

## **A Multidimensional Framework for Assessing CTC**

*Graeme Hodge, **Contracting out Government Services: A Review of International Evidence**, Montech Pty Ltd, Melbourne, 1996*

*Reviewed by **Stephen Rimmer***

**T**HIS book's genesis lies in a project undertaken for the Local Government Research Foundation of South Australia and the author's doctoral research program. It is based primarily on a review of 245 Australian and international studies, published and unpublished, of competitive tendering and contracting (CTC), especially those dealing with its use in local government.

The author, a Course Leader in the Faculty of Engineering at the Royal Melbourne Institute of Technology, argues that CTC, as a form of privatisation, is implemented to achieve a narrow range of objectives, such as enhanced efficiency, lower costs and smaller government. These objectives are then compared to the author's 'multi-dimensional' framework for assessing 'privatisation activities'. This includes some 30 economic, social, democratic, legal and political performance indicators, ranging from 'investment levels' and 'demonstrated reduction in corruption' to 'violations of professional standards' (pp. 10-11). With this wide range of measures, the author seeks to assess both the direct and the indirect social, economic, political and legal impacts of CTC.

Hodge's findings are generally similar to those of other recent and wide-ranging studies of the impact of CTC, such as Rimmer (1993) and the Industry Commission (1996). Thus, he finds that the use of CTC usually — although not always — leads to cost reductions (typically of between 9 per cent to 14 per cent) and that it is not usually associated with reductions in service quality. The author speculates that CTC may lead to an increased risk of corruption (he cites the US Defence Department) and also a reduction in accountability.

The book concludes with a discussion of possible limits to the use of CTC, such as a lack of competition for local government contracts. It argues that decision-makers should use wide-ranging cost-benefit analysis of both the direct and indirect impacts of CTC. It also discusses various issues that could be addressed prior to CTC, such as benchmarking and establishing the cost of service provision.

The book is ambitious in its scope and covers a lot of ground. But at times the discussion is superficial and based on unsubstantiated assertions. For example, the author claims that:

There is considerable evidence to suggest that privatisation is an ideology or a belief structure which is pursued by some governments as an end in itself. Even in the United Kingdom the economic and market rationale for Thatcher's reforms came several years after the reforms were initiated. Of further importance is also the fact that to the extent that privatisation is an ideology, then it is possible that two different reviewers — even when both

are reviewing the same empirical findings — may well come to quite different conclusions. (pp. 4-5)

Yet none of the allegedly ‘considerable’ evidence for these assertions is cited.

The book also displays confusion about key terms. For example, after noting various definitions of privatisation and acknowledging key conceptual differences between ownership, competition and regulation, the author claims that any of these reforms can be described as ‘privatisation’. Hence, there is a ‘need to view contracting out and competitive tendering as part of the privatisation movement (p. 4). But there are important distinctions between CTC and privatisation. For example, under CTC governments retain control over and remain responsible for service provision. Indeed, many reforms designed to increase competition or review regulations that impact on business have nothing to do with privatisation.

Hodge argues that a wide range of performance indicators should be used to measure the direct and indirect impact of CTC. But the analysis often ignores the indirect impacts of CTC. For example, the author claims that CTC leads to overall reductions in employment, and rejects the Industry Commission’s (1996) conclusion that, while CTC may lead to a reduction in employment for provision of a particular service, it is likely to lead to an increase in overall economy-wide employment levels (p. 29). But here he has simply failed to distinguish between first-round effects of CTC on employment and subsequent ‘flow-on’ effects. The initial reduction in public-sector employment for a particular service will be offset to some extent by increases in private-sector employment resulting from the transfer of employees to, and the employment of others by, external contractors. Savings from CTC can be used to increase the quantity or quality of service provision, increasing employment for that service. Furthermore, savings from CTC can be used to reduce levels of taxation, so lowering business costs and encouraging economy-wide employment.

Despite these shortcomings, the book’s review of the literature, the largest yet undertaken, makes an original and useful contribution. While it broadly confirms the results of other recent reviews of the impact of CTC, it also enhances our understanding of the process in some areas, such as its impact on service quality.

## References

- Industry Commission (1996), *Competitive Tendering and Contracting by Public Sector Agencies*, AGPS, Melbourne (Report No. 48).
- Rimmer, S. (1993), *Aspects of Competitive Tendering and Contracting in Local Government Administration*, doctoral dissertation, University of New England, Armidale.

*Stephen Rimmer is a Director at the Office of Regulation Review, which is part of the Industry Commission. The views expressed here are those of the reviewer and not necessarily those of the Commission.*