

Weighing the Watchmen: Evaluating the Costs and Benefits of Outsourcing Correctional Services

Part II: Reviewing the Literature on Cost and Quality Comparisons

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Introduction

The debate over prison privatization continues to revolve around whether privatization saves money. The concept of cost is easy to grasp and the figures are usually large, while other issues are more subtle and less sensational for either proponents or critics to use in arguments. Quality, flexibility, innovation, and competitive pressure on the entire correctional system may be as important as cost savings in justifying privatizing, but they are harder characteristics to measure and even harder to hang an argument on in a political debate.

When critics of privatization focus on cost issues, their assumption is that a mathematical process can determine policy choices. If that were true, a computer could decide whether or not to privatize, and we would not need elected officials. But the decision to privatize or not to

privatize is not a mathematical one—it is deliberative, and requires weighing a number of factors, of which some general knowledge of costs is but one.

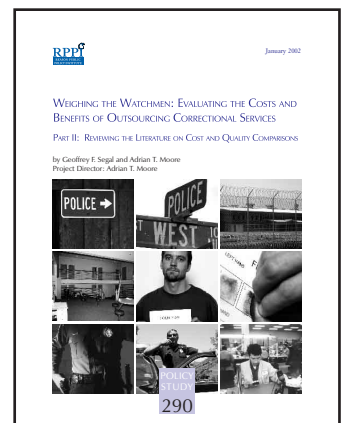
Government procurement and service contracting are steadily moving toward “best-value” evaluations, wherein governments choose the best combination of both cost and quality rather than selecting a private provider based on low cost alone. Despite this trend, however, a number of states currently have legislated requirements for evidence of cost savings before contract award or renewal.

Cost Savings and Quality of Privatized Correctional Facilities and Services

The most important cost-comparison information for policymaking is really

This is a summary of *Weighing the Watchmen: Evaluating the Costs and Benefits of Outsourcing Correctional Services Part II: Reviewing the Literature on Cost and Quality Comparisons*, Policy Study No. 290, January 2002, www.rppi.org/PS290.html.

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between competitive and non-competitive regimes. Privatization brings competition into the corrections industry and affects the behavior of individuals throughout the system. Whether from fear of being privatized themselves, or from pride in showing they can compete, or from being held to comparison by higher authorities, workers and managers throughout the system respond to privatization by improving cost efficiencies and the quality of their work.

Studies on Cost Savings

The most significant body of evidence on the relative costs and quality of privatized correctional facilities comes from a wealth of studies performed by government agencies, universities, auditors, and research organizations. We identified 28 studies that analyze costs data to measure the relative costs of correctional facilities managed by government vs. private firms, 22 of which found significant savings from privatization.

Tables 1A and 1B summarize the groups of studies comparing the costs of government-run and private prisons. Though none of these studies is without flaws, the participants in Table 1A applied more rigorous standards in their methodology. Many of them went to great lengths to compensate for the differences between compared facilities and to develop useful comparison figures. Moreover, there is nothing inherent in the problem of differences between facilities

that we would expect to bias results toward lower costs at private facilities. Thus the extreme one-sidedness of this literature—near-universal findings of cost savings from privatization—is on its own very persuasive.

Quality Comparison Studies

The major charge against privatization is that quality and security are sacrificed by reducing costs, and yet

there is clear and significant evidence that private facilities provide at least the level of service that government-run facilities do. Private correctional facilities have measured well against government-run facilities in almost all criteria of quality, including a wide range of quality-comparison studies, as shown in Tables 2A and 2B. Like cost comparisons, quality-comparison studies can be broken down into two distinct groups: rigorous academic studies (Table 2A) and less methodologically sound analyses (Table 2B).

What the Literature Tells Us

The cost- and quality-comparison literature tells us two things.

First, it is remarkable that such a wide variety of approaches spanning over a decade and a half of research conducted in states across the nation repeatedly come to the same conclusion: that privatization saves money without reducing quality. Second, there is good reason to continue to conduct

Comparative Studies of Private Facility Operational Cost Savings

Table 1A

Study	Estimated Savings
■ Louisiana State University, 1996	14–16%
■ Wisconsin Task Force, 1996	11–14%
■ Arizona Department of Corrections, 1997	17%
■ Delaware County Pennsylvania, 1999	14–16%
■ Florida OPPAGA, 2000	3.5–10.6%
■ Arizona Department of Corrections, 2000	12.23%

Table 1B

Study	Estimated Savings
■ Hamilton County, Tennessee, 1989	4–8%
■ Texas Sunset Advisory, 1991	14–15%
■ Texas Criminal Justice Policy Council, 1991	12.4–20%
■ Florida Corrections Commission, 1993	8–10%
■ Australia, 1993	23%
■ Texas Criminal Justice Policy Council, 1993	18.6–22.9%
■ Australia, 1994	11–28%
■ Kentucky Department of Corrections, 1994	9%
■ Texas Criminal Justice Policy Council, 1995	20.5–20.6%
■ Tennessee Fiscal Review Committee, 1995	0%
■ United Kingdom, 1996	13–22%
■ United Kingdom, 1996	11–17%
■ Washington (TN and LA), 1996	0–2%

Source: Authors.

such comparisons and strive to improve data collection and comparison techniques.

Furthermore, there is clear and significant evidence that private prisons actually improve quality. Independent accreditation by the American Correctional Association (ACA) designates a facility that meets nationally accepted standards for quality of operation, management, and maintenance. There are currently 5,000 government and privately managed detention facilities located in the United States. Only 532 are accredited by the ACA—465 of 4,800 government managed facilities (10 percent ACA accredited) and 67 of 150 privately managed facilities (44 percent ACA accredited). This dramatic difference suggests that private prisons are providing both quality services and significant cost savings.

Conclusions and Policy Recommendations

Departments of corrections at the federal, state, and local levels should closely examine how and by what standards the private sector can be involved in their corrections system. Experience with privatization to date shows that the process and administration require care, but when properly implemented can deliver quality improvement and cost savings.

Further study of the benefits of a competitive environment in corrections is needed. Both theory and real-world examples from other industries suggest that competition results in the optimal level of efficiency and quality. In

Comparative Studies of Private Facility Quality

Table 2A

Study

Urban Institute: Kentucky and Massachusetts, 1989

National Institute of Justice—Well Kept, 1991

Louisiana State University, 1996

Arizona Department of Corrections, 1997

Juvenile Facilities in U.S., 1998

Florida Recidivism, 1998

OPPAGA, 2000

Dallas County Judicial Treatment Center, 1997, 1999

Findings

Quality advantage to private facilities; staff and inmate ratings are higher; fewer escapes and disturbances.

Private facility outperforms state facility in 7 of 8 dimensions.

Private outperformed government in 5 categories; government outperformed private in 5 categories.

Private facility showed superior performance in public safety issues, protecting staff and inmates, and compliance with professional standards.

Private facility outperformed in 23 of 30 indicators.

Private facility outperformed in 4 of 5 measures.

Private facility showed satisfactory management with three noteworthy examples of performance.

Private-program treatment recidivism rate is almost 50% lower than non-participants.

Table 2B

Study

National Institute of Corrections: Okeechobee, 1985

Silverdale Study, 1988

Tennessee Fiscal Review, 1995

United Kingdom, 1996, 1997

Minnesota Inmate Interviews, 1999

Arizona Department of Corrections, 2000

Sellers, 1989

Findings

No fundamental differences; noted improvements in private operation.

Private facilities ranked high on most issues; other areas had equal positive/negative responses.

Private facility had higher overall performance rating.

Private overall outperformed government prisons.

Services at government facilities rate higher.

Private facility outperformed 7 of 10 measures in 1998; 5 of 10 measures in 1999.

Enhanced level of programming and better conditions in 2 of 3 private facilities.

choosing whether or not to privatize, decision-makers should:

- **Recognize the Varied Motivations for Privatization.** The full measure of worth of privatization has to be assessed in a policy context with full due given to the broader goals that can be achieved. Privatization can offer increased innovation, access to expertise, improved quality, and enhanced accountability. Most important is recognizing that cost savings from privatization is itself a product of competition, and that competition has beneficial effects on the entire system.
- **Avoid Over-reliance on Cost-comparison Data.** Policy-makers should recognize that cost comparisons tend to be static in nature, assuming away changes and differences that privatization brings about. The simple fact is that cost comparison is more an art than a science—a fact that pains many who would like cost comparisons to be simple matters of data analysis. With such cautions in mind, however, well-conducted accounting and economic studies can be very helpful in judging the merits of privatization.
- **Use Current Best Practices for Contracting to Ensure Optimal Results.** Performance-based contracts have emerged as a state-of-the-art contracting tool to give government managers better control over contractors and greater assurances of accountability. Performance contracts clearly spell out the desired result expected of the contractor, while the manner in which the work is to be performed is left to the contractor's discretion. Contractors are given both creative and scientific freedom to find ways to best meet the government's performance objective. Performance-based contracts are a key way to capture the broad range of privatization goals that go beyond simple cost savings. They allow governments to purchase results, not just process, rewarding the private firm only if specified quality and performance goals are met.
- **Recognize the Benefits of Meeting Needs and Having Options.** Privatization gives policymakers unique opportunities to address specific needs and specific goals they may have. Contracts can be structured so that goals are met. Furthermore, the breadth of options that privatization gives policymakers is an important benefit. Privatization is not a one-size-fits-all solution; several approaches or techniques are available to deci-

sion-makers. After evaluating all of the options available, negotiations with the private partner still take place that enable the creation of a structure and mechanism that is mutually beneficial.

About the Authors

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