

Chapter 17

Privatization by Liquidating a Bureau

1. INTRODUCTION

A mature democracy has many bureaus. Some bureaus supply specific goods or services, like national defense, police, fire protection, and waste removal. Others are instituted only to purchase, or procure. Such bureaus decide which private contractors will be hired to provide services, they monitor the services, and they may administer the payments. Some bureaus are practically always fully financed by the government, as in the usual case of national defense. Others charge a fee for services, like the postal service, mass transit, national airlines, and parks. Bureaus like the postal service and mass transit are typically also protected from competition. They have a legal monopoly, receive subsidies or tax breaks, or are favored by other restraints on competition or by special privileges.

For some services provided through the government, the time eventually comes when the legislature decides that it no longer wants

Privatization: A condition that a legislature aims to achieve when it decides to stop supplying some good or service or to reduce the government's role in the supply.

to supply them or that it wants to reduce the government's role in their supply. Either conditions have changed or the legislature regards the initial decision to supply as a mistake. We call this new decision a decision to *privatize*. Its goal is the condition of *privatization*.

The opposite of privatization is *socialization*. Socialization occurs when the legislature hires people to provide a good or service that was previously supplied privately or when it increases the government's role in the supply. Socialization was popular during the earlier part of this century. The most socialized societies today (2003) – in other words, the societies with the largest proportion of services provided through government bureaus – are North Korea, Cuba, and the oil-rich Arab-Muslim dictatorships.

In more capitalist countries, there has been a pronounced trend in recent years toward privatization. The two countries with the largest populations – China and India – have been shifting from socialization to privatization. Many of the newer democracies in the former Soviet Union are privatizing government companies that they inherited from the socialist governments they replaced. Still other countries in Asia, South America and Africa are being persuaded by international aid agencies or pressured by citizens to privatize some bureaus. Finally, older, western democracies like England and the United States are privatizing services that they had earlier socialized.

Types of Privatization

Privatization ranges from what we might call complete privatization to various forms of incomplete privatization. Complete privatization is the goal of a government decision to lay off all the government workers who supply some good or service. The aim is to turn the choice of whether to supply over to private individuals in the market economy. Subsequently, if the good or service is supplied, it will be supplied by businesspeople in anticipation of profit or through the giving of philanthropists.

Complete privatization means quitting -- selling off, or liquidating, the bureau. The legislature completely abandons responsibility for providing a good or service. An example is a government that decides to quit supplying air travel services. The U. S. government has never owned a commercial airline company. The governments of many other countries, however, have either owned an airline themselves or have heavily subsidized a private airline. The leaders of developing countries have been especially inclined to want their own airline, or "flag carrier." Since these countries initially lack the technology and training, they typically pay a foreign company or government to help them get started. The

foreigners help to purchase aircraft; to train and hire pilots, mechanics, workers, and other personnel; to design the airports; to arrange schedules; to decide rates; and so on. During the time that the foreigners help the airline, the government pays large subsidies.

When the foreigners leave, the government continues the subsidies, expecting the airline to someday become pro-

Complete privatization: liquidating a bureau that supplies a good or service.

fitable. However, in some cases, it never becomes independently profitable and the government eventually decides to put a halt to the waste. It decides to liquidate by selling off the assets.

There are various forms of incomplete privatization. The most important is contracting out. Contracting out means buying goods or services under contract instead of having them produced by government bureaus. It may occur at various levels. At the lowest level, the sub-department of a bureau may contract out part of its services while providing the rest itself. For example, it might make a contract with a private janitorial company to sweep the floors and wash the windows. At the highest level, the legislature may direct the accounting bureau to contract out all of the services previously supplied by a bureau. An example is the hiring of a private waste removal company to replace the government bureau that previously did this job. In addition to contracting out, a government may privatize by deciding to charge user fees (Chapter Fifteen), by subsidizing demand through a voucher system, or by permitting free competition from private suppliers with government-sponsored monopolies.

Plan of this Chapter

These other forms of privatization are discussed in Chapter Eighteen. The purpose of this chapter is to consider the kind of complete privatization implied by the term “selling off a bureau.” In our discussion, we shall focus on two main issues. The first is whether complete privatization will occur at the most efficient time. We shall see that when a service is already being provided, there are individuals who have a special interest in delaying or retarding liquidation. Especially important are those who are likely to lose their jobs or other benefits.

The second issue concerns how the liquidation is to be administered. Given that a legislature makes a decision to liquidate, how can the liquidation be most efficiently carried out? What procedure should a government follow if it wants to liquidate a bureau?

The second part of this chapter shows why there is a tendency to delay liquidation beyond the optimal time for it to occur. Part three shows how the privatization can be made more attractive in order to persuade voters and pressure groups to permit it to occur sooner. Part four describes various aspects of the administration of a bureau's privatization.