Chapter 2
Case Examples: How Market Economics and Marketization Have Broken Government

The faith in market powers to fix what ails government is not only mistaken; in thousands of cases it is a central cause of “broken” government. In the United States, seeds of that blind faith were planted with the Reagan revolution and the introduction of “New Public Management” (NPM); they blossomed under a Clinton/Gore initiative called “Reinventing Government”. Here are six examples:

Case examples (More details and an additional example are in Appendix A)	Market model (Assumption, principle or precept)
1. The real “waste of taxpayer money”: contracting out	Efficiency/competition
2. Debtors’ prisons return: “Offender-funded justice”	Revenue/profit maximization
3. Jobseekers denied help: the deviousness of “customer” choice	Virtue of individual choice
4. A free-market farce: procurement rules and the “Obamacare” website rollout	Efficiency/competition
5. Death by incentives: the V.A. performance bonus system	Rational utility maximization
6. Academic capitalism: “innovation” in higher education	Revenue/profit maximization

The Real “Waste of Taxpayer Money”: Contracting-Out

Market Maxims: Efficiency and Competition

Contracting-out is a vast and growing part of the U.S. federal government. Contract spending mushroomed from $200 billion in 2000 to $530 billion in 2011. The total cost of federal contract employees is twice that of federal civil servants (Paul C.

J.A. Sekera, *The Public Economy in Crisis*,
SpringerBriefs in Economics, DOI 10.1007/978-3-319-40487-5_2

Light, as reported in Heires 2014). Indeed, the majority of government functions at the federal level may already have been outsourced, as several reports indicate that the ratio of private contract workers to civilian government employees may be four to one, or even much higher (Amey 2012a, b; DiIulio 2014; Verkuil 2007, p. 128; Light 2006).

Research has shown that contracting out is more expensive and less cost-efficient than direct government provision, which is contrary to beliefs shared by those inside and outside government (Sclar 2000), public workers and politicians, on the political left and right. This belief springs from the axiom of mainstream economics, itself unsupported, that markets are more efficient than government and that therefore private providers—inspired by the profit motive—are more efficient and will cost taxpayers less. The belief in the superiority of contracting out was, and remains, a central tenet of the "New Public Management" that dominates public administration today.

However, a thorough study by the Project on Government Oversight (POGO), shows contracting out to be far more expensive. Previous cost comparisons of public versus private provision have been marked by a common flaw: most have simply compared the compensation of government employees with that of private business employees in similar occupations, often found the former higher and concluded that contracting out is less expensive. Investigators had not thought, or bothered, to consider the full cost of contracted-out work—that is, contractors' actual billing rates, which include overhead costs and profit margins. The POGO study—*Bad Business* (Chassey and Amey 2011)—did just that, and found that "billions of dollars [are] wasted on hiring contractors" based on "a misguided assumption that market economies enable contractors to be more cost efficient than the government (Amey 2012). On average, contractors charged the federal government more than twice the amount it pays federal workers (Nixon 2011). There were, in fact and in effect, "*three labor markets* (the private sector, the public sector, and the contractor sector) and… salaries, compensation, overhead, and profit differ among the three" (Amey 2012). [Emphasis added.]

POGO's analysis (Chassey and Amey 2011, pp. 11–12) did not include any of the costs that government incurs to award, administer and oversee contracts or to have contractors work at federal facilities and use government equipment for free. Had they done so, contracting out would be revealed to be even more costly than POGO reported.

Debtors' Prisons Return: "Offender-Funded Justice"

Marketized Purpose: Revenue/Profit Generation as a Goal

Faced with declining tax revenues, counties and municipalities are turning over the operation of parts of the criminal justice system to private corporations that promise to provide legally mandated services at "no cost to taxpayers". These companies then charge fees to individuals accused of crimes or on probation to cover the costs of a legal system previously paid for collectively. Often already impoverished, those who can't pay the fees are now being imprisoned for debt.

In more than one thousand American courts it's not justice that is being served but local revenue generation and private profit. As one investigative report noted, the companies to whom states and localities have delegated such coercive power are subject to little oversight in their pursuit of maximum profits. For example, it's in the corporations' best interest to keep the collections process going, instead of calculating when probation has expired (Stillman 2014). "In many cases, the only reason people are put on probation is because they need time to pay off fines and court costs linked to minor crimes…[S]ervices that were once free, including those that are constitutionally required", are now frequently billed to offenders, [including] the cost of arrest warrants, DNA samples and a public defender…" (Edsall 2014; Shapiro 2014). "Technology, such as electronic monitors, aimed at helping defendants avoid jail time, is available only to those who can afford to pay for it" (Shapiro 2014). Companies have "a clear financial interest in extending probation terms in order to collect additional fees". And if defendants agree to wear electronic monitors in order to avoid jail time, those monitors themselves must be paid for; if they fall behind on this bill, they can be jailed (Choudhury 2014). Not even in 18th century debtors' prisons did prisoners have to pay for their manacles.[1]

Jobseekers Denied Help: The Deviousness of "Customer" Choice

Market Principle: The Virtue of Individual Choice

For thirty years the federally-funded employment and training system emphasized the value of case management by professional employment counselors helping the unemployed and underemployed prepare for and find jobs. Most of these jobseekers had never looked for full-time secure employment or hadn't looked in many years, so they needed help through the unfamiliar maze of "job searching", assessing job listings, writing resumes and preparing for interviews. Jobseekers were called "clients", an appellation of respect and an indication that people coming for job-seeking help merited professional guidance.

The Workforce Investment Act of 1998 revamped the entire system according to a set of market values that entailed "individual empowerment", "customer choice", and "self-service". Jobseekers were henceforth to be called "customers". "Customers" were directed to impersonal "resource rooms" where they had to conduct their own job searches at banks of computers, whether or not they had good

[1]The U.S. Department of Justice recently moved to curtail some of the abuses (Editorial Board, New York Times 2016).

computer skills. A few received "Individual Training Accounts"—another name for vouchers—that supposedly enabled them to choose an appropriate job-target and training. Local operators were to provide services "in a manner that *maximizes customer choice*" (Perez-Johnson and Decker 2001, p. 4). Counseling was minimized, case management often eliminated.

With little guidance, desperate jobseekers may take a low-paying job that has no long-term career prospects or become easy prey to unscrupulous, unsupervised private "training" providers who charge high fees and often deliver poor results. According to Carolyn Heinrich, professor of public affairs and economics at the University of Texas, Austin, "When job-seekers are eager for any career opportunity, unless those individuals have some independent reliable source of information, it's hard for them to make choices" (quoted in Chen 2014).

In an astute analysis of the consistently poor choices made by jobseekers given little guidance, Michele Chen (2014) points out that "The problem is an inherent asymmetry of information between the [training] companies and prospective students". Her own and other research reveals that "ultimately, people struggling to stay afloat might benefit from a structured job-training path, rather than individual "free choice"".

A 2014 extensive analysis of the Workforce Investment Act (Williams 2014) revealed that "many graduates wind up significantly worse off than when they started—mired in unemployment and debt from training for positions that do not exist, and [ending up] working elsewhere for minimum wage"—a predictable outcome when clients become customers.

"A Free-Market Farce": Procurement Rules and the "Obamacare" Website Rollout

Market Maxims: Efficiency and Competition

Behind the disastrous rollout of the "Obamacare" website in October 2013 is a story of government attempts at market mimicry going back several decades. It is a story about government procurement—a boring topic, you may think. But changes to federal procurement rules[2]—designed in the 1990s to incorporate the alleged virtues of streamlined market competition—have had daily impacts on millions of lives.

As explained by Janine Wedel and Linda Keenan (2010, quoted in detail in the Appendix), the procurement rules were revamped in ways that persistently benefit

[2]In a forerunner to the 1990s changes, market "solutions" as procurement policy goes back to the Reagan era with its implementation of the "A-76" procurement doctrine, which itself goes back to the Eisenhower era.

bidders while compromising the public interest. Wedel and Keenan call the revamped rules “a free market farce”. Still operative, the rules went unquestioned when the Obama administration decided to contract out to a for-profit corporation the development of the website for the Affordable Care Act.

Due to the bidder advantages conferred by these rules, the Obama administration chose as the principal contractor a firm with a documented history of incompetence in prior government work. The website crashed upon rollout, giving the Obama administration an enormous black eye and deepening an already wide-spread belief in government incompetence. But the debacle of the ACA website rollout cannot be laid at the door of simple government incompetence, except insofar as those in charge at the top failed to appreciate the predictable pitfalls of a procurement process designed according to market maxims, and effectively oriented in favor of profit-seeking bidders.

Death by Incentives: The V.A. Performance Bonus System

Market Principles: Rational Choice; Utility Maximization

Public performance measurement systems often have unfortunate or disastrous unintended consequences. In the United States, a pay-for-performance scheme at the Veterans Health Administration (V.A.) led to falsified wait-time records and care so delayed that, in some cases, patients allegedly died awaiting medical attention.

Twenty-five years of studies have shown that “pay-for-performance” doesn’t work in either the public or private sector: such systems smother creativity, crowd out intrinsic motivation, invite gaming and generally fail to achieve intended results (Economist 2014c; Frey and Osterloh 2012; Lagace 2003; Carroll 2014). Yet market advocates within government have imposed federal pay-for-performance systems, with the Clinton administration introducing performance–driven metrics throughout the V.A. in the 1990s (Markkula Center 2014) and the Bush administration successfully pushing V.A. performance bonus legislation that was implemented in 2006 (Committee on Veterans Affairs, US Senate, 2004). Ultimately, the V.A. tied senior staff bonus payments to meeting a 14-day patient appointment wait-time target—a higher standard than set or met in private healthcare.

Fast forward to 2014 and the scandal in which V.A. employees—faced with low morale and staff vacancies, burgeoning patient loads and supervisors whose pay depended in part on showing how short wait-times had been achieved—falsified reports about the ever-longer time that sick veterans had to wait for appointments.

The gaming of ill-designed systems is familiar in the private as well as public sector, but faith in market medicine blinded both Republican and Democratic administrations to this predictable, “rationally perverse” response (Moynihan and Soss 2014, pp. 328–329) to pressures created by such systems. In the aftermath of the scandal, the performance bonus system was temporarily suspended. But the system was reaffirmed in "reform" legislation passed in August 2014 (Tritten 2014). And in line with calls for greater marketization and privatization (Cappiello 2014; *Wall Street Journal* 2014), the legislation also privatized some aspects of V.A. medical care.

Academic Capitalism: "Innovation" in Higher Education

Market Maxims: Revenue/Profit Maximization

In recent years, the idea of higher education as a public good has been losing out to the notion that public universities should adopt market-based principles and practices, with income production as their goal.

"Academic capitalism", as it has been called since the work of Slaughter and Leslie (1997), is a growing phenomenon, linked by Slaughter and Rhoades (2004) to the "corporatization of education", which has taken us from a public goods paradigm to an "academic capitalism knowledge regime [that] values knowledge privatization and profit taking in which institutions, inventor faculty, and corporations have claims that come before those of the public" (Talburt 2005).

For several decades now, British universities have been undergoing aspects of marketization. Marina Warner (2015) has vividly described the "denaturing of the universities" in the UK through a "Research Excellence Framework" (REF) that "pushes responsibility from persons to systems. It pushes individuals to one side and replaces them with columns, boxes, numbers, rubrics, [and] often meaningless tautologies…" The REF calls "the work of writing a book 'generating an output' or a university 'a knowledge delivery solution'…[and sets writing and research] in the mold of market ideology, as sales items".

Recent developments in the American political arena suggest that the push toward academic capitalism is accelerating here. Writing in the *Washington Post* after the 2014 elections, two conservative columnists (Ponnuru and Levin 2014) opined that "our higher education system desperately needs market discipline", and they support "Republican reformers interested in enhancing the market orientation of the higher education sector…".

Economics and Economists

My argument is that mainstream, market-centric economics has been broadly and dangerously transformative within government and public institutions. Market-centric economics is the smog that pervades the atmosphere of public policy and public administration, a smog that has at once caused and obscured each of the failures described above. "Economic abstraction has been coupled with power to impose that abstraction throughout [the nation]. The result has been a political economy that generates the conditions for its own failure…”.[3]

Of course, economic precepts must be transmitted and applied by people—by economists. Economists have enormous influence in our country, as elsewhere (Fourcade et al. 2014). As Paul Samuelson once said (Weinstein 2009), “I don’t care who writes a nation’s laws…if I can write its economics textbooks”.

Some economists, like Victoria Chick of University College London (Chick 2011, 2013), have been advocating an overhaul of the pedagogy of economics to reverse much of the damage done by a market-driven system of values—a system that has colonized “much of academic inquiry in the social sciences” and “public debate as a whole”. We should no longer acquiesce to the unsubstantiated axioms of mainstream economics that have lent pseudo-scientific support “to programmes of deregulation and privatization over the past 40 years”.

As it stands now, students in university economics courses inevitably learn about the superiority of markets from a professoriate that transmits the reigning market-centric economics, that speaks regularly of government as little more than an impediment to “efficient markets” and that understands public goods as “a problem” of “market failure”. In the United States, about 40 % of college students take at least one economics course (Goodwin 2014a); after graduation more than half of economics majors go to work in government (Kalambokidis 2014). So each of the federal agencies involved in the sad cases above is populated by economists who themselves have been taught to distrust government and to look to the market for best practices.

[3]Bowman et al. (2014). The authors write principally about the UK, but their argument brilliantly captures the American reality too.

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