

September 28, 1988

PRIVATIZATION LESSONS FOR WASHINGTON PART II IMPROVING HUMAN SERVICES

INTRODUCTION

Ronald Reagan entered the White House appealing for a renewed “emphasis on voluntarism and a mobilization of private groups to deal with America’s social ills.” Ridiculed at the time by many critics as empty rhetoric, the privatization of local human services in fact has become a heartening success story of the Reagan years. Though mostly ignored by Washington, and overlooked by the press, today the private sector is spearheading an unprecedented number of community-based programs to combat hunger, homelessness, illiteracy, welfare dependency, drug use, teen pregnancy, and other pressing social welfare concerns.

These private efforts are so extensive that the total dollar value of assistance provided by volunteers, churches, community groups, private charities, and for-profit businesses rivals the estimated \$160 billion in government aid devoted to fighting poverty.¹ Last year, charitable giving by American citizens and corporations for education, health, and human

1 Private sector contributions may even exceed government anti-poverty programs when the value of volunteered time and donated goods and services are included in the calculation.

services reached a record \$35 billion.² The meaning: it is the private sector, not government, that is the primary fabric of the social safety net.

As significant, the privatization revolution sweeping through American cities is no longer confined to routine commercial services, such as garbage collection. Increasingly, cities are contracting with private organizations to provide human services, with about 55 percent of human services spending contracted out to private organizations.³ The most notable and encouraging characteristic of this trend is that local governments are beginning to spurn traditional commercial social service providers, who in many cases have become mere extensions of the welfare state. Instead, local governments contract with voluntary community-based organizations, such as neighborhood associations, private charities, and churches. Several cities are even turning to the poor themselves as contractors for their own services, as in the case of tenant management of public housing in Washington, D.C., St. Louis, and other cities.

Examples of these new approaches to providing human services include:

◆ ◆ **Hamilton County, Tennessee**, which contracts with nonprofit voluntary organizations for the care and treatment of abused children.

◆ ◆ **Columbus, Ohio**, which contracts with a neighborhood association for neighborhood cleanup campaigns.

◆ ◆ **St. Louis, Missouri**, which contracts out its highly acclaimed homelessness services to area churches and charitable groups.

Local governments are turning increasingly to the private sector for such services because private programs have been outperforming programs administered solely by government agencies. A 1986 study by the National Center for Policy Analysis, comparing private human services programs with those run by the government, finds that the private sector has been doing a superior job in such areas as treating alcohol and drug abuse, training welfare recipients for jobs, providing adoption services, and managing public housing projects.⁴ Marc Bendick, of the Washington-based Urban Institute pinpoints the inherent advantages of the private sector over government in these service areas: "Through their small scale, nonbureaucratic nature, local knowledge, and personal relationships, [neighborhoods, families, churches, and voluntary associations] can respond rapidly, accurately, and in a more acceptable manner to local and individual needs in ways that large formal institutions such as government agencies cannot."⁵

2 American Association of Fund-Raising Councils, Inc., New York, N.Y., news release, June 23, 1988.

3 Harry P. Hatry and Eugene Durman, *Issues in Competitive Contracting for Social Services* (Falls Church, Virginia: National Institute of Governmental Purchasing, 1985), p. 1.

4 John C. Goodman and Michael D. Stroup, "Privatizing the Welfare State," Report No. 123, National Center for Policy Analysis, Dallas, 1986.

5 Marc Bendick, Jr., "Privatizing the Delivery of Social Welfare Services," paper presented to the Project on the Federal Social Role, Washington, D.C., April 1985, p. 37.

Reinforcing Past Failures. Lawmakers in Washington, however, seem only dimly aware of such developments. In just the past twelve months, Congress has considered or enacted legislation to provide federal subsidies for day care, job training, food assistance, and welfare "reform." Almost without exception these programs reinforce past failures of the welfare state. Worse, these programs rely only minimally on the vast array of community-based private sector solutions that have documented success records.

Before appropriating any new federal funds for social welfare, Congress should investigate thoroughly the approaches to meeting human services needs that have proved most successful on the local level. Although widely varied in their strategies, the most encouraging programs have the following characteristics:

- 1) They maximize consumer choice and competition among service providers.
- 2) They encourage neighborhood-based service delivery and the use of local volunteers.
- 3) They extend to private providers maximum flexibility in offering services to recipients, while imposing few regulatory barriers, such as licensing requirements.
- 4) Perhaps most important, they use government funds to leverage increased private sector contributions, rather than replace them.

Unless Congress designs its new welfare programs to meet these requirements, the programs are doomed to reproduce the disappointing failures of the Great Society.

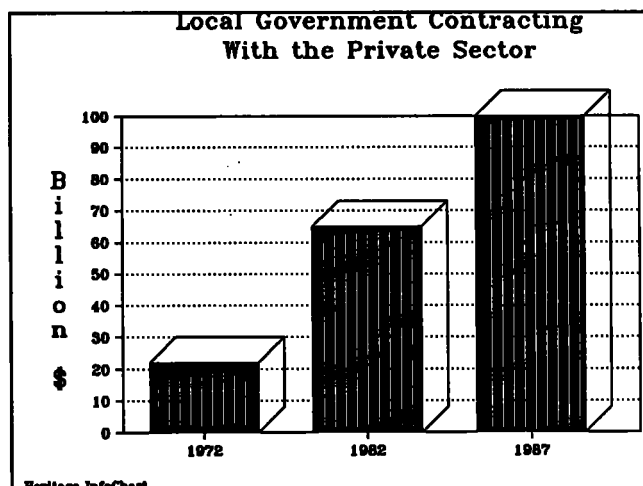
PRIVATE SECTOR ALTERNATIVES TO THE WELFARE STATE

Privatization of human services refers to a wide range of private sector approaches to solving social welfare problems. These initiatives generally fall into four categories:

1) Contracting Out to Private Organizations

Local governments have used contracts with private firms increasingly as a strategy for reducing the cost of public services. Between 1972 and 1987 the annual dollar value of such contracts climbed from \$22 billion to over \$100 billion.⁶ Typically, local governments contract out routine commercial-type services, such as garbage collection, street repair, and janitorial services.

Figure 1



⁶ Estimate provided by the Washington, D.C.-based Privatization Council.

The newest trend is for local jurisdictions to contract out the provision of social services. According to a 1986 survey of Florida cities by the Law and Economics Center at the University of Miami and the Reason Foundation, the human services most commonly contracted out are legal services, alcohol and drug treatment, emergency medical services, and hospital care.

Improving Quality. In contrast to contracting for basic government commercial activities, where cost savings are the primary objective, the major motivation for contracting out human services usually is to improve the quality of care or service. A landmark 1984 study of 57 county social service agencies in California found that the quality of service and care generally improved after contracting out.⁸ The study cites three reasons for this: 1) local-based private groups are more effective in identifying the needy; 2) nonprofit organizations are less bureaucratic; and 3) the private sector is better able than government to attract highly skilled professionals. Although it is a secondary concern, several studies find cost savings to be a result of contracting out local social services.⁹

Despite these benefits, however, cities are beginning to move away from contracting out with professional, commercial human services vendors. One reason is that large, professional service providers often come to depend almost exclusively on government for funding. In such cases private sector contractors can become indistinguishable from the public sector, and their programs can suffer.¹⁰ When the government is the principal source of funding, contractors typically compromise their private autonomy and adopt government eligibility requirements and regulatory standards. All types of private sector groups, including charities, can be coopted in this fashion, but it is most common among large, commercial providers.¹¹

Another danger is that private agencies can grow so dependent on public funds that they become vocal and influential lobbyists for expanded government funding of flawed programs. They also may try to block private initiatives that require less money and lower skills. George Mason University economists James T. Bennett and Thomas J. DiLorenzo in

7 Kenneth W. Clarkson, *Privatization at the State and Local Level* (University of Miami [Florida]: Law and Economics Center, 1988).

8 Paul Terrell and Ralph M. Kramer, "Contracting With Nonprofits," *Public Welfare*, Winter 1984, pp. 31-37.

9 *Ibid.*; Rockwell S. Schulz, "Differences in the Direct Costs of Public and Private Acute In-Patient Psychiatric Services," *Inquiry*, Winter 1984, pp. 380-393; and George S. Bonjas, *et al.*, "Property Rights and Wages: The Case of Nursing Homes," *Journal of Human Resources*, Spring 1983, pp. 231-246.

10 Some have even charged that human services contracting allows for the extension of expensive and intrusive government programs. Social scientist Eleanor Brilliant has warned of this by writing: "Effectively, the mixing of public and private [social service] activities masks or screens the growth of government interference with the private sector, and thereby makes it more palatable to average Americans. This illusion maintains the myth of less government, while government actually whittles away at the essential substance of private autonomy." Eleanor L. Brilliant, "Private or Public: A Model of Ambiguities," 1972.

11 An excellent discussion on this problem is contained in Goodman and Stroup, *op. cit.*, pp. 31-33.

1985 wrote an entire book, *Destroying Democracy*, chronicling cases of human service organizations that use tax dollars to lobby for increased social program funding.¹²

In sum, contracting out human services generally does save money and improves the quality of services. But because money comes from government, some forms of contracting out actually may over time undermine some of the beneficial characteristics of private groups, limiting the potential of privatization. For this reason, community-based contracting and alternative privatization schemes are growing in popularity.

2) Service Delivery by Neighborhood Support Organizations

Contracts with neighborhood-based service organizations can avoid many of the problems of contracting with commercial service providers. Since these organizations usually are staffed by those from the neighborhoods actually receiving the services, they have the incentive to act in the interests of the beneficiaries and to provide services as effectively and efficiently as possible.¹³ Moreover, community organizations tend to be held in higher regard by those beneficiaries. As the report of the 1979 National Commission on Neighborhoods puts it, in an endorsement of neighborhood organizations as service providers, "Neighborhoods are human in scale, and they are immediate in people's experience. . . . Neighborhoods have built-in coping mechanisms in the form of churches, voluntary associations, formal and informal networks. The neighborhood is a place where one's physical surroundings become a focus for community and a sense of belonging."

The National Association of Neighborhoods (NAN), a Washington-based membership organization representing private community groups, estimates that today about 10,000 private neighborhood organizations, many located in low-income areas, are in operation. These independent citizens groups provide a vast array of human services either independently or under contract with government agencies. NAN reports that these groups offer such widely differing services as health care for the elderly and handicapped, neighborhood cleanups, food drives, and drug prevention programs.¹⁴

3) Charity and Voluntarism

Private charities traditionally have played a major role in providing local welfare assistance, but they are more important than ever today. Figure 2 shows the steady growth in donations to private charitable organizations in recent years. Although almost half of these funds went to religious institutions, churches today play a major role in providing emergency welfare assistance to the needy, such as shelter and food for the homeless. In 1987, about \$35 billion in private charity was donated specifically to health and human services causes.

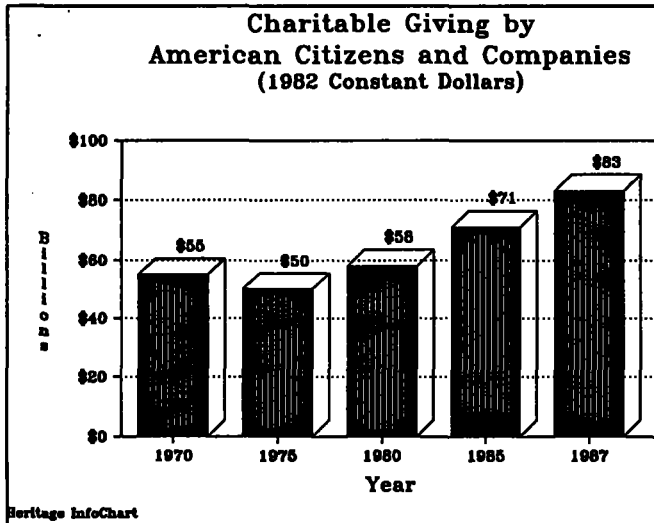
12 James T. Bennett and Thomas J. DiLorenzo, *Destroying Democracy* (Washington, D.C.: Cato Institute, 1985).

13 Robert H. Nelson, "The Privatization of Local Government: From Zoning to RCA's," paper presented at Conference on Residential Community Associations, sponsored by the Advisory Commission on Intergovernmental Relations, Washington, D.C., June 1988.

14 Stephen Glaude, "Neighborhood-Based Service Delivery: An Option for Today," *The Heritage Lectures*, No. 132, 1987.

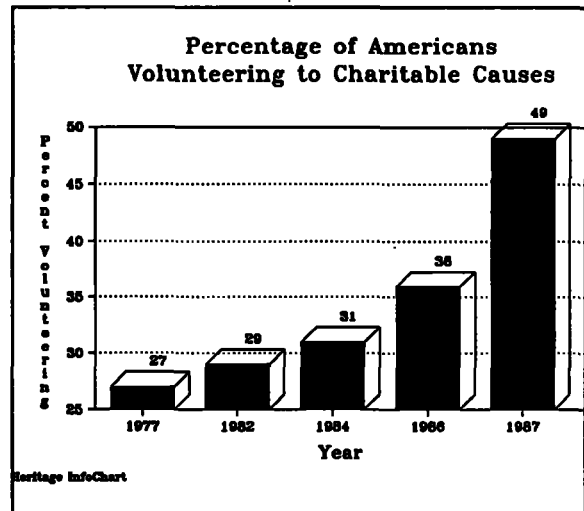
Yet even this significantly understates charitable activity because many Americans donate their time rather than their money. As Figure 3 shows, the proportion of adult Americans volunteering their time to charitable causes has climbed steadily over the past twelve years, reaching 49 percent in 1987.

Figure 2



Source: "Steady Increase Noted in Percent of Volunteers in U.S.," The Gallup Poll, Press Release, May 31, 1987.

Figure 3



Source: American Association of Fund Raising Councils, *Giving U.S.A.*, 1987.

4) Programs to Encourage the Poor to Help Themselves

In many poor communities, neighborhood groups tackle social problems without any government assistance. Some focus on educational issues. For instance, College Here We Come, in Washington, D.C., is a group of public housing tenants that encourages high school students to improve their grades to qualify for college. Other self-help initiatives focus on services for the handicapped. In Huntsville, Alabama, handicapped and elderly residents banded together in the early 1980s to purchase vans from the city, and they are now sharing the responsibility of providing cost-effective transportation services for themselves.¹⁵

LOCAL SUCCESS STORIES IN PROVIDING HUMAN SERVICES

Hundreds of pioneering privatization initiatives now help to resolve social problems. Indicating the range of these activities are the following examples.

15 "In Alabama, Communities Help Themselves to Transportation," *Rural America*, July-August 1983, p. 16.

St. Louis, Missouri: Private Charities Develop a Cure for Homelessness

Government officials groping for ways of solving homelessness should examine St. Louis's Homeless Services Network.¹⁶ This program is funded predominantly by private charities, operates through the coordinated efforts of over 110 nonprofit community groups and churches, and is supported by the work of hundreds of local volunteers. Only one paid city employee is associated with the Network.

Launched in 1985, the Network maintains a centralized, round-the-clock in-take center run by the Salvation Army. Each day, the center monitors vacancies in dozens of private shelters. The American Red Cross then provides free transportation to take homeless people to the shelters. Prior to this system, many overcrowded shelters reportedly had to turn away up to 1,000 homeless a month, while others had unused beds. Now, virtually all of the St. Louis homeless who come through the Network system, some 2,000 a typical winter night, receive shelter.

Yet the St. Louis Network program is far more than an information clearinghouse. Its constituent groups have developed a comprehensive program to reintegrate homeless families into the community. Catholic Charities and other voluntary nonprofit groups provide a full range of professional counseling to the homeless to aid in budgeting, parenting, job training, and alcohol rehabilitation. In addition, the program places families in transitional housing and covers the rent for up to six months. Eventually, the Network tries to locate permanent housing and jobs for each family.

Of the estimated 500 families that have entered the Network program, 82 percent have made the full adjustment to permanent housing. Not surprisingly, the St. Louis homelessness program has received national acclaim for its accomplishments.¹⁷

Hennepin County, Minnesota: Vouchers for Day Care

As one of America's most liberal states, Minnesota would seem an unlikely location for privatization to be thriving. Yet the state has pioneered many forms of privatization. Theodore Kolderie, professor at the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota, explains this apparent paradox: "For Minnesotans, privatization is considered a pragmatic, nonideological movement to improve the quality of public services."¹⁸

An experimental day care voucher program in Hennepin County (where Minneapolis is located) is an example. Since the early 1970s, the county has subsidized day care for low-in-

16 Most of the statistics in this case study were provided by Dorothy Dailey, St. Louis Homeless Services Network Program Director, in a May 1988 telephone interview.

17 The Network Program received an award in 1987 from the Rand Foundation and the Harvard University Kennedy School of Management for "innovation in state and local government."

18 Telephone interview with Theodore Kolderie, April 1988.

come families, originally by purchasing slots for eligible low-income families in about a dozen large day care facilities. But by 1982, a county commission identified many problems with that system. A large number of eligible families were unable to get their children to the few county-subsidized centers; by placing all low-income children in a few subsidized centers, the system encouraged segregation; parents were “captured” by the subsidized day care centers and had no recourse against poor quality care.¹⁹

Giving Parents a Choice. Under the day care voucher program, started in 1982, the county’s 2,600 eligible families now receive a certificate from the county. Parents may use this voucher to purchase day care services from any licensed center in the county, including family day care providers, religious day care centers, and large institutional centers. Liability problems for the state forced the Community Services Department to exclude unlicensed providers from the program after the first year of the program.

The voucher system is very popular. A survey of parents has found that an astonishing 96 percent are “very” or “mostly” satisfied with the voucher approach. James Slyman, the county’s director of purchased services, explains this popularity: “We have given parents a real choice. If they don’t like the service at a center, they are free to pick-up and go somewhere else. And if parents are happy with a center, we are happy. What we have developed is a market-based solution to the day care problem.”²⁰ A particularly gratifying result of the program is that many more low-income mothers wishing to work now are able to do so, thanks to the convenience of family day care.

The Hennepin County Community Services Department hired independent consultants in 1985 to evaluate the effectiveness of the voucher program. They found that the number of day care centers in the county had climbed by 15 percent since vouchers were introduced, the average monthly cost of day care had dropped by \$58.73 (in real dollars), and 15 percent more families had been able to find acceptable day care.²¹

Chicago, Illinois: Lowering the High School Dropout Rate through Privatization

In Chicago public schools, nearly half of all inner-city teenagers fail to complete high school. To reduce this high dropout rate, several districts have contracted with a private for-profit teaching center, called Ombudsman Educational Services, to educate hundreds of high school dropouts and students “at-risk” of dropping out.

Teenagers entering the Ombudsman program typically exhibit high truancy, poor academic performance, drug use, and disruptive behavior. According to James P. Boyle, the program’s founder and a former high school principal, Ombudsman’s approach is to “tailor the curricula toward the capabilities of the individual students” and place them back on track toward a diploma.²² The program is a mixture of the old and new: all of the instruc-

19 Hennepin County Community Services Department, “Final Report of the Hennepin County Grant Purchase of Child Day Care Through a Voucher System,” May 1985, pp. 1-2.

20 Telephone interview with James Slyman, April 1988.

21 Hennepin County Community Services Department, *op. cit.*, pp. 11-35.

22 Interview with James P. Boyle, June 1988.

tion takes place in a one-room schoolhouse and focuses on the three "R's." Yet it also makes heavy use of such modern technology as computer-assisted learning systems.

The results are impressive. Over 80 percent of the more than 200 dropouts who have been through the program since it began in 1975 have earned a high school degree. Robert Jewell, Assistant Superintendent of Schools in Southwest Chicago, acclaims this as a phenomenal achievement: "These are kids that get nauseated when they walk into a regular school. Without Ombudsman we expect that only about 15 to 20 percent of them would have graduated. Some of the kids even go on to college. As a social investment, it is an extremely beneficial program."²³

Ombudsman mixes private and public funds. Tuition is paid jointly by the public school district and by parents. And despite the individualized attention — there are about five students per teacher — tuition is less than \$3,000 a year or about half the per-student education costs within the public school system. Assistant Superintendent Jewell attributes this lower cost and high success rate to the fact that at Ombudsman, "there are no study halls or courses in gourmet cooking and ceramics. The program concentrates on just the basics — things the kids did not learn before."²⁴ Ombudsman has expanded its program into Arizona and other states.

San Francisco, California: Private Sector Courts of First Resort

Derek Bok, former Dean of the Harvard Law School recently characterized the nation's justice system as "strewn with the disappointed hopes of those who find it too complicated to understand, too quixotic to command respect, and too expensive to be of much practical use." One pioneering alternative to the frustrations of the traditional court system is the system of Community Boards of San Francisco, California.

Founded in 1977 and now operating in 25 San Francisco neighborhoods, the Community Boards program is a system of private dispute mediation that handles a wide range of cases: landlord-tenant problems, squabbles between neighbors, juvenile offenses, and consumer-merchant disputes. "Community Boards," notes urban affairs columnist Neal Peirce, "does what the formal judicial system can't do — resolve the sticky, nitty-gritty problems that are dismissed by the police and courts."²⁵ Explains Raymond Shonholtz, a former law school professor and founder of the program, Community Boards is "America's first neighborhood-based urban justice system."²⁶

Community Mediators. The lifeblood of the Community Boards program is the voluntary participation of over 400 community residents, including doctors, lawyers, teachers, and even college students, who serve as mediators after receiving 32 hours of formal dispute resolution training. Panels composed of three to five neighborhood volunteers listen to the cases and make recommendations.

²³ Telephone interview with Robert Jewell, June 1988.

²⁴ *Ibid.*

²⁵ Quoted in "Craig Smith, "Winds of Change from the West," *Foundation News*, May/June 1985, p. 47.

²⁶ Telephone interview with Raymond Shonholtz, July 1988.

The system works. Over 90 percent of the more than 4,000 Community Board cases to date have resulted in an agreement acceptable to both parties. The program has become so popular that currently there are more cases being resolved by the Community Boards than by jury trials in the city.

The volunteer program also has been more effective than the federally funded Legal Services Corporation at providing access to legal services to low-income San Francisco residents. The Board's services are provided free to community residents, and the cost of providing the services is about one-fifth that of the Legal Services Corporation — mainly because it relies on volunteers and the process is less time consuming and less bureaucratic.

The Community Boards program has won the enthusiastic endorsement of the local police department, the district attorney's office, and former Mayor Dianne Feinstein. Sheriff Michael Hennessey admits that "Community Boards handle important neighborhood problems better than the courts. . . could ever hope to." Other communities apparently agree with this assessment. Over 200 local groups throughout the country have developed or are in the process of developing private alternative dispute resolution mechanisms — many modeled after the San Francisco program.²⁷

Washington, D.C.: Transforming Public Housing Residents into Managers

Just ten years ago the suggestion that low-income tenants could operate public housing projects themselves was thought absurd by most public housing authorities. Today, more than a dozen are experimenting with the idea. One reason for this is the remarkable success story of Washington, D.C.'s Kenilworth-Parkside project.²⁸

Before tenants took over management of the 464-unit project in 1982, conditions at Kenilworth-Parkside could hardly have been worse: 70 percent of the residents were on welfare; graffiti, drugs, and prostitution plagued the project; nearly one in five units was boarded up, and most were in disrepair; and for two years many residents had lived without hot water. Under tenant pressure, and as a last resort, the city agreed to allow a resident management board — consisting of three college students, two welfare mothers, and two working women — to replace the government public housing managers.

Creating Jobs, Slashing Welfare Dependency. By choosing strong-willed and respected managers, setting tough standards of conduct, imposing fines for rule violations, and enlisting hundreds of residents in cleanup campaigns, Kenilworth-Parkside has undergone a transformation heralded by *U.S. News and World Report* as "something close to a miracle."²⁹ Not only has the physical deterioration of the buildings been reversed, but crime, teenage pregnancy, and vandalism have been cut dramatically. The self-help manage-

27 For a summary of local activities in this area, see Paul Gordon, "Justice Goes Private," *Reason*, September 1985, pp. 23-30.

28 Many of the statistics in this case study are contained in Stuart M. Butler and Anna Kondratas, *Out of the Poverty Trap* (New York: Free Press, 1987), pp. 122-134.

29 "When Tenants Take Over," *U.S. World and News Report*, August 4, 1986, pp. 53-54.

ment team also has created over 100 jobs for residents, for maintenance work and to staff businesses established in the project. Perhaps most encouraging: the welfare dependency rate, once as high as 80 percent, has dropped to just 3 percent.

Kenilworth-Parkside tenant managers have established a record of diligence in responding to problems within the project. Resident manager Kimi Gray explains the prompt level of service in the complex by noting: "When my maintenance man doesn't fix the boiler in the winter, he gets cold too."³⁰

In 1985 the accounting firm of Coopers & Lybrand analyzed the financial impact of tenant management at the project. It found that rent collections have increased by 77 percent and the vacancy rate has plummeted by two-thirds. The firm forecasts that savings to the city from tenant management through the year 1992 will amount to \$4.5 million.³¹

St. Paul, Minnesota: How Neighborhood-Based Programs Keep the Elderly Out of Nursing Homes

The U.S. General Accounting Office estimates that as many as 20 to 40 percent of all nursing home patients are not so disabled that they need to be institutionalized.³² They are in homes because no other form of help is available. Neighborhood groups in the North End and Highland Park sections of St. Paul, Minnesota, have devised an effective program to keep some of these elderly residents in their homes and out of institutions. Called the Block Nurse Program, this neighborhood-based support network currently serves about 75 aged clients who require personal care, nursing, and other services, but who do not wish to leave their homes.³³

The key to the success of the Block Nurse Program has been the mobilization of hundreds of community volunteers into a dependable support network. The program matches each elderly program participant with a registered nurse, known as the "primary block nurse," who formulates a comprehensive care plan, including such services as home nursing, counseling, transportation, physical therapy, and meal preparation. The nurse and trained aides supply the client with health services. Community volunteer organizations, such as church groups, are enlisted to provide other support services. Funding is derived from a mixture of public and private sources: Medicare, Medicaid, the county health agency, client fees (based upon ability to pay), and private contributions.

The Block Nurse Program significantly improves the quality of life of the elderly residents it serves. Roughly 85 percent of these elderly clients would be placed in a nursing home without the community assistance. And unlike many federal programs to underwrite home health care, the Block Nurse Program is unencumbered by expensive government

30 *Ibid.*

31 Coopers and Lybrand, "Kenilworth-Parkside Cost-Benefit Analysis," May 1986.

32 Study quoted in *Innovations in State and Local Government*, Ford Foundation and Harvard University Kennedy School of Management, 1986, p. 10.

33 Most of the statistics in this case study were provided by Marjorie Jamieson, Block Nurse Program Director, in July 1988 telephone interview.

regulations. The average monthly cost for each client is less than \$300 compared with \$1,500 to \$2,000 per month typically charged by area institutions. The Block Nurse Program also is much less expensive than professional home care agencies because it receives the support of hundreds of volunteers and it provide clients and health professionals with an incentive to be cost-conscious.

LESSONS FOR FEDERAL POLICY MAKERS

These successful examples of human services privatization offer several critical lessons for federal policy makers. These include:

1) Cities and counties are solving pressing and persistent social problems through privatization.

Across the board, the most effective antidotes to the social welfare problems that are now commanding public attention homelessness, child care, and the high school dropout rate — have been initiated by the private sector, not government. These are programs in which government funding, if used at all, is supplementary to private funding and where costly government red tape is kept to a minimum.

2) Voucher programs are an effective alternative to government-operated services.

Local governments are demonstrating that voucher programs reduce service costs and are viewed favorably by program participants. In addition, vouchers create competition among human services providers. This typically invites new innovative private providers into the marketplace and tends to elevate the quality of services.

3) Neighborhood-based service organizations consistently outperform publicly funded programs.

Private community groups have proved themselves extraordinarily proficient at identifying needy individuals within their neighborhoods and delivering help to them in a personal, timely, and affordable fashion. An estimated 10,000 of these private groups are developing human services that traditionally are supplied exclusively by government. They also fill in the gaps in local social service needs that go unmet by government programs.

4) Volunteers form the backbone of effective human services programs.

A primary reason that private sector human services programs consistently outperform public programs is that private charitable organizations rely extensively on volunteers. Volunteers enable private relief projects to operate with very low administrative costs, thus ensuring that private sector dollars primarily benefit program recipients rather than enriching program providers.

WHAT WASHINGTON CAN DO TO SPUR LOCAL INNOVATION

To promote more of the locally based human services initiatives that are now flourishing in America's cities, the federal government must begin to redesign its traditional role in welfare and other social service areas. Current plans to spend tens of billions of dollars of additional funds to alleviate hunger, homelessness, illiteracy, and to insure greater access to child care, though filled with good intentions, are likely to yield disappointing results unless these federal funds stimulate the kinds of local programs that have documented achievements.³⁴

The lesson from America's communities is that federal programs will be most effective if they adhere to the following principles:

1) Reduce regulatory barriers to neighborhood services. Federal programs should promote the concept of choice and should resist regulations that inhibit client choice, such as licensing requirements that require providers of services to obtain certain official credentials, often forcing them to enroll in extensive training programs. These requirements rarely have a significant effect on quality, but they often make it impossible for neighborhood groups or individuals to be eligible for service contracts. Under pressure from powerful groups of professional providers, Congress often adds such regulatory impediments to anti-poverty programs. Pending legislation to subsidize child care and home health care, for instance, would limit consumer's choices by requiring recipients to use expensive professional service providers.

2) Maximize local autonomy in deciding how federal funds can be spent. Federal programs tend to demand uniformity in service provision, thereby smothering inventive private initiatives. To avoid this, the federal government should move further in the direction of block grants. These pass money to states and cities with minimal federal strings and allow communities wide flexibility in tailoring social service programs to meet the distinctive needs of local residents. The Reagan Administration has folded many small categorical grants into such block grants. The remaining categorical grants, such as aid for the homeless, should likewise be restructured into a block grant to encourage state and local innovation.

3) Create a federal information clearinghouse. Federal policymakers should encourage cities to experiment in developing human services programs and learn from the mistakes and accomplishments of other jurisdictions. Several of the success stories described in this study are being replicated in other cities. To accelerate this learning process among states and cities, a legitimate role of the federal government is to act as a clearinghouse of information on program approaches that are working and to provide demonstration grants to stimulate program innovation. This should be located within the U.S. Department of Health and Human Services.

³⁴ This is the major theme of Butler and Kondratas, *op. cit.*, and is treated in greater detail there.

CONCLUSION

When in 1980 Ronald Reagan called for a revived spirit of voluntarism and greater participation of the private sector in solving America's social problems the media and the welfare establishment loudly protested. Michael Kinsley of *The New Republic* attacked Reagan's welfare agenda as "an abandonment of our notions of social obligation."³⁵ But to the contrary, Reagan Administration policies emphasizing local and private initiatives in the human services area have reawakened American's sense of community obligation. Record numbers of Americans are donating their time and money to the goal of uncovering lasting solutions to pressing social problems. This reignited sense of community responsibility and empowerment explains the formation of hundreds of neighborhood groups across the U.S.

Lessons for Congress. Curiously, Washington policy makers have remained oblivious to the human services privatization success stories that are flourishing today in communities throughout the country. Worse, there is an imminent danger that new federal social welfare programs will stifle these initiatives by imposing rigid regulations on local authorities. Unless Congress learns these lessons, the next generation of federal social welfare programs is destined to duplicate the failures of the first.

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35 Quoted in Jack A. Meyer, *Meeting Human Needs* (Washington, D.C.: American Enterprise Institute, 1982), p. 33.

*Contributing to this study was Heritage researcher Eric Fisher.

All Heritage Foundation papers are now available electronically to subscribers of the "NEXIS" on-line data retrieval service. The Heritage Foundation's Reports (HFRPTS) can be found in the OMNI, CURRNT, NWLTRS, and GVT group files of the NEXIS library and in the GOVT and OMNI group files of the GOVNS library.