Privatization: An overview from a public administration perspective

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PRIVATIZATION:
An Overview From a
Public Administration Perspective

by
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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>Definition: Variations on a Theme</td>
<td>3</td>
</tr>
<tr>
<td>Why is Privatization Popular Now</td>
<td>11</td>
</tr>
<tr>
<td>The Privatization Option</td>
<td>17</td>
</tr>
<tr>
<td>Privatization &amp; Public Sector Management</td>
<td>28</td>
</tr>
<tr>
<td>Concluding Remarks</td>
<td>53</td>
</tr>
<tr>
<td>Footnotes</td>
<td>58</td>
</tr>
<tr>
<td>Bibliography</td>
<td>60</td>
</tr>
</tbody>
</table>
"Not content with justifying the idea of private property, I should like to make it appealing even to the most rabid partisans of public ownership."

Frederic Bastiat (1850)

INTRODUCTION

The government of Great Britain, in 1984, sold by public subscription 51 percent of the shares of the previously nationalized British Telecom Corporation.

In Bangladesh, the government recently sold to private investors a number of jute mills nationalized by the government a decade ago.

China, shedding the xenophobia of the Maoist period, is entering into a number of joint-ownership ventures with Western firms.

President Ronald Reagan of the United States recommended in his 1988 Budget Message to Congress that the five power marketing administrations (PMAs) be sold to private investors.

These five decisions taken by governments functioning under widely divergent political and economic systems share a common characteristic. They are all instances of decisions designed to promote and implement a concept called "privatization."

It is evident to even the most casual reader of newspapers and journals that "privatization" is a popular idea at all levels of government. As with many political labels, however, privatization is interpreted to mean many different things. Although the term may inspire a number of interpretations, there is an underlying consistency in its principle theme. The theme of privatization appears to be that wherever and whenever possible, the objective of public
policy should be to shrink the size and role of the public sector vis-a-vis the private sector.

This theme cuts across many scholarly disciplines resulting in a somewhat confusing welter of terms, concepts, and literature. Although the parentage of privatization is clearly traceable to the discipline of economics, and more particularly to the free market school of economics, related disciplines such as public administration and law also have been involved to varying degrees with the development of privatization.

The purpose of this study is to provide an overview of privatization with emphasis given to its potential impact upon the United States federal political and administrative systems and to explore the various elements of privatization. While much of the current debate over privatization is conducted by economists using the language and concepts of that discipline, this paper will emphasize the implications of privatization upon the field of public administration. The discussion will range from the descriptive accounts of what is taking place here and abroad to questions concerned with theoretical distinctions between the public and private sectors.
CHAPTER 1

DEFINITION: VARIATIONS ON A THEME

Privatization, as a word and as a concept, is closely associated with the discipline of economics. It is a term employed internationally, as well as domestically, and is today one of the central concepts in many discussions of possible future directions for the world economy.

The term "privatization" has come to be a short-hand referent to describe a number of practices. If public activities are viewed on a spectrum with one end being a pure public function and the other end being a pure private function, any decision that moves an activity toward the private end of the spectrum is likely to be described as an act of privatization. In many instances, however, the shift from the public sector is partial, with residual responsibility remaining with the public sector. This is the case, for instance, when the performance of a function is contracted-out to a private firm.

In discussions promoting privatization, Ted Kolderie asserts that some governmental services ought to be "turned over to" the private sector. Kolderie asks: What does "turned over to" in this context mean? "Government performs two quite separate activities," Kolderie points out. "It is essential to be clear which activity would be dropped under privatization. Is it the policy decision to provide a
service? Or is it the administrative action to produce a service?" Generally speaking, the decision to "turn over to" the private sector some activity in the public realm refers to the actual production side of the service rather than the responsibility for deciding whether the service ought to be provided, a responsibility that generally remains with a governmental unit.

While specific privatization proposals will differ in their scope and method, promoters of privatization are quite clear in their objectives. In every instance, the objectives of privatization are to reverse the century-long expansion of the public sector; to decrease the intervention of the state in the economy and private lives generally; and to promote the productivity of the unit in questions through deregulated free markets. However, it is not sufficient to approach this study with only the general designation. It is necessary to have some understanding of the specific forms it can take.

The word "privatization," as previously indicated, is a general term covering a number of distinct activities. Included in the list of methods for privatization are: divestiture (selling) of corporate bodies; contracting-out for the performance of services; imposition of user fees; use of vouchers; awarding of franchises; and voluntarism. Each of these methods for providing a public function is worthy of separate study. Indeed, the literature on contracting-out is substantial in itself. In recent years, however, the
activities noted above have often been subsumed under the more general term of privatization.

DIVESTITURE

The sale, or divestiture, by a government of any agency, corporation, or service, to private ownership is the most clear-cut method of privatization. Another form of divestiture is to simply sell some asset, such as Federal land, to a private firm or individual. Or, the government may simply give some asset away as the federal government did when giving land to homesteaders in the 19th century.

Whether the immediate objective is to provide revenue to the Treasury, or to increase the output from a particular resource, or to assist some worthy public cause, the decision to divest a government asset involves the complete transference of this asset from the public to the private sector.

CONTRACTING-OUT

The administrative branch of government may be assigned responsibility for performing a function and decide that actual delivery of the service would be best provided by another party, usually a private firm under contract. "Contracting-out" is a practice as old as the Republic and is common at all levels of American government. In recent years there has been a marked trend toward increasing the scope of contract services, particularly at the State and local
levels, to include areas, e.g., prisons, not previously considered appropriate for assignment to the private sector. The Federal Government spent $100.2 billion in contracting commercial services in the fiscal year 1980. That figure grew to $173. billion in FY 1982, according to the Office of Management and Budget. Promoters of privatization argue that notwithstanding increased levels of contracting-out, the Federal Government has not been assiduous enough in pursuing this alternative to direct provision of services.

USER FEES

Governments have a choice when providing a service; they may decide to provide the service "free" to all who choose to use it, or they may charge a fee to users to cover all or part of the cost for providing the service. A decision is made, for instance, to charge, or not charge, a fee (admission) to visitors of national parks. User fees can be rationalized as a means to reimburse the public for at least a portion of the cost incurred for providing the service.

A user fee may be set at a rate sufficient to cover the actual cost of providing the service to the user. Or, the purpose of a user fee may be to discourage the indiscriminate use of a service or resource. The rationing of a service or resource through user fees imposed by a public sector authority has as its purpose the achievement of an equilibrium between use and resource renewal.
VOUCHERS

There are situations where a government may desire that a particular service be funded with public funds, but not delivered directly by a governmental entity. The government may choose to give the recipient of this service a "voucher" to purchase the service from private or public sources. An early example of a voucher program was the "GI Bill" after World War II when veterans were given a voucher to go to an accredited school that would admit them. Recipients then had the advantage and reward of shopping around for the best deal. The objective in using vouchers is not so much to reduce spending as it is to increase the responsiveness of service providers to consumers. In recent years, additional fields have opened up to vouchers including such well known programs as Food Stamps and certain housing programs.

ADDITIONAL DIMENSIONS

It should be evident by now that privatization has many facets. The above mentioned methods for privatization do not exhaust the list of possible approaches to the subject. Governments, for instance, can award franchises (exclusive right to provide services in a geographical area) to private firms. Or, governments may permit private competition with existing public sector agencies or corporations. Governments may encourage non-profit and voluntary organizations to perform public function. Finally, governments may simply decide to stop furnishing a service thereby creating a need.
which has to be met by some provider in the private sector. The topic of privatization has many variations, but the underlying theme appears to be, whenever possible, to reduce the responsibility of the public sector for providing and/or producing services.4

There are certain services (public goods) whose value to society, rather than to specific individuals or groups, is so great that the cost be paid through general tax revenues rather than through the imposition of a fee upon a specific category of user. Defense expenditures are often cited as a case in point. Other services, however, have utility to smaller groups in the private sector and thus support through general tax revenues constitutes, in effect, a subsidy to users.

It is important at this point to discuss what kinds of goods and services should be delivered by government, and what kinds should be delivered by the private sector. To make this distinction, two concepts are employed: exclusion and consumption.

Henry states that exclusion refers to the degree of control that both buyer and seller have over a particular commodity. Most goods are like a bag of groceries. Once purchased, the buyer has agreed to a purchase price determined by the seller. In this case, the seller exercises a high level of exclusionary control. Other goods and services are not so easily controlled. For example, a
lighthouse has a very low level of exclusivity. All ships within sight of the lighthouse can benefit from its service. Exclusion, in short, is a matter of economics rather than logic. Some goods and services can be excluded from the marketplace more readily than others.

The second major point referred to by Henry is that of consumption. Some goods and services may be consumed, or used jointly by many consumers without being diminished in either quality or quantity, while other goods and services are available only for individual rather than joint consumption. An example of joint consumption would be a television broadcast. All viewers may "consume" a television broadcast "jointly" without the program being diminished in either quality or quantity.

Using the notion of exclusion and consumption, Savas classifies goods and services according to certain kinds of "pure forms". He lists these as being private goods, toll goods, common-pool goods, and collective goods.

Private goods, he says, are pure, individually consumed goods and services for which exclusion is completely feasible. The marketplace provides private goods readily, and this supply is based on consumer demand. Government's role in the supply of private goods and services is largely limited to assuring their safety, i.e., building inspections, honest reporting, and so forth.
Toll goods are pure, jointly consumed goods and services for which exclusion is completely feasible. An example would be cable television, electric power, and water supplies.

Common-pool goods are pure, individually consumed goods and services for which exclusion is not feasible. There are supply problems with common-pool goods. There is neither a requirement to pay for common-pool goods nor any means to prevent their consumption; they are in short, "free". An example of such goods is the clean air supply.

Finally, there are collective or public goods, which are pure jointly consumed goods and services for which exclusion is not feasible. The marketplace cannot supply these goods because they are used simultaneously by many people, and no one can be excluded for consuming them. National defense, broadcast television, and police protection provide examples of collective goods.

It is in the area of public goods that government has the greatest responsibility for management regulation. Savas urges that the role of government be reconsidered in providing private and toll goods and service, and offers a variety of alternative institutional arrangements for the delivery of these services. These include direct government service, intergovernmental agreements, contracts with the private sector franchises, grants, vouchers, market place mechanisms, voluntary service and self-service.6
CHAPTER 2

WHY IS PRIVATIZATION POPULAR NOW?

Why has privatization suddenly gained in favor in the United States? Four responses come to mind: (1) general disillusionment with government after the Great Society; (2) initial salutary results from economic deregulation policies; (3) public sector revenue limitations that encourage experimentation with service delivery systems; and (4) the election of Ronald Reagan as President.

GENERAL DISILLUSIONMENT WITH GOVERNMENT

Beginning with the New Deal in 1933 and extending down through the latter stages of the Great Society in 1968, the general thrust of public policy was to rely on the Federal Government to solve real and perceived social problems. Recall that during this period programs like Social Security, Medicare-Medicaid, The GI Bill, education benefits, student loans, social programs like Head Start, the Older Americans Act and all of the Community Action Programs were created. For the most part, the technique followed was to define a problem, design a program to address the problem, assign the administration of the program to a Federal agency, then fund the program and move on to the next problem area. In this manner, vast sums of tax money were committed to public sector agencies and activities. Criticism of this approach surfaced early, particularly with respect to program
objectives and measuring the progress toward these objectives.

Among those programs singled out for criticism, for example, were assistance programs for the poor. Arguments were presented by the critics of the Great Society that well-intentioned programs were not only failing to achieve the intended results but were in fact often producing the exact opposite of the intended effect. The net result of the extensive programs of the Great Society, it was subsequently asserted, was to create a permanent dependent class outside the economic market place. Disillusionment with the Great Society approach to social issues was closely followed by disillusionment with the efficacy of the public sector in general.

Many of the critics of the Great Society, though by no means all, argued for more reliance on the private sector as an answer to chronic economic and social problems. The theories long offered by classical liberal economists were examined anew for applicability to the current situation. By the early 1970s, the ranks of these economists not only had grown but they had become part of a larger "conservative intellectual movement." Although "the Movement," like other political movements, consisted of many groups advocating differing policies, there was general agreement among them that the public sector had grown too large and that free market principles needed to be "repackaged" and
given application through the political process. The Community Action Programs (CAP) created during the Great Society provided community based services for low-income individuals and families. While many of the programs continue to exist today, they have been repackaged with a new approach to meeting the needs of an ever changing low-income population. It is discussed in a later section the growing welfare state and government's inability to stop its growth, despite the efforts of a new breath of conservatism in Washington.

DEREGULATION AS PUBLIC POLICY

Historically, the government of the United States has avoided, where possible, involvement in commercial enterprises. Except for extraordinary circumstances, such as war, commercial firms have not been nationalized. Public ownership has been rejected as a method for promoting federal policy priorities and objectives. Instead, these objectives have been advanced through regulations, e.g., environmental protection laws, and through a variety of direct and indirect aid programs, e.g., farm subsidies, to various segments of the economy.

At the same time that the categorical programs approach to public policy administration came under attack, increasing criticism was heard from those who questioned the wisdom and utility of government regulation of the economy as a means to achieve certain social objectives. Free market advocates
contend that government regulation of economic sectors, particularly market entry and pricing mechanisms, constituted, in effect, a form of indirect taxation which, arguably, decreased productivity and competitiveness.

The first political success for the free marketeers occurred, interestingly enough, during the Carter Administration (1977-1981) when "deregulation" was accepted as administration policy and applied to commercial passenger airlines. President Jimmy Carter, on signing P.L. 95-504 in 1978, declared: "For the first time in decades, we have deregulated a major industry." The shift away from government regulation was hailed as a move toward more market-place competition.8

In the 1970s, the political language and terms of reference appeared to pass from the discipline of sociology toward the discipline of economics. The working vocabulary for political discourse tended to shift from terms such as "participation" and "community action" toward phrases like "supply-side" and "tax expenditures." Economic efficiency and productivity tended to replace poverty as the prime object of political attention as the growth rate in the gross national product began to slow down. Concern over structural budget deficits and unfunded liabilities, long the province of professional economists, now occupied the time and attention of political leaders at all levels of government.
EXPERIMENTATION WITH DELIVERY SYSTEMS

In a parallel time-frame with deregulation were the "tax revolts" of the late 1970s. A number of states and localities were required by the voters to curb government growth and expenditures through tax expenditure limitations. The best known effort was California's Proposition 13 which limited the rate of growth in state and local taxes by a prescribed formula. One consequence of these fiscal limitations was to virtually force the states and localities to search for new sources of revenues and, more significantly, to rely on alternative methods of service delivery. At the federal level, the passage of "tax indexing" as part of the Economic Recovery Act of 1981 had a similar impact as it limited the revenues available. These limitations translated into pressure to experiment with new delivery systems.

ELECTION OF RONALD REAGAN

The victory of Ronald Reagan for President in 1980 was interpreted by conservatives of all ranks to have also been a mandate to push for their ideas. Conservatism moved from the halls of academe to the halls of power, albeit with a less than impressive congressional mandate.

President Reagan's victory permitted free market economists and conservative think tanks to gain political and institutional influence in the federal government. No longer outsiders, the free marketeers moved rapidly to translate
their theories into public policy. Critics of the Reagan administration and of market economics generally differ as to whether or not there has been a Reagan Revolution. Some are astonished and appalled at the rapidity of change during this administration while others see little fundamental change at all. Typical of the latter view is the comment by Harvard economist, Lester Thurow, that Ronald Reagan is really a Keynesian.

The Reagan administration paradoxically came in to kill the Keynesian economics, but after 1982 they became the world's greatest Keynesians. What is an administration that cuts taxes 30%, raises government expenditures 47%, runs a deficit which is 5 1/2% of the GNP and is printing money at 15% a year? If that isn't Keynesian economics, I don't know what Keynesian economics is.9

In light of Thurow's arguments, it is important to recognize that certain ideas have played a role in the domestic agenda of the Reagan Administration. The principal idea is that the size of the public sector should be reduced. A second idea is that the delivery of services should be handled as much as possible by non-government organization, whether they be non-profit organizations or private, for-profit firms. Privatization had been a part of the Reagan agenda since 1981, but its priority on this agenda was elevated during the second term.
CHAPTER 3

PRIVATIZATION OPTION: OPPORTUNITIES AND LIMITATIONS

The perceived opportunities for privatization, as well as any limitations, will follow from the premises accepted at the outset. Clearly, advocates of the free market philosophy, and its variations, envision exceptional opportunities for privatization. Conversely, those who believe that the market place has its endemic imperfections, including its perceived propensity toward inequity with the distribution of goods and services will tend to stress the limitations of the concept and the need for governmental ownership, regulation, and safeguards.

While this debate, in its several guises, has proceeded for some decades, the recent emergence of a "one world economy" may have altered the basis of the debate. No nation, except those with primitive economies or repressive dictatorships, can fully insulate itself from international economic markets. Thus, if private enterprises are considered to be more "efficient" than public enterprises, the "winners" in the competition between nations are likely to be those nations that have the most receptive climates for private, corporate growth.

The review of the literature on privatization is striking in at least two respects: the prodigious amount of literature written during the last five years on the subject; and the dominance thus far in the debate of the privatization
advocates. There seem to be very few activities of a public nature that privatizers are willing to concede to public sector control and delivery. Although there is much criticism of privatization in print, most of it is in a journalistic format. Relatively little scholarly work has yet to appear challenging the theoretical basis for privatization. Similarly, the debate has yet to be joined respecting many specific privatization proposals.

In all probability, each political jurisdiction will have to analyze its public functions over the coming decade and determine where responsibility for delivering some service ought to reside. This will be as true for the federal government as for the state and local governments. Certainly empirical studies and economic theory will play a role in guiding the decision makers, even if the law makers are not fully aware of this influence. Advocates for privatization will be promoting their ideas and interests through publishing and communications during this period. But what about non-economic factors in the assignment of public functions? Are there reasons to justify the assignment of a function to the public sector irrespective of arguments regarding efficiency? Any attempt to answer this question will be hindered by the relatively little work available on non-economic factors in public function assignment.
While the opportunities for privatization are being considered, it is important to note its limitations. Five such limitations suggest themselves.

CONSTITUTIONAL AND LEGAL LIMITATIONS

The American political tradition, reinforced by the Constitution and law, has been to maintain a separation between the public and the private sectors. Distinctions between the sectors have been blurred in recent decades, but this blurring has incurred costs. Harold Seidman warns:

Distinctions between what is public and what is private are becoming increasingly blurred, but we cannot abandon these distinctions altogether without fundamental alterations in our constitutional system. The maintenance of this distinction has been considered essential both to protect private rights from intrusion by the government and to protect usurpation of government power.10

The assignment of functions between the public and private sectors is a major responsibility of the political leadership of the nation. The character of the public sector, particularly the federal government, is determined by its partaking of the attributes of the sovereign power. Certain functions are inherent to the notion of sovereign power and cannot be delegated to private parties if sovereign power is to remain, in fact, a sovereign power. While the number of such functions is relatively small, they nevertheless are core functions of the state. Beyond functions partaking of the attributes of the sovereign, there are other functions which, upon consideration of the "public
interest," are best assigned to the government even though they could be performed by the private sector without impairing the sovereign power. The determination as to which functions are of such a character is a responsibility of political leaders.

Some functions, according to the Constitution and statutory law, must be performed by "officers of the United States," irrespective of economic variables. Officers of the United States must work for "agencies" of the United States created pursuant to law in order to achieve a public purpose mandated by Congress. Only duly appointed officers may be authorized, for instance, to obligate federal funds. It makes a difference whether an activity is performed by an agency of the United States or a contractor. With respect to financial transactions, an agency has the "full faith and credit" of the United States Treasury behind its notes and obligations. A genuinely private corporation does not possess the full faith and credit of the Treasury.

While the term "public function" may be loose enough to permit its assignment to either the federal government or some element of the private sector, if the public function is assigned to a federal agency for performance, this has standing in law. For instance, certain powers may reside only in an agency of government, e.g., power of eminent domain, and these powers may influence the "efficiency" of policy implementation. It is also true that the public is
protected to some degree by the assignment of a function to a Federal agency because that agency must abide by a number of laws, e.g., Administrative Procedures Act, laws not directly applicable to private organizations. In short, there are legal implications, e.g., financial liability of officers, to privatization that take precedence to and extend beyond any question of economic efficiency.

NATIONAL SECURITY

At the national level especially, the federal government may decide that a particular product be produced or service be provided by the Government itself for reasons of national security. The National Security Agency, for instance, is not likely to choose to contract for cryptographic services. Similarly, U.S. embassies abroad may reject less costly local contractors in favor of U.S. personnel for security and accountability reasons. The Iran-Contra hearings in the 100th Congress highlighted problems associated with delegating sensitive national security operations and negotiations to private parties.

The broad net of national security no longer includes many activities long considered solely within the sphere of the public sector. Thus, private technicians may be assigned today to maintain complex equipment aboard aircraft carriers at sea. The fact remains, however, that national security is a factor to be considered above and beyond economic variables.
when assigning a function to either the public or private sectors.

PUBLIC SAFETY

Another practical limitation on privatization may be concern for public safety. Citizens tend to hold public officials responsible for the establishment and performance of public safety standards. Since public officials are held accountable, they, understandably, want the final say on these standards and supervision over the policing functions.

In the 100th Congress, legislation was introduced to prevent the Department of Defense from contracting with a private commercial firm to guard and be responsible for disposing of chemical weapons and ammunition. In support of the bill, the sponsor stated: "I dare say that Arkansas and all Americans will sleep better knowing that chemical weapons are being guarded by a trained Government security force rather than by the lowest commercial bidder." Whether these concerns are well-founded is not the issue; the point is made simply to indicate that lawmakers feel obligated to consider public safety factors in the assignment process.

Public safety looms large as a variable in the current debate over the future of the air traffic control system. Congress is hesitant to consider organizational options which might lessen its ability to oversee the administration of the system. Thus, proposals to privatize the national air traffic control system, even if accompanied by evidence that
it could be operated more economically under private ownership, tend to be looked at skeptically because private ownership necessarily will result in less direct accountability to those officials themselves held accountable for air safety by the public.

**POLITICAL ACCOUNTABILITY**

In a democracy, a major societal value is the idea that public officers should be held accountable for their actions to elected officials and through these officials to the public. If political accountability is deemed an important consideration in the assignment of a particular function, then privatization may be held suspect to the degree that it is likely to erode political accountability.

When a public function is assigned to a private entity, usually through a contract, there is inevitable weakening in the lines of political accountability. While a government agency is directly responsible to elected officials, a private entity under contract has only an indirect and tenuous relationship to elected officials. What occurs, in variant forms, is the emergence of "third-party government." Third party government is not only dangerous to the political order, it is corrosive of management supervision and personnel policies. Evidence of the risks involved with third-party management of governmental programs is provided by the tangled web of decision making between NASA and the Morton Thiokol Company in the wake of the Challenger
disaster. In field after field, key policy and operating decisions are shifting from publicly accountable officials with an interest and stake in the overall mission of the agency to private managers who, understandably, have a much narrower set of objectives.

**POLITICAL CORRUPTION**

Possibly the most potent of the factors limiting the spread of privatization is the spectre of corruption. Historically, the federal government has been relatively free of the most blatant forms of financial corruption although enough instances have arisen so as to indicate its potential for mischief. At the state and local levels, however, particularly the latter, there is a very mixed history with some cities having experienced long periods of corrupt "machine rule." Corruption, when exposed, tends to result in "reform" movements and reform, more often than not, has meant that services be assigned to units directly accountable to public officials.

A high percentage of the instances of corruption that have occurred over two centuries of administrative history have involved contracts with private providers to perform public service. This is understandable because the letting of contracts generally involves substantial sums of money accompanied by considerable discretion on the part of contracting officers. The stakes for private parties are often high and they may be willing to "sweeten" the
arrangements. Thus, potential for corruption during the contract stage of the delivery process is considerable.

Case studies of many federalized services, e.g., prisons, suggest that the shift from private to full public sector performance of a function often has been preceded by the exposure of some pattern of corruption or scandal. Political leaders tend to be held responsible for the performance and quality of public functions and when a pattern of corruption is revealed the natural tendency is for elected officials to try and assert more control or supervision over the activity.

The cumulative effect of the five limiting factors upon privatization discussed above, while considerable, are difficult to measure. Clearly, any factor may serve to constrain a proposal for privatizing under certain circumstances. What is important to recognize, however, is that there are ultimately activities of a purely public and governmental character that may not be assigned or delegated to private parties. The nature of such activities may be in dispute from time to time, but that there is a distinction between the public and private sectors is beyond dispute. The debate today is largely of the "right" configuration for the line between the public and private sectors.

Some experts in public administration consider blurring of the traditional dividing lines between what is government and what is private to be a desirable reflection of the real
world. Bruce L. Smith believes that distinctions between the public and private sectors have "ceased to be an operational way of understanding reality." In a recent book, *All Organizations are Public*, Barry Bozeman argues that "sector blurring" is not only present and inevitable but the desired way to plan for the future. While allowing for a modest amount of distinctiveness between government organizations and private organizations, the overwhelming contemporary reality is the similarities between the public and private sectors of American life.

Ronald C. Moe, Specialist in American National Government with the Congressional Research Service of the Library of Congress, challenges these views in the November/December 1987 *Public Administration Review*. Moe recognizes that private individuals and agencies are not subject to the same body of laws as federal agencies, their officers, and employees. Such laws and regulations are designed to prevent abuse of power and to assure fairness and openness in the administration of laws; honesty, integrity, and competence of public officers and employees; and accountability to duly elected officials and the public. Profound constitutional questions are raised by the vesting of government functions and authorities in quasi-government institutions that operate outside the established legal system.
The federal government remains responsible for the quasi-government or quasi-private institutions it has created, whatever their legal designation. Although the obligations of most government-sponsored enterprises are not guaranteed by the government or backed by the full faith and credit of the United States, they are, regarded, nonetheless, as government obligations by the financial community and are assumed to have implicit support of the United States government.

Moe goes on to say that there appears to be a certain fascination that the current complexity and ambiguity in organizational matters mirrors the complexity and ambiguity of life in general. According to Moe, a line must separate that which is public, or governmental, and that which is private. The configuration of the line may vary over time and with circumstances, but it is a vital line nonetheless, and the fundamental basis of this line is to be found in public law, not in economic or behavioral theories.

In the United States, particularly with respect to the federal government, the Constitution, statute law, and the political culture all tend to promote and reinforce the separate and distinct basis for the public governmental and private sectors. While separation is encouraged, this has not discouraged cooperation between the sectors, according to Moe.
CHAPTER 4

PRIVATIZATION AND PUBLIC SECTOR MANAGEMENT

Privatization is currently a "hot" topic not only in the United States but in many developed and less developed nations as well. As previously indicated, most of the discussion of privatization is conducted within an economic framework. However, there is a political dimension that deserves recognition as well.

With respect to the United States, and particularly the federal government, the advocates of privatization have generally embraced a comprehensive political strategy. The strategy includes both the adoption of specific policies and programs to shift public functions toward the private sector and the creation of interest groups and constituencies to support and sustain these shifts.

Steve Hanke summarizes the political objectives of privatization as follows:

1. the improvement of the economic performance of the assets or service functions concerned;
2. the depoliticization of economic decisions;
3. the generation of public budget revenues through sales receipts;
4. the reduction in public outlays, taxes, and borrowing requirements:
5. the reduction in the power of public sector unions;
6. the promotion of popular capitalism through the wider ownership of assets.13
These objectives are widely shared among the advocates of privatization although the advocates individually tend to emphasize only one or two of the objectives at a given moment. Stuart Butler of the Heritage Foundation has outlined in some detail the political strategy to achieve these objectives. The strategy begins with the assumption that politics is largely determined through the management of incentives.

Butler asks the question: Why has the expansion of government been such a relentless force since the close of World War II notwithstanding brave attempts by several conservative administrations to reverse the trend? The answer, he concludes, is that conservatives have tended to adopt a strategy of containment toward the supply or taxation side of the budget. In doing so they went against the inevitable desire of interest groups and beneficiaries of governmental funds to seek an ever larger share of the demand or expenditure side of the budget.

This relentless growth in government is, according to Butler, a consequence of the "public sector ratchet." The government, so the scenario runs, initiates a modest program to alleviate some problem or aid a particular constituency, senior citizens for example. The cost of this program is borne by the general taxpayer. Senior citizen's coalitions will then work diligently to protect and extend the benefits it receives and to expand the number of beneficiaries.
Irrespective of general taxpayer discontent and politically expensive efforts to trim expenditures, the amount and percentage of the gross national product consumed by the public sector will continue to grow, thanks largely to this ratchet effect. This is a contributing factor to the growing disillusionment with government referred to previously in Chapter 2.

David Stockman, Ronald Reagan's first Budget Director, was committed to decreasing the size of the federal budget as a percentage of the GNP. He worked hard to achieve this objective, but ultimately had to settle for reducing the rate of growth rather than reversing the growth pattern itself. Stockman contended that "politics," or what Butler described as the "public sector ratchet," will always prevail over the forces seeking to restrain governmental growth and power. This is the case, he argues, because those seeking a larger public sector better understand the role of economic incentives in politics and governance. Stockman concluded that the Reagan Revolution "failed" because it was unable to stem, much less roll back, the tide of the welfare state. In the final analysis, Stockman believes that Americans like their welfare state and will not retreat from it in any substantial manner even if faced with financial collapse. In short, says Stockman, there is not "new politics" government responding to a set of free market political and economic
doctrines, just a continuation of the old, liberal redistributional politics under new labels.16

Stuart Butler and most privatizers disagree with the Stockman assessment. They believe that Stockman failed because he chose to simply reduce the "supply side" of the economic equation rather than seek to alter the "demand side." That is, he sought to reduce budget expenditures so that there would be less supply of money. The privatization strategy, which Stockman ignored, is to reverse the public choice dynamics that currently favor the beneficiaries over taxpayers.

By establishing incentives and changing regulations, privatization involves the concentration of benefits on those who freely choose a private method of service delivery over the public provision for the same service. In this way, those who opt for a private method to satisfy their demands are heavily rewarded, while the 'cost' of such incentives (to the extent that a tax break or regulatory relief on one person could be construed as a burden on everyone else) is spread widely and thinly... This strategy of influencing individual demand decisions is the key to privatization.16

Politically speaking, privatization seeks to create private sector coalitions that are "mirror images" of the coalitions that typically press for public sector spending. Rather than attack public sector programs head-on, the privatization strategy seeks to establish a countervailing "private sector ratchet" to be supported by its own interest group coalition. The strategy calls for programs to begin modestly, e.g., selling housing to tenants, and gradually expand as other individuals and groups seek to participate in
the advantages they see in particular privatization programs. The operative concept, then, is to offer the private service alternatives without forcing people to participate. Ideally, privatizers seek to make public sector programs comparatively unattractive and ultimately obsolete. This strategy is seen as applicable to many of the most entrenched and presumably popular programs such as Social Security.

A worldwide trend toward privatization has accelerated dramatically in the past few years. It has encompassed governments of all political persuasions, which are coming to appreciate the large gains in efficiency that can be achieved by involving the public sector.

The unquestioned champion of sweeping privatization is Britain. Prime Minister Margaret Thatcher's government has made the sale of government commercial entities one of the principal themes of her administration. Among the entities sold to workers, consumers, and the general public are British Rail Hotels, English Channel Ferry Service, Jaguar (automobiles), British Petroleum, British Aerospace, Britoil, National Freight Corporation, Gibraltar Dockyard, the British Telecom system, British Gas, British Airways, British Airports Authority and Rolls Royce.

The Thatcher government's sale of more than a million government-owned housing units to residents affected the approximately 40 percent of British families who formerly lived in "council housing." By selling these units, the
government divested itself of money losing facilities, eliminated costly operating subsidies, received income in the form of sales payments, and made independent homeowners out of dependent government residents.

Advocates of privatization in the United States point to the experience of the United Kingdom as evidence that the strategy not only works in practice but results in political dividends as well. The third consecutive electoral victory of the Conservative Party and Prime Minister Margaret Thatcher in 1987 is at least partially attributed to the successful privatization strategy. In nine years, from 1979 to 1987, privatizers claim that Great Britain has moved from a socialist economy where, by general consensus, the public sector was increasingly unable to compete internationally and in many areas was on the verge of bankruptcy to a largely private economy where Great Britain can now compete effectively, properly capitalize its primary industries, and reward or punish a workforce for its performance. While the Prime Minister is currently facing a number of political problems, in her early years privatization was very successful.

As privatization spread in Britain, a new political force was being created that had a direct stake in keeping their homes and businesses private. In short, wide popular ownership of corporations was viewed by the privatizers as
not only the source of electoral strength but a hedge against re-nationalization.

The creation of an electorate having a direct stake in the ownership of their companies and in shareholding generally can be both a political plus and minus. This new share-holding electorate is increasingly tied to the vagaries of the market place and of international stock exchanges. Shareholders will see the value of their shares go up and then go down. In many instances the value of their shares (and for many this equates with retirement income) will decrease for reasons unrelated to the performance of their company. Both the tendency to gamble when the prices go up and to sell short when prices go downhill will be great, and such behavior may have rather direct political consequences.

The dramatic fall in stock prices worldwide in October 1987, highlighted the problems that can accompany privatization. The steep drop in the market not only accounted for equity loss among stockholders but placed some pressure to withdraw government offerings of shares in corporations they had already slated for movement to the private sector.

The political pressure for privatization is less in the United States than in Great Britain for two reasons. First, there are relatively few candidates for outright divestiture as the federal government has not been involved in many commercial activities, and second, the number of shareholders
in the United States has always been high, if not directly then indirectly through retirement funds. However, the privatization strategy outlined by Butler and others has been employed with some degree of success.

The classic case of divestiture in recent decades involved the sale of ConRail in 1987 by the federal government. The final public offering brought the U.S. government more than $1.6 billion but the road to this conclusion was rocky. The Secretary of Transportation supported a private sale of ConRail to the Norfolk Southern Corporation, another railroad. The assumption was that ConRail was "a loser" and needed to be incorporated into a profitable railroad. This assumption, however, was not supported by the financial figures and the ConRail, along with most privatization promoters, fought for an independent company and a public offering of stock.17

With the above example in mind, it is appropriate to ask: Has privatization provided a new political strategy for those seeking a reduction in the public sector and is this strategy sustainable for the long run? While these questions are not answerable in any definitive way, it does appear reasonable to conclude that privatization is a viable political strategy that has altered the political equation in America, as well as the rest of the industrial world. Although the terminology may change over time, the concept of using private entities to perform public functions appears to
be a growing and sustainable trend as each nation seeks to enhance its economic position vis-a-vis other nations.

THE CHANGING ROLE OF PUBLIC ADMINISTRATORS

The world has changed dramatically in the last decade. This observation is certainly neither original nor even particularly profound since change is the principal constant in the universe. The key word in this observation, however, is not "change," but "dramatically," as the latter word suggests that something extraordinary and probably unanticipated occurred. What has dramatically changed during this past decade has been the rapidity with which the countries of the world have become economically interdependent and competitive. No longer can a nation set its economic course within its own political boundaries. Insulation from competition is no longer a viable option for political leaders. Even the leaders of the Soviet Union are acknowledging the fact that their nation must learn to compete and that technical knowledge knows no political boundaries.

The contemporary literature in public administration is only beginning to recognize the implications of this new, economically interdependent, highly competitive environment. With respect to personnel, it was assumed that personnel systems ought to emphasize permanent careers with tenure and security rather than competitiveness. Even the notion that public sector service delivery could or should be compared
with similar private sector service delivery was largely discounted as illegitimate. Traditional public administration doctrine, particularly with respect to personnel practices and the delivery of services, has become outmoded. To date, there has not been a theory, or doctrine, to fill in the void left by the increasing irrelevance of traditional bureaucratic values.

It is generally recognized that the United States must develop strategies to become and remain competitive with other nations if its citizens are not to suffer dramatic reductions in their standard of living. There is a tendency, however, to assume that this competition is largely, if not exclusively, a competition between the private sectors of the respective countries. There is also a point of view that the health of the private and public sector will thrive best when the public sector is diminished and managed with marginal efficiency. This view was expressed succinctly by Terry Culler, one-time Associate Director of the Office of Management and Budget, when he wrote: "The Government should be content to hire competent people, not the best and the most talented people." Culler believes that the present mix of talents in the public workforce is about right for now and into the foreseeable future. Indeed, Culler wants only a "sufficient" workforce performing routine tasks as he believes that the "best and the brightest" ought to be steered to the private sector "where the national wealth is
Much of the literature in this field disputes Culler's point of view. From Wilson's early works in 1887 to more recent writing of Dwight Waldo in 1968, the major theme of efficiency and an increased moral tone are blended into what is known as the new public administrator. The government bureaucracy is the biggest conglomerate of organizations and employs more highly educated professional people than any other institution in the United States. These "bureaucrats" for the most part, are competent individuals interested in performing the best job they can. A 1985 Harris Poll indicated that the majority of the respondents had found their public bureaucrats to be helpful, and most were satisfied with the services they received. It also indicated that there is a remarkably positive attitude among Americans who have dealt with their public bureaucrats on a person-to-person basis.

There are additional surveys, both at the national and state levels that have found similar results. Studies often indicate that however, that there is a clear, genuine and deepening disaffection with "big government".

Culler's contention that the public sector be managed with marginal efficiency is challenged by those who argue that the competitiveness of a nation is as much determined by the health and vigor of the public sector. In a less obvious, but just as critical sense, the public sectors of
the respective countries are locked in intense competition with each other. The financial regulation of securities firms by government agencies, for instance, is a critical variable in determining the flow of international capital. Domestically speaking, the story is similar as the credibility of securities markets is reliant upon the enforcement by public agencies of the regulatory laws. To suggest that the health of the public and private sectors are inextricably linked is not a truism. It is a doctrine which requires considerable thought and the commitment of political resources to attain. As a general rule it was assumed that the public sector would continue to grow as a percentage of the gross national product (GNP). OMB reports the size of the federal government has increased, measured by outlays as a percentage of the GNP—from about 22.7% in fiscal year 1981 to about 23.4% in fiscal year 1986. The number of civilian executive branch employees has increased from 2,843,404 in January 1981 to 2,984,755 in January 1986. At the very least, the public sector was not likely to diminish in scope. The privatization movement has shaken the hold of this assumption. The verdict is not yet in, but it does appear as though public sector growth is a choice that in democratic countries at least is ultimately in the hands of the electorate.

Privatization, however it is defined, has already accomplished one of its objectives. It has forced the
American political system to re-examine the role of government. This re-examination begins with the questions: What is the proper role for the federal government in making the United States a major player in this new, interdependent, highly competitive world? What activities should be assigned to the public sector and private sectors, respectively, and in what manner? Finally, how can the public sector be managed to best fulfill its part in the development of a new, competitive America? These questions are addressed in more detail throughout the remainder of this chapter.

While all of the above questions are important in the discussion of the proper balance of the public and private sector, it is the final question that is peculiarly the responsibility of public administration to answer. Once a decision is made by political leaders to "privatize" an activity, usually through a "third party," how should this activity be managed to insure that the public's interests are protected? Increasingly, it is the policy of governments not to provide services directly, but to have third parties involved in the actual delivery. In many instances the third parties are other governmental bodies but often the Federal Government turns to non-profit institutions and even to private firms to actually produce and deliver services. The techniques for transferring functions are varied, but a list would have to include grant-in-aid, loan guarantees, loan assets sales, franchises, and even divestitures.
Reviewing this trend toward using third parties, Siedman and Gilmour observe:

The reasons for bypassing the established government apparatus and utilizing third parties to administer programs are complex. The trend, in part, reflects a widespread anti-government and anti-bureaucratic bias... Perhaps more important, the trend reflects political expediency because third-party arrangements permit the President and Congress to take credit for actions without assuming responsibility for program design, administration and results.19

While the appeal of the third party approach is genuine, it also tends to be misleading. Government and elected officials find that they can assign responsibility for producing goods and delivering services to third parties, but they cannot assign the political accountability to third parties. It may well be true, for example, that third-party contractors bore significant responsibilities for the Challenger disaster in 1986, but the citizenry and the media held the National Aeronautics and Space Administration ultimately accountable. This points up the fact that privatization, whatever form it takes, will not absolve political leaders from political responsibility. Thus, privatization does not result so much in less public sector management as it does in a new form of public sector management.

This new form of public sector management is generally more complex and subtle than traditional public sector management. Even the relationships between the public and private sectors are altered. The traditional hierarchical
relationships of manager to employee characteristic of public sector entities both producing and delivering services is replaced by bargaining relationships where public and private entities now must negotiate to ensure the provision of goods and services.

Third-party strategies are not self-executing and often replace one set of administrative problems with another. If directly administered government programs must deal with self-interested bureaucrats, third-party programs must deal with self-interested proxies, each seeking to maximize their own utility sometimes at the government's expense. Contracts must themselves be administered to insure high accountability and performance. The role of government administrators is different but it does not disappear.

A number of trends are evident today in public sector management and these trends are not without their share of ambiguities and contradictions.

The campaign to assign the administration of public functions to third parties, be they public or private in character, is rightly viewed as a form of decentralization. Disconnections are made in the lines of authority and accountability. Incentive structures for both workers and managers are altered with private gain potentially conflicting with the general good. To maintain a common political thrust to public sector activity and to provide a degree of accountability by third party managers to public
sector program managers, certain centralizing strategies are followed to compensate for the decentralization inherent in contracting-out. Thus, there is more review of proposed regulations by OMB and greater stress placed on centralized and standardized procedures, particularly with respect to procurement. "If one cannot control the players, then the next best thing is to dictate the rules of the game."20

While there remain those who see privatization as a passing fad identified with the Reagan Administration and not likely to survive its tenure, there are others who see a more permanent administrative contribution in privatization. Privatization as a strategy had been a major factor in the second term of the Reagan administration. Indeed, on November 19, 1987, the President issued E.O. 12615 requiring executive agencies to identify all "potential commercial activities" with the intent to privatize as many of those activities as feasible under provisions of OMB Circular A-76. The A-76 Circular applies to commercial activities which can be performed by either Federal employees or the private sector. In order to determine the most economical and effective method for the Federal Government to obtain its commercial services, OMB Circular A-76 uses cost comparison studies to analyze the cost of performance by private contract compared to the cost of in-house performance.

Irrespective of any results that may follow from this particular administrative exercise, it makes sense to

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consider changes that have already occurred and that are presently visible in the administrative state. Such a review can assist in suggesting some strategies that public administration as a discipline and public sector managers, particularly Federal public managers, ought to consider as they prepare for managing the public sector in the twenty-first century. These strategic options fall roughly within three fields: public management, public finance and public personnel.

PUBLIC MANAGEMENT

Privatization is forcing public administration to re-think its public management concepts and practices. Increasingly, the use of third-parties to make products and deliver services has placed new demands upon program administrators in the Federal Government. The most obvious change is from a traditional hierarchical relationship between manager and employee to a relationship where managers must negotiate with third parties to achieve program objectives. Contractors are doing the work, but the public managers are still being held accountable for meeting the agency objectives and legal requirements. As public managers seek ways to meet their new and more complex responsibilities, they find that contract-writing is replacing the management of personnel as the principal tool for achieving desired results.
Contracts, as public managers soon discover, are not self-executing. The contract requires "management" by the public manager just as much as the contract requires the manager be directly responsible for the contract, but it is a different kind of management. Objectives, specifications, procedures, and resource availability, must be well-understood prior to the actual writing of a contract because the ability for the manager to incrementally adjust the contract during the course of a program is dramatically reduced if the program is being operationally managed by a third-party. What this means is that "up-front" planning and knowledge are much more critical to successful public management than in the past.

Special attention needs to be paid to the management of the procurement process. The procurement process has historically been the area where the most pressure is exerted to "privatize." The A-76 procedures are not a substitute for comprehensive doctrine nor is the requirement for "competition" necessarily a desirable end in itself. It may well be that in seeking to maximize the contracting-out process we are "governmentalizing" the private sector more than we are privatizing the public sector.

It is critical to the management of third-party contracts that the agency maintain its own capacity to produce the good or deliver the service. Only by retaining the capacity will the necessary "in-house" capability be
maintained not only to replace the contractor if necessary, but also to permit the qualitative evaluation of the product or service from the contractor. As a practical matter, what remedies are going to be available to public sector management when they determine that the performance of a contractor is unsatisfactory?

It would not be unusual if public managers became "risk averse" in their approach to management when they find that they are going to be held accountable for results over which they have relatively little control. Thus, conformance to procedures as spelled out in the contract will tend to become the standard of evaluation rather than the quality of the actual product or service itself. Substantive knowledge by public program managers will decline as the important decisions are more and more made by third-parties. The challenge for public management, then, will be to figure out how to design third-party operations so that the public managers will have both the will and the means to retain supervisory capacity over the programs.

**FINANCIAL MANAGEMENT**

Privatization has already resulted in some major shifts in financial management of the public sector. Public sector managers are being forced to think in new ways about financial activities. Market mechanisms are being used not only as a means to increase revenues but as a gauge of efficiency as well. User fees, for instance, tend to shift
the burden for certain activities from the general public to
the specific beneficiary. This shift has implications for
management as the more independent the source of financing,
the greater the likelihood that the agency will resist
central managerial direction in policy fields.

James Carroll, recognizing the "new international
economic and technological order," argues that both the
supply-side management strategy followed by Reagan and
Stockman and the privatization strategy promoted by Stuart
Butler and others, are fundamentally inadequate and will not
prepare the United States to be competitive in the twenty-
first century. Carroll sees a third managerial option and he
embraces it.

An investment approach to public policy and
administration entails a more positive role for the federal
government in the economy and society than continuation of
the supply-side approach, or privatization, says Carroll. It
asserts that many federal policies, agencies and programs are
investments in the nation's economic growth and technical
progress, international competitiveness, capacity to manage
technology, and continuing pursuit of social equity.21

Carroll outlines several elements of such an approach:

A stable macroeconomic policy to reduce the
distortion effect of deficits on the economy,
particularly the absorption of savings to finance
the deficit and debt;

Tax, research and development, monetary, regulatory
intellectual property, antitrust, and trade and
trade adjustment policies designed to encourage
private investment, training, and technical innovation:

Organizational policies to promote cooperation among government, business, universities, and research and development organizations to increase the productive efficiency of labor and capital particularly through the development of know-how and technology;

Policies to recognize, increase and improve public investments in people, research and development, technology, education and training, natural resources and the environment, and the national infrastructure, e.g. dams, bridges; and

Policies to strengthen and improve the analytical managerial, and organizational capacities of public organizations to manage the mix of public-private programs which now characterize much of public action, particularly technological programs and public investment programs--including regulation of health, safety, and the environment.

Carroll's investment approach would not be based solely upon criteria of economic efficiency and productivity, but would encompass concerns with organizational and managerial capacity, environmental quality, and social equity.

While the federal government has historically made financial investments in physical facilities and less tangible assets such as agricultural research and development, this type of capital investment has declined in recent decades while government expenditures for entitlement and transfer payment programs for individuals has skyrocketed. According to the Office of Management and Budget, payments to individuals amounted to approximately $446 billion in FY 1986, out of a total of federal outlays of $980 billion. Carroll is arguing for a renewed thrust toward
public sector investment in long-term research and development in science and technology. This strategy option is predicated on the assumption that international competition is between public sectors as well as between private sectors.

The point to recognize is that there are strategic options available for developing a system to undergird the new administrative state. There are strong arguments to be marshalled in favor of either supply-side management, privatization management, or public investment management. Similarly, failings can be recited for all three strategies. The first two strategies, supply-side management and privatization, both call for a reduced and diminished public sector while the investment strategy calls for a more effective and efficient, and possibly larger, public sector. It may very well be, however, that the system best suited to this new administrative state is a conscious blending of parts of all three strategies. Indeed, it may be a task of public management in the coming decades to work out, in practice, an integrated system borrowing from all three strategies.

PUBLIC PERSONNEL MANAGEMENT

Evidence is that the American people continue to support a substantial role for the federal government in defining and acting upon domestic problems. At the same time the
pressure and lack of political agreement on how the deficit should be reduced are making new initiatives unlikely.

Some evidence shows that the public sector workforce, particularly at the federal level, is undergoing a "quiet crisis." Federal public service is becoming demoralized and highly qualified people are not being attracted to some federal agencies.23 Program cuts, pressures to do more with less, and erratic budget allocations are increasing uncertainty, limiting the capacity of some agencies to plan and act, and eroding confidence in the capacities of some agencies to carry out their mission.

Prospects for change are uncertain. The Bush administration, like the Reagan administration, seems committed to exercise further restraint on federal domestic programs and agencies through continuing opposition to tax increases and perhaps through stronger efforts towards privatization.

Further evidence indicates that public service no longer has the appeal it once did to young, educated persons nor is the capacity of government to meet its current or projected requirements being systematically developed.

"Either on their own or with help from the Office of Personnel Management, agencies are going to have to compete with the private sector to get graduates with suitable education and backgrounds," says John C. Seal, Management Director for the Equal Employment Opportunity Commission.
"Under Presidents Carter and Reagan, we had 12 years of Presidents beating up on the bureaucracy. That's not the kind of thing that's likely to draw large numbers of people to causes, to try and change," he goes on to say.

Aaron Wildavsky's essay, "Ubiquitous Anomie: Public Service in a Era of Ideological Dissensus", says that things are bad and unlikely to get better.

Civil servants by themselves cannot do much to improve the situation because their situation is the effect not the cause. The cause lies in ideological dissensus with the political stratum, profound disagreements over equality, democracy, and hence the role of government, disagreements that create conflicting expectations that no conceivable cadre of civil servants can meet. What is possible is to approach better understanding of why there is and will continue to be this "ubiquitous anomie" and to encourage members of the public service to ameliorate what they alone cannot change.

Among the pertinent questions are: Given the changing nature of the public sector, is the present workforce configuration, or the workforce likely to be in place twenty years hence, adequate to perform its responsibilities? Will the skill level be commensurate with its functions? Should the public and private sectors remain, as they have been traditionally, largely separate career tracks or should the workforces become more interchangeable?

Privatization advocates generally do not address themselves to such questions although it follows from most of their arguments and proposals that they implicitly favor a breakdown in the traditional barriers between public and
private workforces. Thus, it was the conservative interest groups and Members of Congress who took the lead in promoting the new Federal Employees' Retirement System (FERS) which is based on a defined contributions plan rather than the traditional defined benefits plan. This means that federal civil servants will now have a portable retirement system which permits them to shift to the private sector essentially without penalty. It also means that a private sector employee may work for the federal government for a relatively short period and be eligible for benefits. The net result is that in the new administrative state the public sector workforce is going to be much more mobile, much less likely to view public sector service as a life-time commitment, and in a much stronger economic bargaining position with public agencies. Thus, new policies and practices will have to be developed to attract, retain, and promote a competent public sector workforce.

As has been previously noted, the task of managers is undergoing a major transformation. No longer will the traditional hierarchical relationship between manager and employee be the standard mode. As privatization and various new organization concepts spread, the relationships likely will become increasingly characterized by negotiations rather than command. Furthermore, as public functions are delegated through contracts to private firms, the lines between public and private interests become blurred, thereby inviting
litigation over responsibilities for decision-making. Managers in the new administrative state will see themselves as not only serving many masters, but as being particularly vulnerable to legal challenge to their decisions.

"Creeping privatization" is already eroding the federal civil service system and is highlighting the need for the new concepts of compensation. It has previously been noted that as privatization takes over some bureaucratic functions, the current role of the public administrator could be drastically changed. Flexibility will be an important value and locational, professional, and performance factors will increasingly play a role in compensation policies. In short, the new administrative state will require a personnel system which is at once more competitive with the private sector, flexible enough to meet changing technological requirements, and all the while still remaining responsive to political demands.

CONCLUDING COMMENTS

Public sector management, like other human endeavors, is subject to shifts in fundamental societal values. Thus, in the 1960s the public sector management shifted its hopes to budgetary processes, e.g., zero-based budgeting, was considered a tool not only for fiscal discipline but as a catalyst to better understanding the political process generally. In the 1980s both management by participation and management by budgetary processes have suffered some erosion.
in support, to be replaced by societal values emphasizing
less government and a government judged by market economic
standards. This new value structure, however, did not
emanate from within the public management community; but was
imposed upon the community from without.

The promoters of privatization must be given their due. They have substantially shifted the basis for debating the
economic and political future in nation after nation. They
have "repackaged" the classical liberal market theories so
that today much of the intellectual debate occurs on their
own terms and own turf. Concepts such as "nationalization,"
"central economic planning," and "price controls," are rarely
advocated today and indeed the preeminence of free market
economists not only in the universities but in positions of
political responsibility is one of the most striking
phenomena of the 1980s.

Once credit is properly accorded the promoters of
privatization, it must also be recognized that privatization
has its Achilles heel. Privatization is not a synthetic or
comprehensive philosophy because it is too narrowly wedded to
certain economic doctrines to the exclusion of complementary
doctrines from public law and public management. As long as
the premises of privatization do not extend beyond the
relatively narrow confines of the public choice and free
market paradigms and are not modified by significant elements
of public law and public management doctrine, privatization will remain both politically and conceptually vulnerable.

The privatizers' intellectual vulnerability is most evident when the future of public sector management is considered. From the privatizers' perspective, public sector management often poses a dilemma. Although they may not say so publicly, the logic of the privatizers' argument seems to suggest that they do not want public sector managers to be too efficient or too effective, for insofar as the public sector is well managed, then they believe pressure for transferring personnel and function to the private sector will be diminished. Yet, even the privatizers generally recognize that the public sector will have to be managed well if it is to provide a support system for the private sector.

There is little in the way of theory or doctrine to guide public sector managers as they prepare for the challenge of the future. It may well be that upon reflection the privatization movement will be credited with providing the necessary impetus to public sector management that forced it to re-examine its role and responsibilities in preparation for the twenty-first century.

When administrative historians some years hence study the 1980s, this author suggests they are likely to conclude that "privatization" was a very influential concept of the decade. Their studies will undoubtedly portray public administration
as being profoundly altered by several ideas that collectively have become known as privatization.

In his work tracing the evolution of the public service, Frederick Mosher outlined a period in our history and raised some interesting characteristics that blend very well here.

Mosher referred to a period labeled, "Government by the Efficient" (1906-1937). Borrowing from Fredrick Taylor, the inventor of scientific management, Mosher felt there is an underlying faith that what is good in private business (i.e. efficiency) is good for the society as a whole. The basic premise here is the concept of efficient administration. Efficiency was "good" and inefficiency was "bad". Like scientific management, the goal was to make government more like business. The forms, structures, and procedures useful in business could equally be beneficial in government.

As mentioned earlier, the privatization movement is held together by a shared belief that the public sector is too large and that many functions presently performed by government might be better assigned to private sector units, directly or indirectly, or left to the play of the market place. The private sector, it is felt, will perform these functions more efficiently and economically than they can be performed by the public sector.

The Privatization Movement worldwide deserves much credit for altering the basic issues under debate in nation after nation. The strength of free market concepts, even in
communist countries, is undeniable. Currently no evident reason exists to believe that the spread of privatization is likely to stop or that a rash of nationalizations is likely to return.

This political and intellectual success notwithstanding, it is time to move to a more sophisticated level. Simply being "anti-government" is not enough. What is needed now is a theory, or at least a set of criteria, to assist in the assignment of functions to the appropriate sector. The best thing that could happen to the private sector is to have a first-class public sector, appropriately limited in size and functions, but fully capable of providing the legal, economic, and public goods infrastructure that will permit the private sector to reach its full potential. This new challenge is surely worthy of the same spirit and dedication that brought forth the first stage of the new free market era in world politics.
FOOTNOTES


5. Savas, Emaneul Privatizing the Public Sector, P. 33.

6. Ibid


19. Ibid, Seidman

20. Ibid.


22. Ibid.

23. Ibid.
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