

BOOK REVIEWS

**Privatizing Federal Spending:
A Strategy to Reduce the Deficit**

Stuart M. Butler

New York: Universe Books, 1985, 186 pp.

There is no shortage of fervent tracts and ideological treatises on the virtues of privatization, but there is not yet an abundance of intellectually respectable writing that goes into detail, provides compelling support for the concept, and persuades by reason rather than by rhetoric. Stuart Butler, the person who was the transatlantic carrier of enterprise zones, helps redress the balance in his latest book. This is a carefully reasoned, nonpolemical, well-written, and highly readable book whose title clearly defines and delimits the book's contents.

The book begins with an analysis of the Reagan administration's effort to reduce spending by cutting Congress's allowance, that is, by denying Congress the taxes to spend or to squander. This is referred to as a supply-side approach—reducing the supply of available funds. This tack has been notably unsuccessful, as evidenced by the growth of federal spending as a percentage of the Gross National Product. The reason for the failure—by this measure—is that the demand for federal programs has not been checked, and continues to be fed by the powerful coalitions that spring up behind each program, coalitions comprised of bureaucrats, beneficiaries, service suppliers, political activists, and legislators. Legislators learned long ago that it is perfectly legal to buy votes, as long as public funds are used; it is illegal only if private funds are employed for the purpose. Butler reviews the process, identifies the roles and behavior of the participants, and analyzes the reasons why government programs grow. The ratchet effect assures that spending moves only one way, up—a recent French book that is part of the growing international movement toward less government is titled *Toujours Plus (Always More)*.

Madsen Pirie, author of *Dismantling the State*, recounts the experience in England when an attempt was made to close the frightfully expensive and no longer necessary public bath-houses, a vestigial remnant of the Victorian era. The handful of users chained themselves to the doors, but no taxpayer in his right mind would demonstrate as forcefully

for their closure. As a result the bath-houses were kept in the budget. That is what happens when the benefits are concentrated and the costs are dispersed. And that is what happens when the goods being dispensed are private goods rather than collective goods; private goods benefit individual recipients directly and therefore are subject to this kind of perversion. Collective goods, whose provision unquestionably requires a collective—often governmental—effort (for example, a big-city fire department), generally lack such devoted supporters because relatively few people are direct beneficiaries. There are many indirect beneficiaries, however, such as purveyors of supplies, local merchants in the vicinity of a firehouse, and so on.

Butler includes interesting discussions on the privatization of federal properties, such as public housing, public lands, and Amtrak. The Reagan administration has opposed more construction of assisted housing and instead adopted the voucher system—one of the most promising approaches to privatization. But what can be done about existing public housing? In Britain, the Thatcher government succeeded in selling off almost a tenth of the public housing and its program could serve as a model for the United States. The circumstances are sufficiently different, however, to require a special effort. Public-housing tenants in England (a third of the population) have a median income very close to the national median, whereas in the United States public-housing tenants have much lower incomes than the median. Moreover much of the public housing in England consists of one-family units; in the United States relatively more is in multifamily structures. Altogether then, in the United States there are more impediments to selling off the public-housing stock to current tenants. Butler therefore advocates tenant-management cooperatives as an interim arrangement before granting tenants the right to buy.

In addition to the question of privatizing federal properties, Butler also addresses the question of privatizing federal services. Human services, including social security, constitute such a large portion of the federal budget that no discussion of deficit reduction would be complete without treating this thorny area. Greater reliance on “mediating structures” in the private sector—such as families, churches, and neighborhood groups—is the key to better performance of most social and welfare programs, while reform of the social security system should follow the carefully wrought recommendations of Peter Ferrara. These can be summarized briefly as separation of the welfare function from the retirement income function, and for the latter, reliance on mandatory contributions to individual retirement accounts (IRAs) rather than reliance on a government-sponsored Ponzi scheme.

Other federal services Butler examines are the postal service (an inviting target), commercial space transportation, air-traffic control, and defense procurement. Butler does not flinch in castigating major defense contractors who, while technically within the private sector, are virtually indistinguishable from government bureaus. Locked in an embrace with

procurement officials, the firms do not operate in a truly competitive environment. Butler calls for more competitive procurement practices, greater competition among services within the Pentagon bureaucracy, and, above all, an independent testing office in the Department of Defense to evaluate and perform acceptance tests on weapons systems that are being developed and delivered; this is in distinction to a system where the unit that wants a weapon decides whether what they got from the contractor is good enough.

The greatest original contribution of this book is its continual emphasis on building political coalitions to implement privatization and to ensure its permanence. Instead of merely serving as yet another eloquent plea for privatization, the book carefully identifies potential beneficiaries of privatization and suggests ways for them to coalesce into counter-constituencies that can overcome the coalitions for government spending and can change the status quo. Butler offers the following 10 techniques for privatizing federal spending: (1) Challenging the classification of goods, that is, adhering rigorously to the scheme proposed by Savas,¹ and selecting suitable market segments for privatization; (2) pressing for programs to be administered and financed closer to the end user; (3) linking specific taxes to specific spending in order to establish a clearer relation between costs and benefits; (4) applying user charges wherever possible to further strengthen the recognition that benefits have costs; (5) "buying out" key members of the spending coalition; (6) using research and public relations effectively; (7) deregulating government monopolies and introducing competition; (8) providing tax incentives that promote privatization; (9) strengthening privatization coalitions by fostering and organizing suitable networks; (10) employing incremental rather than revolutionary tactics.

Butler has a thorough understanding of the policy making process. His privatization proposals are well reasoned and innovative. As such his book makes a significant contribution to the privatization literature.

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Blueprints for Basic Tax Reform, 2d ed.

David F. Bradford and the U.S.

Treasury Tax Policy Staff

Arlington, Va.: Tax Analysts, 1984, 194 pp.

The publication of a revised second edition of *Blueprints* should delight those interested in taxation. Readable style and lucid analysis have already made this 1977 Treasury Department study a classic. But do not expect everything. It is only 200 pages and readability takes a few words here and there. What is sacrificed is scope.

¹E. S. Savas, *Privatizing the Public Sector: How to Shrink Government* (Chatham, N.J.: Chatham House Publishers, 1982).