

## CONTRACTING OUT: THEORY AND POLICY

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### Abstract

This article examines the generalization that contracting out of government services to private firms increases economic efficiency and reduces the costs of government operations. Since the economic reasons underlying contracting out are rarely spelled out and the evidence favoring contracting out is hardly conclusive, I search for the elusive economic rationale. It eludes me, too. Indeed, contracting out may be far more expensive than even inefficient government operations given contingent contracting and opportunistic private sector behavior that mandates monitoring. It certainly will be a poorer alternative than efficient government delivery of services (not an oxymoron!). I conclude that while economic reasoning cannot explain the current popularity of contracting out, when reforming government delivery is unlikely and contracting costs are low, contracting out will prove more efficient than the status quo.

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