Privatizing the Public Sector: How to Shrink Government,
by E. S. Savas. Chatham House, 164 pp., $15.00.

Pseudo-market solutions

DAVID BOAZ

AS THE COST OF GOVERNment soars, the quality of services provided by the government is declining. Educational test scores have been dropping, America's infrastructure of roads, bridges, and water projects is falling apart, and mailing a letter is an act of faith. The response to all this has varied widely. Establishment liberals call for $3 trillion in new public spending on the infrastructure alone, socialists offer "economic democracy" as the panacea for government failure, and in many states the voters join the tax revolt.

Rarely do these solutions question the fundamental assumption that needed services should be provided by government in a more or less traditional way. Rather, the debate is confined to such prescriptions as spend more, spend less, or put different people on the planning boards.

The growing privatization movement would seem to offer the possibility of some fresh thinking. Accepting the argument that government is too costly and that services are deteriorating, the advocates of privatization suggest that some services could be better provided by private firms. They cite the company that delivers fire protection in Scottsdale, Arizona, for 47 percent less than a municipal agency would, or the savings realized by cities that contract out the provision of garbage collection, data processing, or other services.

Nevertheless, despite the appearance of novelty, the supporters of privatization remain trapped in established patterns of thought. Government schools are too expensive, they say, so let's have the government collect money and then give it to students to be spent at schools that look remarkably like government schools. Likewise with refuse collection, transportation, or electric power.

The point that seems to escape even the privatization advocates—who generally have an appreciation of the efficiency and innovation characteristic of the private sector—is that many public services have been molded into their present form by years of government provision or control. It is difficult to imagine what a particular service might look like if it were permitted to evolve naturally in a free society, but what must be recognized is that it might be quite different. Indeed, a particular service might not even exist if it were allowed to develop without government domination. Perhaps there would be no garbage collection as such because people making decisions in a free market would find it more advantageous to immediately recycle wastes as fertilizer or biomass energy. Perhaps there would be no recognizable "schools" beyond the primary grades because people would find alternative ways of acquiring knowledge. The point is, we can't give definite answers to these questions, but we shouldn't assume that "services" must always take the shape they have.

Within the narrow paradigm of establishment thought, however, E. S. Savas offers some generally useful analysis. He understands at least some of the fundamental causes of government growth: officials who work to enlarge their own budgets and staffs, and hence their power; the "problem-finding elite," who seek out—and often invent—problems for government to solve; public employees, who vote much more heavily than private-sector workers; and, perhaps most important, the concentrated benefits and diffuse costs of government action. This last implies that while the small group of people who expect to profit substantially from a spending measure will lobby vigorously for it, the larger group of taxpayers, each of whom will pay only a few dollars more in taxes, has no incentive to fight the proposal.

Savas's main intention, however, is to analyze how government services might better be delivered. He offers broad strategies for achieving this. The first, rather inelegantly called "load-shedding," means allowing goods or services to be provided by the marketplace. The others involve reducing the role of government in furnishing the service, levying user charges, or introducing competitive arrangements. Analyzing government services from garbage collection to nursing homes to education to police protection, Savas reviews how well the alternatives might work in practice. He generally finds that a greater reliance on the private sector can improve the delivery of services, reduce the tax burden, and reverse the trend away from individual freedom.

Unfortunately, few of Savas's proposals involve turning government services over to the free market, to be provided at market prices to voluntary purchasers, and to evolve naturally in whatever direction consumers choose. Instead, he proposes such pseudo-market solutions as intergovernmental agreements, contracting out, franchises, subsidies, and vouchers. Very little may actually be gained by these steps. When the government subsidizes housing or mass transit, for instance, the producers benefit, and certain users benefit in the short run. But most people are made worse off because capital is used inefficiently, and resources are allocated by political pressure, not by consumers. Moreover, we get the kind of housing or transportation that government wants, not what people would voluntarily select.

When the government decides to give a private company a monopoly franchise in a particular service—say, garbage collection—are consumers and taxpayers any better off? There is evidence that even in this sort of arrangement, private companies are more efficient than government. But if only one company is allowed to offer a service, there is no free market, and the payment charged by that company is virtually indistinguishable from a tax. Even if two or more companies are allowed to "compete," there will likely be little difference in what they supply, and there is certainly little chance of

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fundamental change in the nature of the service. Most important, there is no evidence that governments cut taxes when they save money on the provision of a service. Rather, they regard that as an opportunity to spend more on some other program. The level of taxation is set not by how much government needs, but by how much it can get. Thus a reduction in the government's costs will not lead to tax reduction.

SOME DISTINCTION HERE should be made between real services that government has usurped and the functions of government that are not in fact services, but the reverse. In the former category are education, health care, garbage collection, fire protection, energy, transportation, postal service, weather forecasting, water, and a host of others—all things that people need and would pay for. The latter category would include zoning, narcotics arrests, tax collecting, foreign invasions, busing, draft registration, and all the other things government does that people would be better off without. The goal of those who favor freedom and prosperity should be to privatize the former services—to remove government from the provision of them and allow consumers to choose what services thay want in the free market. If privatization moves us in that direction, it may be a valuable step. With the latter, however, our goal is not to make them more efficient, but to abolish them. We do not want private, efficient enforcement of the tax and drug laws—we want to liberate people from the burden of them.

Savas, unfortunately, does not make such a distinction. His list of services provided by private firms under contract to municipalities includes planning, government public relations, zoning, licensing, narcotics investigations, and even tax collection. I began to wonder if this book was an elaborate parody of the privatization idea when I read this sentence: "Private air forces have come into being in recent years to engage in war under contract." Presumably, private air forces kill, say, 27 percent more of the enemy at half the cost.

Savas offers a strong argument for the greater efficiency of private companies in providing genuine services. He reels off a string of impressive figures: The average cost per patient per day at Veterans Administration nursing homes is 83 percent higher than the cost of comparable care in privately operated nursing homes. Municipal fire protection is 89 percent more expensive than contract service provided by the private firm in Scottsdale. Private weather forecasters have a better record than the National Weather Service.

What can we conclude about privatization? Clearly, we get poor service at a high cost from government. But franchising, contracting out, and the like will merely give us monopoly services under a different name. The taxpayers are not likely to benefit. And even if government budgets look smaller, we are no better off if we simply have to pay for the service in the form of user charges instead of taxes. One of the endorsements for the book—from Allen Schick of the University of Maryland—makes an interesting point: "One does not have to buy Savas's argument that government has grown too large to benefit from his demonstration that it can be made more efficient. . . . He has provided . . . a useful guide for governments trapped between rising costs and taxpayer revolts." Indeed, privatization may simply be a holding action for governments trying to preserve their control in the face of taxpayer revolts. By granting a monopoly franchise to one company, they maintain their control of an important service, but the payment is shifted to the taxpayers instead of coming out of the government's budget directly. One could "privatize" the whole government this way—make each of us pay a fee directly to some company for each service now provided. Government would be "smaller," but would we be any freer?

Contracting out ignores not only the economic reality that freedom of entry and consumer choice are what make the marketplace work, but also the fundamental point of justice: Consumers should have the right to choose what services they want from which suppliers. Savas provides some useful arguments for the efficiency of the private sector, but he misses the fundamental distinction between free enterprise and state capitalism. And when he talks about private air forces hired for wars, competing city planning bureaus in Yugoslavia, culture vouchers to allow people to select from among approved cultural events, or private narcotics investigations, he does the free market a greater disservice than many of its avowed enemies. ■

Voices of Protest: Huey Long, Father Coughlin, and the Great Depression, by Alan Brinkley. Alfred A. Knopf, 348 pp., $18.50.

The New Deal's populist cranks

JOSEPH R. STROMBERG

WHEN I WAS A HIGH-school boy, growing up on family tales of Rooseveltian duplicity, I used to go to our small-town library to learn about FDR's much maligned opponents. There wasn't much on them, and none of it favorable. So I made do with classics like John Roy Carlson's *Under Cover* and O. John Rogge's *The Official German Report*. According to them, every vocal critic of FDR's foreign and domestic policies was a fascist or fascist dupe. Even so, here was information of sorts and plenty of names of supposed right-wing "crazies." FDR's enemies were clearly a mixed lot. Since then, newer works have made it easier to separate the conservatives, socialists, classical liberals, progressives, and yes, real fascists who stood against FDR. Father Charles E. Coughlin was hardly the best of the lot; Huey Long was even worse.

Now along comes Professor Alan Brinkley of MIT to reopen the cases of Father Coughlin and Senator Long and rescue them from charges of fascist subversion. His treatment is built partly on a sense of the New Deal's limitations, which has grown up among younger historians. This allows him to reevaluate Long and Coughlin as New Deal critics.

Brinkley describes Long's meteoric rise from small-town lawyer to a governor of Louisiana with unprecedented personal power. As senator from Louisiana, Long was a Southern demagogue-at-large whom Roosevelt genuinely feared. If spending tax dollars and issuing state bonds is progress, then the Kingfish was the most progressive Southern governor of the age. As senator, his brazenness, buffoonery, and open power-lust kept him out of the Club. He didn't care, preferring to win a national following by attacking concentrated wealth. Radio was his natural platform. Only his assassination in 1935 prevented his "Share Our Wealth" movement from creating serious problems for the New Deal.

Like Long, Father Coughlin, a parish priest in Detroit, discovered radio at the right time and place. His radio sermons combined antiindividualist Catholic social doctrines—following Leo XIII and Pius XI—with his own inflationist monetary schemes and a vague "isolationism." As "the radio priest," Coughlin had millions of regular listeners and, at his peak in 1935, used them to help defeat the World Court treaty by bombarding the Senate with telegrams.

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But Long and Coughlin were competing for the New Deal's constituency: people eager for anti-Depression panaceas. Every time Long and Coughlin seriously criticized the New Deal, they lost followers. They just couldn't outdo the snake-oil salesman in the White House. After Long's death, his supporters largely returned to the Roosevelt fold. Coughlin's increasing alienation from the government after 1935 reduced his following to a small hard core. He took up anti-Semitism after 1938, as well as nonintervention abroad (no necessary connection). He was silenced after Pearl Harbor.

What alternative vision, if any, did Long and Coughlin offer? Long wedded populism to economically fantastic ceilings on personal wealth and a tax-financed income floor for all. Coughlin mixed populist monetary nostrums with social Catholicism. Dumb, but not all that fascist. One can argue that it was the New Deal that was more "fascist" than either of these two ridiculous radio demagogues. Critics as diverse as John T. Flynn, Garet Garrett, William Appleman Williams, Murray N. Rothbard, and even Ronald Reagan have remarked on the striking resemblance between the New Deal's liberal corporatism—with its myriad of restrictive, cartelizing programs—and the Italian fascist corporative state.

For Brinkley, Long's and Coughlin's "ideology" reaches back into American populism and, ultimately, republicanism. The two cranks and their followers wanted "a carefully restricted expansion of the role of government" to arrest "the steady erosion of the individual's ability to control his own destiny." Viewing great wealth, monopoly, and big government as a single problem, they sought to "restore" competition and local autonomy through, of all things, selective federal intervention. Believing the market had come undone of itself, they prescribed a Visible Hand to save their declining way of life.

For the author, the attitude—if not the program—came out of "republicanism," the antistatist ideology of the American Revolution. This analysis is certainly half true, but it may not get us very far. If fear of centralization, oddly combined with piecemeal federal intervention, was the only thing left of "republicanism" by the time of Long and Coughlin, then the outlook was dead long before they arrived. What bears explaining is how we got from republicanism with brains (Thomas Jefferson, John Taylor, Samuel Tilden) to republicanism without brains (your choice). Perhaps it was unavoidably debased into empty rhetoric by our venal two-party system. Its demise left would-be reformers up the programmatic tributary *sans* paddle. Real republicans knew that monopoly and extreme concentration of wealth result from extraeconomic coercion, the intrusion of political power into economic society. They wanted a thorough sweeping away of the obstacles erected by political privilege, a *laissez-passer* to free economic growth.

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