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'Privatize' Equals 'Redistribute'

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What do we think about the "privatization" of government functions and services, the morphing of public goods into private ones? Think school vouchers, or private garbage collection, or parks that now charge big fees to get in.

I ask because we're likely to get more pressure soon for privatization in Wisconsin. The looming \$3 billion deficit expected in the next biennium pretty much guarantees it. As that noose tightens around the neck of the next governor, privatization will be offered as a way to wring efficiencies out of government while paring it down to essential functions. (Who really needs a mangy zoo anyway? Or for that matter, a mangy public school system?)

Advocates of privatization often annoy by effectively assuming their own conclusion. So they will argue that it's better to have business run something because businesspeople are smarter than bureaucrats, and then argue that they must be smarter since they typically get paid more. Or they'll argue that markets are always more accountable than governments, since consumers have more power in competitive markets than voters have in elections.

There are all sorts of dubious assumptions built into these common assertions - so dubious that there's really no reason to believe them at all, in fact - but you'd never know it from the confidence with which they're stated. But let's explore in a little more depth just one example of this sort of conceptual annoyance.

Take the claim that privatizing the provision of public services typically makes them more efficient. That sounds good, but is it true?

To show my own cards at the outset: I assume that there are inefficiencies in government, which should almost always be minimized. I also think privatization can be a good means to that end, and certainly one that always should be fairly considered. There is nothing sacred in public workers providing all public services. If the private sector can do a better or more efficient job, more power to them.

But this hardly means that privatization is a general antidote to government inefficiency, or even that it's a good idea. Usually, in fact, it's just redistribution upward.

To see why, let's be clear on what we mean by "efficiency." In economics it means lack of waste, or getting the most out of some input. Processes are more or less "efficient" the more or less they get out of the same input. More light per kilowatt of electricity, for example, or more miles per gallon of gas. By convention, the efficiency of labor is called its "productivity," and measured in labor output per hour. So asking if privatization increases efficiency is simply asking if it increases productivity.

Before answering that question let's digress to observe that, all else being equal, we like productivity improvements. The more productive a worker the more business can afford to pay and still make a profit, which in a capitalist world is the key to social peace. Productivity growth enlarges the pie produced by labor and capital, permitting both to eat more and shoot each other less. Productivity gains are shared by better-paid workers and still-profitable capitalists. Living standards and wealth both grow. Everybody's happy enough.

Returning to our question then, does privatization bring such happiness?

The answer is "almost never." Where it matters most - in labor-intensive government services - private labor is generally less productive than public labor. This is because public labor is typically unionized, which improves its working conditions and job tenure, making it more experienced and better trained.

All that privatization typically gets us is a private worker with worse wages and benefits than the public one who was displaced. That saves taxpayers money at first, but what goes around comes around. Poorly compensated workers contribute less to a community's tax base and draw down more of its public goods. They might use emergency room visits for their health care, for example, since they can't afford a doctor.

And who pays for that? The same taxpayer who thought he was cleverly saving money by "privatizing" whatever service this worker now provides.

That's why privatization is best thought of as redistribution. What used to be in the pocket of the unionized public sector worker is now in the pocket of a private employer, or coming out of the pocket of another taxpayer.

So the next time some politician tells you he's got the big answer - "privatization!" - ask him what the question was. Was it how to make government more efficient and accountable? Or was it how to pit workers against each other and get rich at both their expenses? If you ask this in a low-key way you can sometimes get the politician to squirm.

Joel Rogers is director of COWS, the Center on Wisconsin Strategy, at the UW-Madison. COWS is sponsoring "Sustaining Wisconsin," a statewide dialogue about the future of Wisconsin. Go to www.sustainingwisconsin.org for more information.

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