citizens. For example, equity, which is not prioritized in market-oriented evaluations, is often highly valued by residents receiving public services [77–79]. Scholars identify many other principles that should be accounted for in public service delivery, such as liberty, accountability, due process, equal protection, the promotion of democratic values (including citizen participation), and, more generally, the communal good, however democratically defined [76,79–81].

There are two primary reasons efficiency is advantaged over other values. One has an ideological component—it hews closely to the preferences of market advocates and their calls to “run government like a business” [82]. The other is rooted in pragmatism: efficiency is easier to measure and evaluate than other more esoteric, and often contested, values [76]. While there have been many calls to better account for values beyond efficiency, public administration scholars have yet to produce methods for doing so. Specifically, there has been little success in offering valid and reliable tools designed for evaluating and measuring less quantifiable yet potentially important democratic values [76].

The efficiency orientation has consequences. It tends to view residents simply as customers. However, democratic citizens have rights and expectations that differ from those of customers [55]. While the market ethos condones, and in many ways in fact promotes, differentiating between customers based on profitability, such differentiation in the delivery of public services is anathema to healthy democratic governance. This is especially a worry when austerity measures are necessary, which they commonly are in the post-Great Recession world. Research has demonstrated that when cities make cuts to services, the poor and marginalized tend to be disproportionately impacted [83], increasing inequality and possibly disaffection. It has also been argued that reframing citizens as customers can undermine democracy by casting their relationship with the government as simply an effort to maximize their individual utility, eroding the sense of civic responsibility

and engagement that is at the core of properly functioning democracies [84]. This may be a high price to pay for efficiency gains.

This is not to say that privatization is a mortal threat to democracy that should be abandoned. Rather, the potential concerns should be addressed, to the extent possible, when undertaking make-or-buy and production choice decisions and evaluating service delivery. This may especially be the case for health and human services that tend to be accessed disproportionately by vulnerable populations [55].

6. Conclusions

In this entry, the authors have reviewed the myriad ways in which local jurisdictions deliver services to their constituents. The first question, of course, is should they provide a given service in the first place. That is, should the government take on responsibility for arranging and ensuring financing and accountability for the service, or should it simply be left to the market? If public provision is chosen, a delivery method must be selected. While the most common technique is in-house production, whereby public employees and resources are utilized, outsourcing is a common alternative. In choosing between internal and external delivery, one must consider (1) the extent of principal–agent concerns and how they can be managed and (2) the *overall* costs of service delivery (i.e., transaction costs plus the cost of the good or service itself), as well as (3) the relative advantages and disadvantages of utilizing the different sectors (i.e., other government, for-profit, non-profit). The latter concern requires an understanding of the differences between the sectors as well as the characteristics of the service in question.

Efficiency is not the only public value in guiding these decisions. Scholars have recently begun to more explicitly consider competing values that address equity and enhance democratic governance in local service delivery. It remains to be seen whether these citizen-centric approaches will continuously and systematically grow to form a lasting body of literature that informs us regarding how local governments decide what services to provide and how to arrange them. Currently, this literature seems to focus more on conceptual and often normative discourse than empirical and analytical investigations.

Circling our attention back to the efficiency-centric focus, it is important to note that contracting is not a panacea, as the authors hinted at previously. In the 2017 ICMA survey referenced in the introduction to this entry [1], one finds that approximately 14 percent of respondents reported returning a previously contracted service to in-house production in the last five years. The most frequently reported reasons for doing so (allowing for the selection of multiple motives) were that the service quality was not satisfactory (54.1 percent) and the cost savings were insufficient (45.9 percent). The takeaway is that public managers should consider a wide range of circumstances and needs when arranging public service delivery. They must maintain the appropriate capacity to actively manage delivery, regardless of whether it is internal or external, and be willing to regularly reevaluate production methods to ensure they are obtaining the best deal for their communities [39].

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