

PEOPLE, POLITICS and POLICY



The Privatization of the Health and Human Services: Parsing the Roles of the Public and Private Sectors

Health and human services delivery continues to shift from the public to the private sector in our nation and in our state. Government has continued its primary role in financing and regulating these domains, yet the actual provision of a vast array of services has been delegated to both nonprofit and proprietary concerns - generally in the absence of clear public policy.

Many states have contracted out the operations of correctional facilities to for-profit organizations. In a growing number of states - and now recently in New Jersey - for-profit corporations are expanding their role in the ownership of hospitals and related health care facilities. Many states have privatized significant components of their safety net programs: child welfare, child support enforcement, mental health, developmental disabilities, public assistance and others. Medicaid, the largest health care program serving the nation's poor, has been contracted out in the vast majority of states to private, for-profit, managed care corporations.

Clearly, no one on either side of the political spectrum is advocating for larger government but as a society we need to address the attendant critical public policy questions raised by this continuing mega-trend. What are the "core competencies" of government? What services should it retain? What advantages are presented in the private marketplace? Under what circumstances, terms, and conditions should government privatize specific health and human services? Are anticipated cost savings and quality enhancement fleeting or permanent? What should be the safeguards pro-

vided to the vulnerable citizens served and to the taxpayers who underwrite the services when privatization occurs?

These complex questions each require careful analysis. In practice, the decision to privatize is often driven by narrow budget considerations. The nature of government often drives a short time horizon for strategic decisions. The challenges of the next election or budget often trump long-term potential public benefit as criteria for decision making.

As a former senior state official - in three separate gubernatorial administrations - I struggled with this issue in many shapes and forms. Ultimately, I led the efforts to privatize the care of some of the state's most seriously and persistently mentally ill and those with profound developmental disabilities, by closing state institutions and financing private organizations to care for them in community settings. During my tenure as Commissioner of the Department of Human Services, approximately 500,000 Medicaid recipients were enrolled in privately operated managed health care programs, and the operation of 22 child day care centers serving hundreds of children was transferred from the auspice of the Division of Youth and Family Services to a variety of nonprofit corporations. Based upon that experience and others, and after further study and deliberation, I would frame the following issues and conclusions to guide decisions relative to the privatizations of the human services.

Initial Determination - When considering privatizing a specific human service one should carefully review whether a competitive private market exists for the service; whether government has the competence to provide or establish the service at competitive cost; and, how the basic rights of vulnerable citizens might be properly safeguarded should the privatization proceed.

Cost Factors - In crunching numbers, one must consider the true and full cost of privatization. For example, when public workers lose their jobs, the public costs of unemployment, public assistance and related safety net services they will require should be factored in - even if they come from a different "pot" within the public budget..

Cost Controls - The taxpayers must be protected from excessive costs and private profiteering in the delivery of services. Reasonable controls must be placed on profit and administrative costs when dealing with for-profit corporations and all costs and fees should be market-based.

Bid Solicitations and Contracts - Documents which are intended to solicit or secure the content, scope, quality, cost and public accessibility of services to be privatized should clearly and carefully detail all relevant requirements. These must include the process for correcting performance deficiencies and imposing consequences (financial penalties, contract termination, etc.) for nonperformance. Government must have the capacity to

recruit, train and deploy competent personnel to implement and manage the privatization.

Assuring the Most Needy are Served - In unit cost, fee for service or managed care contracts for privatized services, it is likely to the financial advantage of the private company to avoid or discourage service applicants whose care may likely exceed average or established unit costs. Government must monitor performance to assure such applicants receive the services they require and are eligible to receive.

Evaluation and Accountability - Mechanisms must be put in place, preferably involving service recipient feedback, to assure the privatized service is provided in accordance with specified standards and that it delivers the anticipated outcomes.

Given today's economic and political environment, it is inevitable that government will continue to explore further privatization of what are now public services. Hopefully this will occur not just on a narrow cost basis but with a full examination of the issues and interests of the citizens who pay the taxes and those who require the services.

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William Waldman is a Lecturer and Executive in Residence at Rutgers School of Social Work. He can be reached at William@ssw.rutgers.edu.