

MEMO #15

IMPROVING THE ROLE OF PUBLIC-PRIVATE PARTNERSHIPS: Creating Public Value

John D. Donahue

The sprawling literature on public-private partnerships includes everything from contracts to collect solid waste to compacts to end global poverty (Koppenjan and Enserink, 2009; Nelson, 2002 and 2013). Few terms display such unruly imprecision. To say anything coherent about the role of public-private partnership it is first necessary to impose some discipline on the definition: A public-private partnership features the enlistment of private entities (whether for-profit or non-profit) in the pursuit of public missions on terms of shared discretion—that is, neither party is fully in control, and neither is simply the agent of the other. Thus, partnership is distinguishable from both simple contracting (in which government has—or should have—full control) and from philanthropy (where private parties properly dominate discretion) (Donahue and Zeckhauser 2012).⁴⁴

Public-private partnership, so defined, is neither new nor rare. In the long sweep of human history a large share of activities serving collective purposes has been carried out, in whole or in part, by private actors controlled imperfectly, or not it all, but the formal state (Finer, 1999). The British and Dutch East India Companies as well as Lewis and Clark’s Voyage of Discovery featured private agents endowed with discretion pursuing public missions. But partnership has garnered increasing attention in recent years—chiefly for the sound reason that many crucial public tasks can be better pursued with the aid of private partners, but to some extent due to shifting political and academic fashion.

By no means every collective mission—not even all of those that involve private actors—calls for partnership. Some public functions (imposing taxes, engaging in diplomacy, reaching legal judgments) are best done by government on its own. Other functions (such as paving a road, transporting pupils, or arming the military) can benefit from private involvement but by means of discretion-free contracting; there is little to gain and much to lose by ceding a share of control to the private side. Still other public goals can be left to corporations or charities with little governmental involvement at all. But there is a large domain where private discretion is at once productive and can be tolerably well harnessed to public purposes. Here partnership can augment the odds of creating public value.

Examples

Three federal examples—two successful, one more mixed—illustrate public-private partnership.

⁴⁴ This is not a universally employed definition of public-private partnership; there is no such thing. For this reason the term “collaborative governance” has been developed as a less ambiguous substitute.

1. After several failed attempts to use conventional contracting to remediate nuclear contamination at the shuttered Rocky Flats weapons facility, the Energy Department tried a different tack. Instead of tight specifications it set very broad goals for the massive cleanup effort and allowed Kaiser-Hill, its private partner, broad discretion over how to achieve them. The work was completed decades ahead of schedule and half a billion dollars under budget (Government Accountability Office, 2006).
2. The Coast Guard, challenged to rapidly bolster the security of U.S. ports in the wake of the 2001 terror attacks, opted against issuing a set of uniform rules to be followed by the vessels, shippers, and harbor operators at America's 360-some international ports. It adopted instead a model that is rigorous on results but flexible on means. Every private entity operating in a port is obliged to convince the Coast Guard that its anti-terror safeguards are sound. But they are free to choose their own ways to meet this mandate, and use their expertise to balance security with efficiency. So far, at least, no port has suffered a terror incident, nor has the commercial lifeblood of ocean commerce been impeded (Donahue and Moore, 2012).
3. For nearly all of the Space Shuttle's final decade its operations were heavily outsourced. A \$10-billion Space Flight Operations Contract delegated most duties to a private company. While termed a "contract" the relationship was in fact a partnership since NASA was not fully in control. It lacked the capacity to monitor, or even fully understand, the myriad functions involved. United Space Alliance, the private manager, inevitably exercised considerable discretion. While this was not a disastrous approach—few attribute the 2003 loss of the *Columbia* to the arrangement—partnership misconstrued as discretion-free contracting undermined efficiency (RAND Corporation, 2002).

Benefits

Public-private partnership can offer meaningful advantages over both direct governmental action and conventional contracting.

Efficiency. Private partners with the freedom to deploy their expertise and domain knowledge can be more productive—sometimes dramatically so—than contractors hewing to set specifications.

Resources. The prospect of a share in control can frequently motivate private actors to share in the costs of an endeavor. The National Park Foundation, for example, invites private engagement on terms that induces partners to provide significant resources.

Legitimacy. Especially in the historically bureaucracy-averse United States (U.S.), private roles can bolster the legitimacy of public endeavors. From student lending to hospital accreditation, Americans have sometimes shown an absolute preference for private involvement even without a credible efficiency argument (Donahue and Zeckhauser, 2012).

Risks

Yet partnership also carries grave risks. Its characteristic hazards stem from the defining feature of shared discretion. Private parties can use the freedom of action they enjoy under partnership (and lack under contracts) to efficiently create public value. Or they can abuse it to shift payoffs from the public to themselves or impose their own preferences onto collective actions. Frequently, in fact, the very same partnerships display some of both the upside *and* the downside of private discretion. The fundamental challenge of public-private partnership is to select and manage partners in ways that yield the most favorable possible ratio of benefits to losses attributable to private discretion.

A state-level policy arena illustrates both the light and dark side of partnership: charter schools. While details differ across jurisdictions these publicly funded, privately managed institutions generally feature the shared discretion that defines partnership. Charters have far more flexibility than conventional public schools—but at the same time are far more answerable to government than private schools.

A contentious debate has long raged over charter-school performance. There are respectable studies finding that charters underperform conventional public schools (National Center for Education Statistics, 2006) and others finding a performance edge (Center for Research on Educational Outcomes, 2013). The average difference between charters and regular schools, whichever way it cuts, is almost certainly very small. But the key word here is “average.” Some charters do much better and others much worse than the public-school benchmark. The best charter schools use their discretion to forge efficiencies, develop curricular innovation, and customize pedagogy to serve particular populations. The worst charter schools abuse their discretion to enrich managers while short-changing students, or pursue narrow cultural agendas incompatible with public funding. The quality of state and local charter governance regimes drives much of the difference.

Management Imperatives

The wide variance in charter performance highlights the general lesson that the key factor separating successful from calamitous public-private partnership is the quality of management on the governmental side. Management always matters, of course, but it matters more for this more complex, high-potential, and hazardous relationship than for simpler models of collective action. The following are some guidelines for harvesting the advantages and avoiding the pitfalls of public-private partnership:

1. Recognize the differences among forms of public-private interaction (voluntarism, contracting, and partnership) and the allocation of discretion that distinguishes them.
2. Approach partnership as one governance option among many, and shun ideological biases either for or against.
3. Appreciate that orchestrating a partnership involves different managerial approaches than controlling a contract.
4. Analyze the capabilities and motives of partners to predict in what areas and to what degree discretion can be shared at acceptable risk.

5. Accept that it is rarely possible to gain all of the benefits of shared discretion with none of the risks.
6. Celebrate the intrinsic value of widening the circle of people with experience and stakes in the enterprise of governance. The process of partnership can have benefits independent of the product.
7. Conversely, a common but lamentable motive for privately-initiated partnerships is the desire to share public authority without enduring the deprivation of public-sector pay scales or the indignity of running for office. Sometimes partnerships proposed by the private sector (rather than initiated by government) are excellent opportunities to create public value. But far from always.
8. Concede that where these management imperatives cannot be met, it may be necessary to sacrifice the potential of partnerships in favor of less promising but less risky approaches.

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