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## Upfront

### The Myth of Competition

Governments are trying to expose the public sector to market forces

By Gerald Burstyn

Stanford Social Innovation Review  
Winter 2003

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## GOVERNMENT CONTRACTS

# The Myth of Competition

*Governments are trying to expose the public sector to market forces*

Perhaps no public policy issue has been so politicized as the merits of small government versus large. Governors in many states have “downsized” to cut public spending, reduce dependence on government services, and expose the public sector to private market forces.

As a result, contracting for social services has become an open market, where state and county social service agencies – at the behest of state legislatures – cultivate bids from nonprofit agencies to perform services previously the responsibility of the government agency itself. In theory, market forces should produce a range of nonprofit provider alternatives from which government can choose the most qualified at the lowest price. Governments have privatized a broad range of social services, including foster care, substance abuse treatment, and food pantries.

But is social service contracting actually competitive? And do governments have enough management capacity to contract effectively with nonprofits? These are the questions posed in a study published in the May/June issue of *Public Administration Review*, and the answer on both counts appears to be “No.”

The author of the study, David Van Slyke, an assistant professor of public administration and urban studies at Georgia State University, focused his research in New York. He interviewed 12 public managers from five different counties, and 11 managers who oversee contracts at five state agencies – the offices of Chil-

dren and Family Services, Temporary and Disability Assistance, Mental Health, Health, and Alcohol and Substance Abuse Services. Van Slyke also interviewed 12 nonprofit executive directors whose organizations provided a wide range of services – from day care programs to teen pregnancy prevention. The researcher asked 15 questions to assess the level of competition.

He found that only one of the five

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**“The relationship between state agency managers and nonprofit providers bordered on incestuous.”**

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counties used a competitive bidding process to evaluate nonprofit proposals before awarding a contract. The state agencies did use competitive bidding, but the depth and consistency of contract solicitation varied widely.

All public managers, meanwhile, cited barriers to competition. At the county level, officials said a lack of resources prevented them from soliciting and managing multiple nonprofits.

Another barrier is that many elected officials have relationships with nonprofits, and funnel contracts their way. “Sixty-seven percent of the nonprofit executive directors in this study suggested the relationship between state agency managers and nonprofit providers bordered on

incestuous,” Van Slyke wrote, “implying that agency managers were so connected with nonprofit personnel that the contracting relationships were anything but competitive and objective.”

The study cited one nonprofit executive director who was so tight with elected county leadership that her organization went from having \$93,000 in contracts in 1998 to \$210,000 the following year.

Van Slyke also found that public managers often don’t have the expertise required to act as “smart buyers of goods and services.” Almost 80 percent of public managers surveyed said that additional staff would be needed to “develop detailed requests for proposals, solicit bids, evaluate bids, award contracts, and provide technical assistance to contractors.” One public manager reported that her staff of 12 was responsible for managing 500 nonprofit service providers.

Van Slyke concluded that some privatization takes place for reasons that have nothing to do with competition.

“Privatization and contracting for social services with nonprofit providers was used for politically symbolic reasons to demonstrate that government is getting smaller, working more efficiently by disengaging itself from direct service delivery, and not encroaching on private markets,” he wrote. “What we learn from studying the government-nonprofit contracting relationship is that privatization is more a political than an economic act.”

—Gerald Burstyn