

Research on the Current Situation and Optimization Mechanism of Chinese Government's Contracting Back-in of Public Services

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ABSTRACT

In the process of purchasing public services by the Chinese government, it appears that the purchase of services cannot realize the public value of saving expenditure and meeting the market demand, and the phenomenon of government's contracting back-in of public services arises. In response to this phenomenon, based on the analysis of the interaction between the government and social organizations in the process of contracting back-in public services, this paper mainly studies the formation reasons, key dimensions and main modes of contracting back-in of public services, and discusses how to optimize the contracting back-in of public services, so as to enhance the government's ability and level of providing public services, promote the transformation of government functions, and further realize the equalization of public services.

Keywords: government contracting back-in, public services, optimization mechanism

I. INTRODUCTION

On November 12, 2013, the third plenary session of the 18th central committee adopted decision of the central committee of the communist party of China on some major issues concerning comprehensively deepening the reform, which requires the government to actively yet prudently promote market-oriented reform in both breadth and depth by purchasing public services from the public[1]. This is the first time that China has put forward the reform task of government purchasing public services at the national strategic level. Since then, with the introduction of a series of guiding policies on government purchase of public services in the country and various provinces and cities, the pace of government purchase of public services across the country has been further accelerated.

However, as the Chinese government moves forward and develops the purchase of public services, there is a trend of public service repurchase, that is, the government repurchases part of public services from private organizations to government departments, and the trend is intensifying. This paper intends to make an in-depth discussion on the current situation of the Chinese government's contracting back-in of public services in order to provide reference for the Chinese government's market-oriented reform of public services.

II. A REVIEW OF RESEARCH ON CONTRACTING BACK-IN

A. Definition of government's contracting back-in of public services

Contracting back-in is the process by which public service delivery is returned from the private sector to the public sector. The government has successfully replaced the "most professional" social service agencies, and the government has become the main provider of public services [2].

The public services purchased by the government in China were not originally provided by special government departments, but were newly added with the change of social needs. In the reform of public service marketization, the government outsourced public services to social organizations by purchasing public services. Social organizations in China can be divided into government-run social organizations and non-governmental social organizations. In the early stage, a lot of public service outsourcing, in fact, are bought by a non-competitive way to the official social organization, but with the deepening of the market-oriented reform of public service and the development of all kinds of social organizations, the government adopt the competitive purchase approach, as a result, on the one hand more non-governmental social organizations undertake public service gradually , on

the other hand also appears the service outsourcing to official social organizations to undertake because of dissatisfaction [3].

B. Theoretical foundation of contracting back-in of public services

Public choice theory: from public choice theory to civil hypothesis for the rational "economic man", according to "economic man" hypothesis to analyze administrative problems, officials of the pursuit of self-interest maximization mechanism makes the government officials attaches great importance to the economy, ignoring its service. This theory claims to customer demand oriented, establishes the customer first thought, but ignores the public political identity of citizen, in addition, the administrative democracy is facing a great challenge, efficiency first, this view leads to the extreme pursuit of efficiency and ignore the public interest, eventually leading to civil legal interests are harmed [4].

The supply theory of public goods: with the expansion of the public sphere and the continuous complexity of social problems, the supply of public goods has shifted from a single subject to a mixed supply based on their respective division of labor, and the formation of a cooperative network is an inevitable choice to overcome the multiple failures of the supply of public goods.

Governance theory: the logical system of governance theory includes citizen participation, self-organizing governance, strong democracy, customer orientation and market-oriented government.

C. A review of research on contracting back-in of public services

1) *Chinese research review*: Based on the third party governance theory, some papers expounds the generation logic of government's contracting back-in. Non-profit organization is not a substitute for government failure and market failure, but the primary undertaker of public services, that is, the third party governance theory. However, when non-profit organizations suffer from voluntary failures such as "charity deficiency", "charity particularism", "charity paternalism", "charity amateurism", etc., the government makes up for the weakness of the voluntary sector. Therefore, it can be seen that social organizations usually "replace" the government in providing public services, and the government will promote government's contracting back-in only when social organizations have inherent limitations.

Some papers expound the causal relationship between the evolution characteristics of privatization and government's contracting back-in. Yang Anhua

(2014) has studied the cause of contracting back-in of public services: privatization crisis caused by the failure of privatization is the most direct cause, and the most fundamental reason is that the contradiction between the commonweal of the public service and the profit-driven characteristic of private capital is difficult to adjust [5].

Some papers describe the development status of foreign government's contracting back-in of public services, and provide reference for Chinese government's purchase of public services on the basis of summarizing their experience. Liu Shengzhong, Wu Xiaohu (2018) put forward that from the point of the development of the west reverse privatization, the rupture of privatization myth, the failure of the privatization theory, information asymmetry and objectives between government and enterprises is the fundamental cause of reverse privatization of public service, at the same time they point out that Chinese government should draw on western experience, create a new road of the development of Chinese public service privatization [6].

2) *Foreign research review*: Amir Hefetz and Mildred Warner(2004) created a framework to understand the complexity of government delivery of public services, and compared the difference between contracting out of public services and contracting back-in of public services from a managerial, political and economic perspective. They explores why some public services that were once outsourced were purchased back by the government and provided by departments or organizations under government control, shows how government regulators balance contract monitoring and citizen voice with principal-agent issues and market structures to decide whether to contracting out or contracting back-in. They point out the complexity of public service delivery, the limitations of the market approach and the need to involve citizens in providing public goods, yet market solutions cannot replace government planning and regulation, even in the context of government contracts with social organizations to buy public services. It confirms the importance of government public administration and monitoring in the process of government purchasing public services [7].

Mildred E. Warner(2010) points out that with the continuous development of the practice of the government purchasing public services, it has emerged that the government purchasing public services from social forces cannot realize the public value of saving expenditure and satisfying market supply, more and more countries are beginning to shift their focus to strengthening the capacity of local governments to deliver public services, and to regain some of the right to supply public services from the social forces. At the

same time, the public's innovative participation in the purchase of services has been strengthened, and the original government social partnership has been reversed to a mode of more effectively balancing the issues of equity, responsibility and efficiency [8].

Debi Daviau(2018), director of the public service professional research institute of Canada, asserts that according to union research, it costs between two and ten times more to hire contractors to outsource public services than to hire civil servants, after the long-term practice of government purchasing public services, some existing civil servants in the government have been able to solve the problems faced by the government in providing public services to a large extent, starting from the current state of public service supply in Canada, public services should be "insourced, not outsourced". Debi Daviau claims that public services need to be more mobile, and one way to do that would be to build a large pool of talent within the government, establish a recruitment system within government departments, while strengthening investment in training and upgrading the skills of relevant personnel, in this way, human resources can be pre-planned , when there are public service projects requiring government supply, the talent pool can be efficiently and accurately sent to where they are needed, including short-term and temporary tasks.

By studying the transition from government outsourcing to social organizations to contracting back-in in the provision of water services in France and energy services in Germany from 2000 to 2012, David Hall(2013) illuminates the interaction between the political and economic determinants of policy change in public service delivery, providing fruitful insights and a new paradigm for the delivery of public services in the European public sector [9].

III. THE CURRENT SITUATION OF THE CHINESE GOVERNMENT'S CONTRACTING BACK-IN OF PUBLIC SERVICES

A. The reasons for the formation of contracting back-in

1) Direct factors

a) Cost: On the one hand, a large number of studies on the efficiency of public services show that the benefits brought by the government's purchase of public services are overestimated. On the other hand, bidding book of public goods in the process of government bidding is always related to cost to a large extent. Cost saving is taken as the main support force to provide public services. Low cost public services lead to private enterprises not having enough capacity or effective resources to produce efficient services [10].

b) Market competition: Due to the characteristics of public services, only one supplier exists in some areas, such as water, electricity, energy and other natural monopoly service areas. Some welfare service areas, such as public safety, urban public transport and sanitation, have low cost and require a large number of consumers to cover the cost. The result of competition in these service areas is bound to be unprofitable. The privatization process of these public service areas is essentially to transfer the government's monopoly to the market monopoly, and its nature has not changed. In addition, the private enterprises are lack of supervision and management, so it may lead to the lack of market competition [11].

c) The failure of contracting out: The failure of contracting out is the most common reason for the government to take back the outsourced public services, that is, the widespread failure of privatization is the most direct reason for the rise of reverse privatization. The privatization experiments in the world have shown that cost saving, service quality, insufficient supervision, contract specification and supervision have always been important problems in the implementation of privatization. It is because of these problems that contracting out fails. To a large extent, it is precisely because of the failure of the contract, that the local government and the public are not satisfied with the privatization services and decide to take back those unsatisfactory privatization services, which leads to the rise and development of reverse privatization [12].

2) The fundamental factors — expertise and resources: Professional technology refers to the collective knowledge, value, skill and so on that the division of labor produces in the institutionalized environment, which is usually mastered by social organizations. Resource integration refers to the process of mobilization, combination and allocation of operational resources, which is usually implemented by the government. If the subject of action simultaneously grasps the ability of professional technology and resource integration, it will change the original cooperation mode between the government and social organizations, thus generating new relationship types in the dynamic. The government can acquire professional competence through a series of "learning mechanisms", while social organizations cannot obtain government resources by their own efforts.

3) Factors at different stages in the process of government purchasing public services: Before the government purchases the public service, there exists the problem of supply and demand disconnection. In the process of purchasing public service, the government is confronted with the challenge of the

combination of power capital and the collusion of competitors. After the government purchases the public service, it encounters the problem of information fragmentation and multi-dimensional evaluation by the third party [13].

B. The key dimension of contracting back-in

1) *Public service characteristics:* The characteristics of public service mainly include service specificity and measurement feasibility. Service specificity refers to the ability of service products to be used by different users for different investment occasions without loss of value. Measurement feasibility refers to the degree of difficulty in monitoring whether the public service contractors (social organizations) comply with the contract requirements and achieve the contract objectives.

There is a positive correlation between service specificity and contracting back-in, that is, the higher the service specificity is, the lower the probability that the government will take the purchase behavior, and the higher the probability that the government will take the contracting back-in behavior.

There is a negative correlation between the measurement feasibility and the contracting back-in service, that is, the higher the measurement feasibility is, the higher the possibility of the government to purchase the service is, and the lower the possibility of the government to adopt the contracting back-in service is [14].

2) *The way of outsourcing:* In the completely outsourced service mode, the higher the service specificity, the less likely the government will adopt the contracting back-in service.

In the service mode of joint outsourcing, the higher the service specificity is, the higher the possibility of the government to adopt the contracting back-in service is.

3) *Type of contractor:* The lower measurement feasibility is, the more likely it is that the government will use repurchase services when outsourcing to a profit-making organization rather than a nonprofit or other government agency.

4) *Citizens' expression:* The higher the level of citizens' expression is, the lower the probability of the government's purchase behavior will be, and the higher the probability of the contracting back-in behavior will be.

5) *Contract supervision ability:* The stronger the contract supervision ability is, the more likely the government is to take the purchase behavior, and the less likely the government is to take the contracting back-in behavior.

C. Main modes of contracting back-in

The main modes of contracting back-in is shown in "Table I" and the cases and characteristics of contracting back-in modes is shown in "Table II".

TABLE I. MAIN MODES OF CONTRACTING BACK-IN[15]

models	Characteristics	Government ownership/management of services	The relationship between government and social organizations	Responses to questions about contracting out	Suitable conditions
<i>Government-led model</i>	The government takes the lead in supervision, and social organizations assist in the operation	Principal ownership/principal management	The government's dominant control position while encouraging the active participation of social organizations	Government vacancy under outsourcing, franchising and BOT/BOO	Government inaction or loss of initiative leads to inefficient services
<i>Government repurchase model</i>	The government has the ownership of the project while balancing profit and equity	Fully owned/fully owned or outsourced	The government's absolute dominant position, following the commercial operation mode	The sacrifice of equity to pursue profit, social organization's profit space is small	In the process of government purchasing public services, the interests of all parties are contradictory and the fairness of public services is difficult to guarantee
<i>Government investment model</i>	The government's emphasis on the ownership of services and the correction of the failures of social organization	Fully owned/fully owned or franchised	The government's absolute dominant position, does not exclude the intervention of the market in the auxiliary function	Absent government, Inefficient service	The purchase of public services by the government is not well regulated and leads to low service efficiency and public dissatisfaction
<i>Government monopoly model</i>	A strong return of government and a comprehensive replacement of social organizations	Fully owned/fully owned	Totally dependent on the government and totally exclusive to the market	Public sense of acquisition is low and the public interest is severely damaged	The public has completely lost confidence in the government's purchase of services, and social organizations are in sharp conflict with the public

TABLE II. CASES AND CHARACTERISTICS OF CONTRACTING BACK-IN MODES

models	cases	characteristics
<i>Government-led model</i>	Shaoguan city wengyuan county rural passenger services	Government-led outsourcing. The profitability of rural passenger transport is poor after the government buys bus service. The core of the reform is that the government has strengthened the responsibility of financing, regulation and supervision of rural passenger transport
<i>Government repurchase model</i>	Shanghai bus service	The government regained the ownership and management of public services, and operated as a commercial and corporate entity. The government interfered in the major decisions of social organizations, and its most important leaders were often appointed by the government
<i>Government investment model</i>	Guangzhou municipal sanitation service	After the failure of public service project outsourcing, the government directly invests in reconstruction to rescue the project and restore the normal operation of public service. The government only controls the major decisions in personnel, finance and operation of the project, but does not participate in the specific operation and micro-management of the project
<i>Government monopoly model</i>	City inspectors service of jinshui district, zhengzhou city	The public interest has been seriously damaged, they have expressed their interest demands through institutional channels and non-institutional and extreme ways. The government has fully recovered its power of law enforcement and has absolute control

IV. THE DILEMMA AND OPTIMIZATION MECHANISM OF THE CHINESE GOVERNMENT'S CONTRACTING BACK-IN OF PUBLIC SERVICES

A. The dilemma of the Chinese government's contracting back-in

At present, the dilemma faced by the Chinese government in contracting back-in public services mainly includes three aspects: conflict of objectives, unclear cognition, and vague boundary of responsibilities.

Firstly, the government's repurchase of public services has conflicting stakeholder goals. On the one hand, the government's contracting back-in of public services attaches importance to publicity and integrity, which is often at the cost of ignoring the diversified needs and economic efficiency of the public. On the other hand, there is a contradiction between cooperation and supervision. In the public-private partnership in which the government contracting back-in public services, the excessively distant relationship between the government and the private sector is not conducive to the government's effective supervision, and the excessively close relationship may lead to behaviors damaging public interests.

Secondly, there is a lack of understanding of market environment and government capacity, of reform risks and of performance evaluation. In China, the performance evaluation of government purchase or contracting back-in is only scattered in the local government performance evaluation system, which has not yet formed a complete and institutionalized independent evaluation system.

Thirdly, some local governments fail to scientifically and reasonably position their responsibilities because they ignore or fail to recognize the public interest, many phenomena such as government vacancy, government offside and government dislocation occur in the public service reform [16].

The other thing we need to realize about the relationship between government contracting out public services and government contracting back-in public services is that the two can coexist, they can complement each other, they can transform each other [17].

B. The Chinese government's optimization mechanism for contracting back-in public services

In order to ensure the sustainable and sound operation of the reform, the government should objectively evaluate the advantages and disadvantages of the market, as well as the advantages and disadvantages of the government, so as to prevent the

government from "single government subject" and "all-purpose government". To this end, the government should take the following measures in the contracting back-in of public services:

1) *Rationally distinguishing the areas of market-oriented reform*: The original intention of the public service marketization reform is to optimize the service by introducing the market competition mechanism to break the government monopoly. Simple market reform in areas where there is no competitive market is just the transfer of public services from government monopoly to market monopoly, and the nature of monopoly has not changed. This is not only a departure from the theoretical assumptions of the original system designers, but also difficult to optimize public services. Therefore, the government should carefully sort out the public service areas to distinguish which areas have sufficient market competition, which areas have little market competition and which areas do not have market competition. Then it's necessary to identify the areas of public services that can be subject to market reforms. Only in this way can the market-oriented reform of public services in China avoid the mistakes of the western developed countries in some fields, so as to set out the reform path suitable for China.

2) *Cultivating strong market players to participate in the supply of public services*: All other types of public service supply, except totally public and totally private, require the cooperation between the government and market entities to provide public services more efficiently. Cultivating highly specialized and powerful market entities is an important way to promote effective public-private cooperation and improve the quality and level of public services. Therefore, local governments can support emerging market players by encouraging the development of private enterprises, the introduction of foreign investment, and the establishment of township enterprises. We can also improve the market environment by simplifying procedures and giving priority to approval procedures.

3) *The government should strengthen its capacity building and accelerate the transformation of its functions*: On the one hand, the government should strengthen its capacity building, strengthen government credit construction, promote information sharing and procedural justice, establish accountable government and reshape the administrative value concept of fairness and justice.

On the other hand, we should accelerate the transformation of government functions. In order to transform the government function of public service reform, we should establish and improve the

supervision mechanism according to the market development of public service. To reshape the public nature of public services and realize the equalization of public services, based on the analysis of the current situation of public services in China, the realization of the equalization of public services should include four aspects, namely, basic public service, public service, public basic service and public security service.

4) *Attaching great importance to solving the problem of government capture:* It's necessary to prevent the combination of capital and power in the process of government purchasing services and ensure the dominant position and initiative of government in the provision of public services. The practice of market reform in European and American countries shows that in the process of privatization, enterprises capture the government and make it become the corporate spokesperson, which is an important factor leading to the failure of privatization. Institutionalized construction is needed to prevent enterprises from capturing the government in the process of government purchasing services[18].

5) *Correctly dividing the responsibilities of the government and enterprises to achieve a win-win situation:* The government needs to be both a steersman to ensure that privatisation is on the right track and a paddler to ensure that public services are effectively delivered. The government should not only determine the supply target of public services and the recipients of contract outsourcing, but also provide sufficient financial support for the operation of public services, supervise and evaluate the results of public services, and be responsible for the interests of ordinary people. In the process of privatization, enterprises have the advantages of abundant capital, advanced technology and advanced ideas. Therefore, in the process of providing public services, they cannot just become the fund provider and technical supporter, so as to enjoy the dividend of government reform, they should not only to become a "economic man", mercenary, but also to actively bear the corresponding social responsibility, give back to society in the provision of public services [19].

V. CONCLUSION

Due to the purchase of public service of Chinese government is much later than western countries, the practice of contracting out public services still needs a better development. Chinese scholars have little research on government's contracting back-in of public services, and the existing research is limited to sorting out the situation of foreign government's contracting back-in of public services, without in-depth investigation and research based on the actual situation

in China, and research on the contracting out and contracting back-in of public services in China still has a long way to go.

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