George Mason

CHAPTER 8

PRIVATIZATION

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"Should government privatize some of its functions?"

"Privatization" is a relatively new word one hears more and more. It describes the shift of functions from the public sector (government) to the private sector (profit-seeking businesses). The shift may be in the form of a sale or long-term lease of a government-owned facility; a franchise to finance, develop, own, and operate a new facility; a short-term contract to manage a facility or provide services; or issuance of vouchers that can be used by the public to pay for privately produced goods and services.

Examples outside Hawai'i. The concept has caught on rather quickly. For example, no one imagined in 1980 that prisons could or would ever be owned or run by private companies. But by the end of 1992 there were fifty-five privately run facilities across the country, with an inmate population of 18,808 and a capacity of 20,867. Experts estimate that another seven or eight prisons will be privatized by the end of 1993.

Many small airports are already under private management or ownership, and serious negotiations are under way to privatize Baltimore, La Guardia, Los Angeles, and other major airports. London's Heathrow is one of seven British airports that went private in 1987.

Tucson, Arizona's fire department is privately run. So is its garbage collection. Private toll roads are quite common, especially in the

Northeast. And in recent years, the private sector has virtually taken over package delivery from the U.S. Postal Service—and nipped off a chunk of its letter mail service as well.

Hawai'i examples. A tiny fraction of Honolulu's bus system went private in 1993, with four Grayline buses being put into rush-hour express service, no standing permitted. This could be the forerunner of a plan called BusPlus in which a consortium of tour bus operators would put dozens of buses on the road during critical rush hours.

A private company, Waste Management, Inc., was hired by the Big Island mayor and county council in 1993 to operate a new landfill in North Kona.

But these examples illustrate the exception rather than the rule. In fact, Hawai'i might even be described as the only state moving *away* from privatization. For example, the state and counties have more or less gotten into the housing development business, competing with private companies in the process. Also, the state displaced some private after-school child-care providers when it adopted the A+ program, and traffic helicopter businesses when it made Captain Irwin a state employee.

Reasons to privatize. The private sector tends to be much more efficient than government when it comes to providing goods and services. Government generally doesn't know its cost of providing specific goods and services, and doesn't have a strong incentive to minimize such costs. Private businesses must watch costs like a hawk. If a company's costs get higher than necessary, profits fall, and if adjustments aren't made, it's just a matter of time before that company can't keep up with competitors who have kept costs in check.

The mayor of Indianapolis, Steve Goldsmith, wanting to improve city services while holding the line on taxes, decided to put a pencil to his costs. What he found was that tremendous amounts of taxpayer dollars could be saved by privatizing many services traditionally provided by the city.

When he said pothole repair work would be put out to bid, the ninety-two affected city workers refused to believe that a private company could do their work for a lot less. What they didn't realize (but soon learned) was that the cost of road work includes more than just the wages of the folks actually repairing potholes. In this case, there were thirty-two supervisors whose salaries and overhead had to be included.

Once enlightened to the basics of cost accounting, the workers made the mayor an offer: "Keep just four of those thirty-two managers and put five of us (rather than four) on each truck, thus eliminating the need for five vehicles." The mayor's accountant ran the numbers and said it all made sense. For everyone except the twenty-eight managers who had to find more productive things to do with their time, it was a story with a happy ending. The city crew won the contract against private bidders.

Worker resistance. Workers tend to view privatization as a negative process, one that results in lost jobs. But they are beginning to realize that the lost jobs are mostly those of unproductive management. The Indianapolis case is a perfect example of that.

Government workers worldwide have a well-deserved reputation for inefficiency. But it's wrong to blame them. Workers in Russia, for example, are not lazy. And yet, Western observers marvel at how unproductive they have become. Their inability to compete in a global economy, or even provide themselves with a decent standard of living, is a *system* problem, not a *people* problem.

The bigger problem is resistance from union leadership, even though privatization doesn't mean decertification of the union. For example, the United Public Workers already has filed a lawsuit to stop the attempt to privatize the new landfill in North Kona, even though the private contractor is willing to deal with that union. If nothing else, this action might discourage future privatization efforts.

Ironically, one of the reasons for contracting with the private company was a desire to shift legal liability from the county to the operator. This can be a significant benefit to taxpayers in an increasingly litigious society.

Accountability. Privatization does *not* mean that government simply walks away and trusts that the lowest qualified bidder will do a good job. Accountability is the hallmark of privatization, and it requires government involvement.

Government must set standards and then hold the contracting party to those standards; it has to continue steering the boat now being paddled by the private sector. If left to steer on its own, the private sector will invariably choose a direction based on its self-interest. For example, a private garbage collection company would love to drop customers located in difficult-to-serve areas. But, if public policy dictates that everyone should be served, the contract can so provide and any failure to do so will subject the company to liability. Similarly, if private companies were to run the libraries and the cost of staying open evenings and weekends cut profits too much, an unregulated company would simply eliminate those hours of operation. But they can't do that if government does its job of setting clear standards and conditions and then holds companies to them.

Those who feel threatened by privatization say it leads to hanky panky (better known as corruption). This is always a possibility, but less so than the alternative, where decisions are based more on politics than efficiency. Without privatization, government is accountable to no one except an electorate that usually doesn't have a clear view of the hanky panky meter.

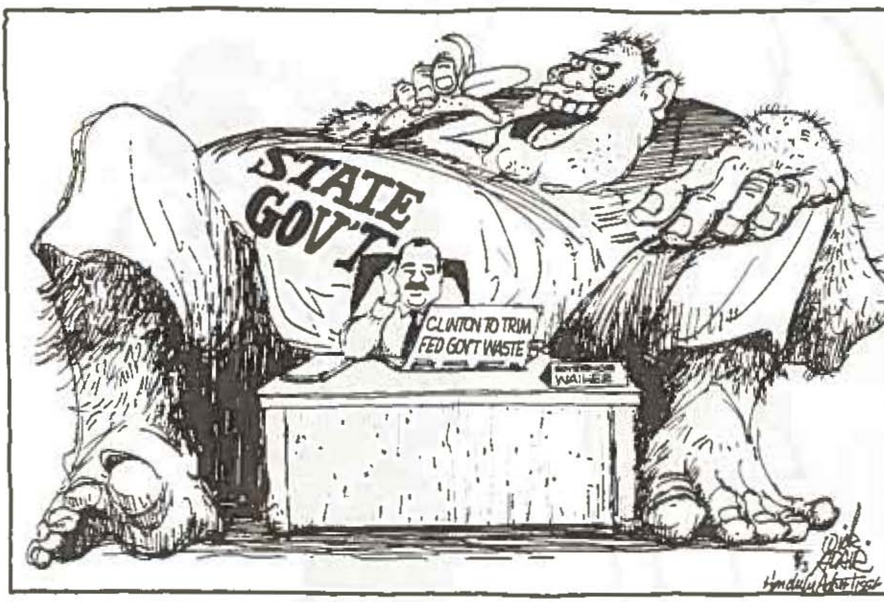
Successful privatization requires that both government and citizen watchdogs remain alert. All interested parties should know exactly what the private provider is contractually obligated to do. Imagine a private operator telling us he wanted to cut back on library hours evenings and weekends simply because his workers preferred a regular 9 to 5 work week. The community would raise cain!

Different with government. Bureaucrats almost never calculate the cost of providing goods or services. And when they try (usually for political reasons), cost accountants generally snicker. For example, the State of Hawai'i does not know the cost of the housing units it has provided. Sometimes direct costs are mentioned, but that's just the beginning—the high cost of street repair in Indianapolis was almost totally the result of excess management, not high direct costs. Similarly, if the cost of an inefficient bureaucracy were taken into consideration, the cost of state-provided housing would be shockingly high.

Perhaps you're thinking, "Yes, but at least they got some housing built!" If so, ask yourself if you would feel differently knowing that the cost of providing each $100,000 housing unit was, say, $300,000. We do know the cost of recently built prisons in Hawai'i, and at $520,000 per bed they are well beyond the national average of $40,000 to $100,000.

Privatization would not adversely affect the quality of trash collection, library services, prison construction and operation, housing construction, child care, road maintenance, airport management (to name a few of the possible areas); it *would* result in more efficiency. This, in turn, would allow our elected officials to reduce taxes or use the freed-up resources to improve the quality of those or other services.

Those of you who have been frustrated in your attempts to get more resources for your favorite area (mine is education) now know where to find them—it's called PRIVATIZATION.



GEE, I KNEW YOU WHEN YOU WERE...UH,
JUST THIS HIGH....."