



LWVUS Privatization Study: Privatization of Governmental Services, Assets and functions

The Privatization study was adopted at the League of Women Voters of the United States convention in 2010. Our study and consensus meetings are scheduled for March 13 and April 10.

Scope of the Privatization Study:

“The purpose of this study is to identify those parameters and policy issues to be considered in connection with proposals to transfer federal, state or local government services, assets and/or functions to the private sector. It will review the stated goals and the community impact of such transfers, and identify strategies to ensure transparency, accountability, and preservation of the common good.”

Today many nations are faced with financial challenges. In the United States these problems are apparent at the federal, state and local levels. Encouraged by proponents of a conservative political philosophy, many people look to privatization as a simple answer to these financial challenges, a way to shift the burden of government to the private sector while reducing the size of government itself. However, privatizing a government function or service is not simple, nor is its outcome assured.

The purpose of this study is to identify policies and parameters that should be considered when any governmental entity is planning to undertake some type of privatization process.

Federal, state and local governments own extensive assets and are major employers. Governments often consider selling assets, and outsourcing some functions and services to the private sector, including “core” government services such as providing for the safety, security and general welfare (public well-being) of citizens, the economy, and our country. Privatization of these government assets, services and functions has been occurring for decades at all levels of government.

The consequences of “privatizing” a government service or function, in particular, may enhance the function or service. Alternatively, it may reduce or alter functions and services. Government revenues may be reduced or

lost and jobs may be cut. In some instances, this may have a detrimental effect on the “common good” or public well-being.

One state, for instance, has declared as a matter of state law and policy that “using private contractors to provide public services formerly provided by state employees does not always promote the public interest. To ensure that citizens receive high quality public services at low cost, with due regard for tax payers. and the needs of public and private workers, the (legislature) finds it necessary to regulate such privatization contracts throughout the state.”

Those promoting privatization claim that:

- the private sector can provide increased efficiency, better quality and more innovation in services than the government;
- a smaller government will reduce costs to the taxpayer;
- less regulation will provide a better environment for business, thus creating more jobs.

Those concerned about privatization suggest the following:

Profits: The mandate to make a profit will endanger public safety and reduce services available to the general public.

Costs: There will be increased costs to consumers.

Transparency and Accountability: Private companies will lack transparency, adequate oversight and accountability.

Corruption: There will be increased corruption between government and for-profit, private companies.

National Defense: Privatizing sectors such as ports, utilities and defense can result in foreign control and will put the country at risk in the event of war.

Inequality: The scale of privatized programs will result in chronic high unemployment, low wages and abusive labor practices, leading to growing inequality between the wealthy and poor.

The privatization movement is international.

Outside the United States, prominent divestitures of government assets have included Russia’s natural gas (Gazprom), Bolivia’s municipal water system in Cochabamba and the United Kingdom’s British Rail.

Inside the United States, privatization has taken the form of deregulation, e.g., the deregulation of the financial services industry; redistribution of the taxes “burden,” e.g., efforts to reduce individual taxes on capital gains and inheritances, and reductions of corporate taxes; and privatization, the shifting of government programs to the private sector, e.g., the prisons and highways.

History In the 1970s, disillusioned with the Progressive Era vision, leadership in the increasingly global private sector became more active, asserting that burgeoning tax rates and government regulations of industry were inhibiting free trade.

Efforts were launched to dismantle many Progressive programs such as restrictions on financial lending, elimination of worker’s compensation, elimination of control over food and environmental safety, and a revamping of the tax system by eliminating progressive taxes and replacing it with a flat tax.

Competing Theories

Milton Friedman The intellectual inspiration behind the public policies to privatize in the United States has come from the Public Choice and Property Rights schools of thought. Prominent leaders advocating these theories include Milton Friedman, the Chicago School of Economics, and Fredrick Von Hayek whose book, *Road to Serfdom*, warned of the growing welfare state. The basic assumptions include:

- Democratic political systems have inherent tendencies toward government growth and excessive budgets.
- Expenditure growth is due to self-interested coalitions of voters, politicians, and bureaucrats.
- Public enterprises necessarily perform less efficiently than private enterprises.
- The more individuals stand to gain from tending to their property, the better it will be tended.

John Maynard Keynes The dominant economic theory after WWII was that of John Maynard Keynes. Keynes believed that to break a depression, the government needed to stimulate demand. It was necessary to get money into the hands of consumers to jumpstart growth.

Businesses would not borrow and build if no demand was in sight, no matter how low the interest rates might go. Keynesian theories were later refuted by economist Milton Friedman and this dispute is at the core of the ongoing debate regarding how to break the current recession/depression.

Privatization in Practice

The key strategies as to how to downsize government and transfer programs to the private sector are described as:

Privatization by attrition Cessation of public programs and disengagement of government from specific kinds of responsibilities. Example might be the U.S. postal system.

Transfer of assets Direct sale or lease of public land, infrastructure, and enterprises. Examples might be federal and state parks, state-owned liquor stores and the proposed privatization of public libraries.

Contracting out (public/private partnerships) or vouchers Instead of directly producing some service, the government may finance private services, for example through contracting out or vouchers. Examples might be charter schools, prisons.

Deregulation Deregulation of entry into activities previously treated as public monopolies. Examples might be utilities, water, waste management, air traffic control and ports.

Role of Government

The public agenda of privatization requires a close examination of the proper relationship between government, business and civil society. What should the role of government be in protecting the environment, helping the poor, defending the nation, providing justice, ensuring democracy, protecting public health, ensuring public safety, providing education, promoting a thriving economy, and ensuring safe work environments and a living wage? Our country must seek a pragmatic balance between social and economic returns.

For more background information see:

www.lwv.org/member-resources/privatization