The Historical Development and Model Innovation of American Government Purchasing Public Services from Society

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Abstract: The United States, as the most active and developed country in which the government purchases public services from social organizations, has established the system of government purchasing public services from society earlier, continuously driving the innovation of government purchasing mode of public services from social organizations through constant adjustment and improvement of relevant national and regional systems. In this paper, on the basis of explaining the historical development of the US government's purchasing mode of public services, the innovation system and mechanism of its purchasing mode of public services are dissected, providing a preferable reference for the public service governance in China and other countries in the world.

Key words: The United States, government, purchase from society, service mode, innovation

1. Concept of the US government purchase of public services from society

In the United States, the government purchase of public services has been around for ages. However, as a tool of government reform, the theoretical in-depth discussion of government purchase of public services was confined to the market-oriented reform advocated by Margaret Thatcher in Britain in 1979. In terms of the concept of "government purchase of public services", scholars at home and abroad have numerous definitions, focusing on different aspects. Wang Puqu and Salamon believe that government purchase of services means that the government purchases public services from social organizations (Purchase of Service Contracting, POSC for short). In other words, purchase of service means that the government transfers the public services originally directly provided by the government to qualified enterprises or service institutions through appropriation and public bidding, and finally pays the service fee based on the quantity and quality of public services provided by the selected or successful bidder.[1] Through literature review, it is found that most American scholars' understanding of it implies in the process of "privatization", and the so-called "privatization" refers to the transfer of public administration or public service functions undertaken by the government to the non-governmental sector for production or service delivery. It is generally divided into three types: government divestment, government delegation, and government displacement.[2] The concept of "government purchasing of public services" is closest to the category of "contracting out". Savas, an American scholar, defined "contracting out" as "the government purchases public services with the form of signing a contract agreement to provide public services."[3] which clarifies the way the government purchases public services, that is, contracting out. It can be seen that the government purchase of public services takes aim at the society, in other words, in addition to the government, the carrier of service delivery can either be profit-making enterprises or non-profit organizations.

2. The historical development of the US government purchasing of public services

The practice of the US government purchase of public services from the society can date back to the 19th century. As a typical market-oriented economy country, the United States has always depended a lot on the market. Even during the period of continuous expansion of government functions after the Great Depression in the 1930s, the government's supply of public products increased significantly. However, the private sector and non-profit organizations in society were still in service to some extent. Obviously, the government purchase of public services in the early stage was not well-developed. The government purchase of public services from the society thrived in the public administration reform, and its scale purchase of public services appeared in the 1970s. Therefore, the government purchase of modern significance started to thrive in the 1970s, and the
government began to make wide trials after the 1980s, which can be divided into the following stages:

1. Practice rising stage (1950-1969)

   From 1960s to 1970s, western developed countries, including the United States, were generally caught in a state of economic stagflation. With the failure of government interventionism guided by Keynesianism, the traditional bureaucratic administrative mode was challenged and questioned unprecedentedly. As a result, some countries turned their eyes to the market again, so as to meet the demand for public services by introducing the market competition. The US government purchase of services from the society is a privatization process of public services, which is also integrated with the privatization process, that is to say, the government improves the quality and efficiency of public services by purchasing services from the society. A series of significant changes in theory and practice have taken place in the national public administration. The Social Security Act of 1962 permitted the purchase of certain social services from qualified public institutions by public sector of the state government, which kicked off the government purchase of public services from social organizations. The Economic Opportunity Act of 1964 further promoted the government purchase of public services. The amendments to the Social Security Act was proposed in 1967, further permitting the public sectors of state and local government to purchase public services from private institutions or non-profit organizations, and the service fee enjoyed the supporting funds. In the 1970s, as the economic stagflation and government financial crisis intensified, the market-oriented value orientation of public administration reform in the United States was further promoted, and the public-private cooperation to purchase public services from the society progressively became the most widespread way for public service delivery. Ranging from the federal government to the state and local governments, part of the public services began to be provided by the market. But apparently, the public service delivery in this period was still completed by the government.

2. Rapid development stage (1980s - early 1990s)

   In the 20th century, influenced by the idea of New Public Administration, the United States advocated to introduce market competition to improve the quality of public services. In 1981, President Reagan of the United States began to boost the administrative reform, which was oriented by the values of marketization, deregulation, decentralization, etc. Since then, the government purchasing of services from social organizations has entered a rapid development stage. In the 1990s, the Clinton Administration continued the market-oriented reform strategy as well, seeking high efficiency and low consumption, setting the goal of establishing a "customer-first" entrepreneurial government, attaching great importance to citizens' demand for public services, and taking various measures to promote the development of government purchasing of public services. During the Clinton Administration, the Elk Mountain Naval Petroleum Reserves ($3.6 billion), the United States Enrichment Corporation ($3.1 billion) and electromagnetic spectrum worth billions of dollars, and competitive contracts for more than 100 airport control towers and numerous military base functions were sold by the federal government. [6] It can be seen that contracting out took the lead in the purchase mode of public service in this period.

3. Moderate contractionary stage (since the late 1990s)

   After the rapid development in the 1980s, influenced by the idea of cooperation between government and market advocated by the New Public Service, the state and local governments in the United States have deepened the reform. Since the mid and late 1990s, various ways have been introduced for further reform, such as public-private competition and cooperation, and in this period, the overall scale of the US government purchasing of public services was in a moderate contractinoary mode, which can be subdivided into two stages:

   a. In the late 1990s: the rise of mixed private-public mode

      With the decades development of privatization of public services in the 1980s, the drawbacks of privatization of public services have also been growing. Many practitioners and researchers found that the way of privatization was not beneficial to the problem of cost saving. On the contrary, inequality in the process of government purchase of public services from society arose. At the end of the 1990s, the pattern of "Reverse Contracting" appeared in the public services purchased by the government, and its service delivery form was "mixed delivery". The so-called reverse contracting means that public services are transferred from the existing form of contracting out to direct government delivery. [7] Since 1982, the International City Management Association (ICMA) has continuously conducted tracing investigations on the public service delivery of local governments in the United States every five years. In 1982, "mixed delivery", as explained by ICMA, was a new outsourcing service mode of joint contracting between the public sectors and the private sectors, in other words, the public services are provided by both public sector employees and private sector employees, and public-private partnership is taking the place of other forms of market management. According to the ICMA, the number of contracting out in the United States reached its top in 1997. In accordance with the survey data of ICMA from 1992 to 2012, we can obtain different trajectories of different public service delivery modes (see Figure 1). From 1997 to 2002, the sharp increase of public-private mixed service delivery in local governments in the United States contributed to the change in the trend towards privatization of public services. In Figure 3, changes in the delivery composition of all services and the average urban service delivery of all governments by these three categories from 1992 to 2002 are traced as follows: in 1997, 50% of the public services were completely delivered by public employees; 33% of public services were delivered by contracting out employees; and 17% of public services were delivered through "mixed
delivery". During this decade, the number of services provided by the government declined. However, by 2002, local governmental services were more likely to be delivered completely by government employees, and less likely delivered by contracting out as in 1992. In this period, the complete contract dropped and the mixed delivery increased, indicating that the rise of the mixed market in 2002 originated from the covenant, and that the mixed market might be a new form of market management in the network governance system.

Figure 1: Trends in the public service delivery in the United States, 1992 - 2012
(Chart source: self-prepared by the author according to the relevant survey data of ICMA [8])

Figure 2: Composition of local government public service delivery in the United States, 1992 - 2012[9]
(Chart source: self-prepared by the author according to relevant data)

Since the 21st century: coexistence of multi-modes
Since the beginning of the new century, the disadvantages of public and private information asymmetry caused by the New Public Service have been further revealed. Due to the outbreak of a series of sudden critical incidents, such as the September 11 attacks in 2001, and Hurricane Katrina in 2005, more and more American governments have realized that it is essential to achieve the development of the United States through a variety of ways, and more and more organizations are required to participate in social services. After President Bush took power in 2001, although he continued to promote the process of public service contracting out, he paid attention to the problems in public service outsourcing. Guided by the New Public Service theory, the New Keynesian Economics and other theories, and forming a series of new features of the purchase and delivery of public services, including: the expansion of the Inter-municipal cooperation mode, the expansion of public-private mixed delivery and the rise of non-profit organizations, such as communities. As shown in Table 1, according to the related statistics of the Organization for Economic Cooperation and Development (OECD), the proportion of public service contracting out expense to government spending are as follows: the proportion of the total public procurement expense of the US government to the total government spending from 2007 to 2019 was 24% - 29%, remaining at about 10% of GDP that year; the proportion of public procurement by all levels of government in GDP also declined slightly, dropping from 10.6% in 2007 to 9.6% in 2019. From the perspective of the proportion of government spending, the scale of public service contracting out of the federal and local governments was in a declining trend year by year. According to the development trend of the data, it can be found that since the beginning of the new century, the government purchase of public services in the United States was in a cautious state at governments of all levels. On one hand, in the late 1990s, public services delivered by the private sector and nonprofit organizations accounted for almost 27% of the total.[10] Nevertheless, for more than a decade in the new century, the scale of government contracting out in the United States, especially the scale of the government purchase of public services from private enterprises, was in continuous contraction. On the other hand, as the main provider of public services, the US government has been providing more than half of the public services in the reform for many years. In particular, the inter-governmental cooperation has been continuously growing. As shown in Figure 6, the proportion of inter-governmental cooperation has been on the rise since 2000, and has reached 23.6% in 2012. As a result, the US government has a more flexible choice between the extremes of public services completely provided by the government and completely provided by private sectors.

Table 1: Proportion of government’s purchase expense in total expenditure and GDP in the United States, 2007 - 2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Federal</th>
<th>State</th>
<th>Local</th>
<th>All levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>25.8%</td>
<td>30.1%</td>
<td>13.7%</td>
<td>20.2%</td>
</tr>
<tr>
<td>2008</td>
<td>25.1%</td>
<td>30.1%</td>
<td>13.5%</td>
<td>19.9%</td>
</tr>
<tr>
<td>2009</td>
<td>25.2%</td>
<td>30.1%</td>
<td>13.6%</td>
<td>19.9%</td>
</tr>
<tr>
<td>2010</td>
<td>25.3%</td>
<td>30.1%</td>
<td>13.7%</td>
<td>20.1%</td>
</tr>
<tr>
<td>2011</td>
<td>25.4%</td>
<td>30.1%</td>
<td>13.6%</td>
<td>20.0%</td>
</tr>
<tr>
<td>2012</td>
<td>25.5%</td>
<td>30.1%</td>
<td>13.5%</td>
<td>19.9%</td>
</tr>
<tr>
<td>2013</td>
<td>25.6%</td>
<td>30.1%</td>
<td>13.4%</td>
<td>19.8%</td>
</tr>
<tr>
<td>2014</td>
<td>25.7%</td>
<td>30.1%</td>
<td>13.3%</td>
<td>19.7%</td>
</tr>
<tr>
<td>2015</td>
<td>25.8%</td>
<td>30.1%</td>
<td>13.2%</td>
<td>19.6%</td>
</tr>
<tr>
<td>2016</td>
<td>25.9%</td>
<td>30.1%</td>
<td>13.1%</td>
<td>19.5%</td>
</tr>
<tr>
<td>2017</td>
<td>26.0%</td>
<td>30.1%</td>
<td>13.0%</td>
<td>19.4%</td>
</tr>
</tbody>
</table>

3. Innovation mechanism of the US government purchasing of public services from society

As mentioned above, since the 1960s and 1970s, the system of the US government purchase of public services from social organizations has gone through three stages: establishment, adjustment and improvement; and the purchase scale has gone through three major stages: the rise of practice, rapid development and moderate contraction. In this process, a complete purchase system was formed in the following aspects: service scope, purchase procedures, implementation standards and operation methods, moreover, a set of mechanism for mode innovation was established as well. As shown in Figure 3, the formation of the innovation mechanism of the US government's purchase mode of public services includes the following aspects:
The formation of US government’s purchase mode of public services reflects the following aspects: First, establishment of the service scope. The US government has adopted a method similar to the "Negative List", which lists 19 specific items in detail, stipulating that the listed services must be provided by the public sector of the government, and unlisted public services can be purchased from social organizations. Second, service standards. In addition to the service scope standards as stipulated above, the US government should carry out strict performance measurement on the outsourcing contractors in accordance with standards. In 1993, the United States enacted the first government performance reform legislation - Government Performance and Results Act (GPRA), for the purpose of saving public spending, improving government management efficiency, and further relaxing regulations. This Act establishes a detailed process for the government to implement related government performance management activities, and the GPRA performance management framework was formally established around the year 2000. The modernization construction can not only provide the government with more intuitive and clear information on project performance, but also contribute to the governor’s striving for more budget, thus promoting the public services better. Third, operation mode. The operation mode of the US government purchasing of services from social organizations is based on public contracts, which refer to the contracts concluded between the government and the private sector, generally named as public contract in American laws.[11] The US government’s purchase has developed into a set of mature operation mode after years of development. Specifically, the former is applicable to projects whose objectives are hard to measure, such as services for the aged, because its service objectives are too flexible to define its standards clearly; the latter is better for projects with clear objectives and easy to evaluate results. Fourth, quality supervision of the purchased services. The US government sectors are obliged to fully supervise whether service providers fulfill their compliance duties. Fifth, with respect to the settlement of contract disputes, many guidelines are available for reference. Settlement of disputes in public contracts may refer to the principles of the Civil Contract Law, and both parties may agree on the dispute resolution method in the contract. During the dispute resolution process, the government sectors are entitled to terminate the contract, and can terminate the contract at any time in accordance with the principle of "Termination for Convenience by Government". Meanwhile, in terms of the settlement of contract disputes, besides filing a lawsuit to the court, the service provider has the right to apply to the government sector for internal review and administrative review. In a word, a comprehensive service purchase system has been formed in the United States.

(2) The path dependence of mode innovation of government purchase of public services in the United States

According to historical institutionalism, one of the important reasons why various countries take on different forms in the process of institutional improvement is that "a variety of political variables show different combinations in the critical nodal period of institutional reform, resulting in the formation of different institutional structures in the critical nodal period. Influenced by path-dependent mechanism, these institutional structures has contributed to various countries' different development paths."[12] The mode innovation system of the US government purchase of services, to a great extent, indicates the institutional dependence, which is mainly reflected in several aspects: first, geographical conditions. The unique regional advantages of the United States not only make it keep away from the war invasion, but also free it from the constraint of feudal thought. In a word, all these contribute to the prosperity of the American economy. Second, historical background and opportunities for significant changes. Influenced by Puritans, value ideas stressed in Protestant, such as thrift, diligence, rationalization, salvation and poor relief, are widely spread. Moreover, the federal government, jointly established with the contract spirit, the tradition of rule of law, and the spirit of independence, is the background for the establishment and improvement of the basic public service system in the United States. Third, value concepts. Among them, religious factors have the greatest impact. French scholar Tocqueville once said that, "In France, what I see is that the religious spirit completely runs counter to the free spirit. However, the two are closely combined in the United States, and they co-dominate the country."[13] Religion is of great significance to national development in the United States. According to the religious census of America in 2020, seven in 10 Americans (70%) are identified as Christians, including more than four in 10 white Christians and more than one in four Christians of colored race.[14] In addition to value output, religion also has a political impact on the United States, such as influencing policy making through lobbying and taking political action. Next, liberalism and the concept of self-responsibility have influenced the United States to a great extent. For the United States, it can be said that the idea of freedom is rooted in the soul of the Americans, thus having a profound impact on the establishment of multiple systems. Fourth, the tradition of rule of law and autonomy. The tradition of rule of law in the United States dates from the metropolitan state -- Britain, and has a profound tradition. Since the beginning of the government purchase of public services in the...
1960s, the United States has confirmed the legitimacy and legality of the state actions in the form of law, with relatively perfect supporting legal system. In general, in the process of continuous innovation of the public service mode in the United States, factors such as geography, history, religion, and value concepts have an ineffaceable effect on the formation of the government purchase system of public services in the United States, having a "path dependence" effect on the innovation of the government purchase mode of public services in the United States. 

(3) Legal regulations on the innovation of the government purchase mode of public services in the United States

In 1761, the United States enacted the Federal Acquisition Regulation. More than two hundred years later, the United States has established a rather mature legal system for government purchases. A sound legal system is not only a guarantee for the government purchase of public services from social organizations, but also an essential support for promoting the innovation and development of the service purchase mode in the United States. Affected by the federal system, the legal system for the US government purchase of services consists of the relevant federal government laws and the relevant state government laws. Taking government procurement for an example, the legal system for federal procurement is shown in Table 2. The legal system for state government procurement is enacted by the state legislature in accordance with the state constitution and the state characteristics, with extensive and detailed content, which is inconvenient to list one by one. Statistically, there are more than 4000 laws and regulations related to government procurement in the United States. [15] Based on overview of these legal regulations, it can be found that there are three distinct characteristics: (1) In terms of form, specific regulations take a large proportion. (2) In terms of scope, the content of public services purchased by the government has been clarified. (3) In terms of process, performance management has been paid much attention to. In the previous government reforms of the United States, it is found that the government attaches great importance to "efficiency".

Table 2: Summary of laws on federal government procurement in the United States

<table>
<thead>
<tr>
<th>Title</th>
<th>Summary of laws on federal government procurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>Federal Acquisition Regulation (FAR), Federal Acquisition Regulations (FAR)</td>
</tr>
<tr>
<td>State</td>
<td>State Acquisition Regulation</td>
</tr>
<tr>
<td>Local</td>
<td>Local Acquisition Regulation</td>
</tr>
</tbody>
</table>

(Table source: self-prepared by the author according to the related information[16])

(4) The motivation mechanism of the US government purchase mode innovation of services

The motivation of the purchase mode innovation of public services is divided into internal and external dimensions. In terms of internal dimension, there are four motivations. First, economic benefits. The most direct reason for the rise of government purchase of services in the 1960s and 1970s is a series of government management crises caused by the economic "stagflation" crisis, including overstaffing in organizations, heavy encumbrance, and the government authority’s being questioned. Second, market competition. In the condition of market-oriented economy, undoubtedly, market demand is the springboard of various innovations. In 2000, a research carried out by Hodge found that contracting out had achieved 6% to 12% cost savings for the local governments. [17] Segal (2005) believed that contracting out based on competition would result in "cost savings range from 5% to 50% according to the scope and type of services".[18] Since the market competitiveness can serve as a check to the quality and efficiency of public services, the questioning on public service quality will promote the innovation of the purchase mode. In terms of the development history of the government purchase of public services in the United States, once the quality and efficiency of public services delivered by the government are poor, the cooperation between the government and social organizations will be strengthened; however, if the purchased services are questioned, the "reverse contracting" appears instead. As a result, market competition itself is an essential factor in the innovation process of government purchase mode of public services. Third, public demands. People have different needs and expectations for public services in different periods, which also promotes the continuous innovation of the government purchase mode of public services. Taking the outbreaks of COVID-19 in the United States in 2020 as an example, the destructiveness of a pandemic has hit the US economy and society hard. The public’s urgent need for public medical services has made the government face great pressure on rebuilding the public medical service system. Especially, motivated by the heavy financial burden, the US government has to rely more on the market and society to repair the United States through reversing decades of privatization. Fourth, technological development. Currently, the conflict between new technologies and old business models is the challenge faced by many governments. The convergence of artificial intelligence (AI), cloud, blockchain, quantum computing and other technologies has provided the government with new possibilities to deliver services to citizens in a brand new and more effective way. These technical progresses are making changes available on all government work from food security to gambling inspection. [19] In terms of the external dimension of the government purchase of public services, the main motivation lies in the environmental driving, especially the demonstration effect of other countries. For example, in the 1970s, for example, influenced by the economic stagflation, the US government finances were in great pressure, which results in inefficient public services. Under the influence of the British privatization wave and the promotion of the new public management concept, the United States began to explore the market-oriented reform of public services, moving towards the direction of administrative reform including introducing market competition, further decentralization and deregulation. Influenced by the British privatization and promoted by the idea of New Public Administration, the United States began to conduct exploration on the market-oriented reform of public services, moving towards the
administrative reform of introducing market competition, further decentralization and deregulation.

4. Conclusion

It is shown that in the United States, the supply path of public products has always been pursuing a balance between the two poles of the government and the market society. At different times and different stages, more than one single supply mode existed. In particular, from the perspective of the public service delivery mode since 2000, the public service supply shows a coexistence pattern of contracting out mode, public-private cooperation mode, reverse contracting mode, inter-governmental cooperation mode and other modes. Even in the same field of public products, different supply subjects may appear, with one of them being dominant or in a dominant position. In a word, the government purchase mode of public services in the United States has developed into a relatively mature institutional mechanism after nearly half a century’s evolution. It represents the continuous reflection of the objective facts of the United States when facing globalization, informatization, marketization and democratization, which is not only a path of historical accumulation, but also the objective choice of the United States to constantly face the domestic and foreign environment and social reality, with historical inevitability, as well as inevitable limitations. For example, excessive marketization, overemphasis on efficiency and competition, and the problem of coverage and equalization of public services in the United States are also increasingly serious. The innovation of the purchase mode of public services in the United States provides a reference for countries around the world today. For China, the government purchasing of public services from social organizations has become an important tool to promote the modernization of the national governance system and governance capacity. However, in order to cope with the constantly changing political, economic and social environment, it is necessary to promote the innovation of "government’s purchase mode of public services from social organizations", which can continuously improve and develop the effective government-social cooperation system.

References

17. Footnote: Although Hodge's study does not distinguish whether a contracting provider is a private, nonprofit, or another government entity.