Privatizing Endeavors In Local Government: Privatization; is it all it's cracked up to be?

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Introduction

Privatization of services such as infrastructure and utilities traditionally provided by local government has expanded in common use and application with the turn of the 21st century. There are many competing views in regard to whether privatization is good or bad; regardless, the application of privatization is more prevalent now than ever before.

Better, faster and cheaper; this is the motto of the modern era of business, and became the call under which all government should adopt in its operations with the beginning of the 1980’s. The idea falls under the assumption that for too long government has not been the solution to the problems faced by the polis, but rather it was government was the problem of the people’s ills. The idea holds in belief of the free market, and that private enterprise can provide better services and goods to the people when government gets out of the way, and at a reduced costs along individuals in the polity to hold on to more of their money through reduced taxation.

The move toward privatization is the promise of reduced costs and greater efficiency than could be provided by government. These promises of the held belief in privatization have become widely accepted among all levels of government throughout the past 30 years in particular. There is however caveats that exist alongside the promises associated with privatization; concerns in regard to service quality, social equity, labor conditions and as well accountability and transparency.

Despite these concerns, public perception remains high that privatization can improve government efficiency and with no definitive empirical evidence to either debunk, or resolve that privatization is either better than government or worse, will keep privatization on the agenda for years to come until otherwise.

The goal of this paper is to explore the existing literature on the adoption of privatization of services traditionally provided by government. A review of existing case studies where governments have adopted privatization and their related affects of doing so; what were the motivations to privatize? Were the promises of costs and efficiency realized? What is the future of privatization adoption among local governments? These questions will be the focal point throughout the research of this paper.

Literature Review

Charles Tiebout (1956) sees residents of a community as “consumers” who shop around within their area of living to best select their desired goods and services which meet their needs. The underlying belief is that competition among providers to meet the consumer’s needs or wants forces providers to provide those goods and services at the most efficient level. This model proposed by Tiebout is that of a public choice theory premise, of which is the driving principle behind privatization. Tiebout asserts that by allowing a competitive market to compete within the sphere of traditional based government offerings of goods and services, will force providers to compete to provide better, more efficient, and less costly alternatives in order to attract consumers and retain them (Tiebout, 1956).

Bennet (1990) hypothesizes a similar tone exhibited by Tiebout (1956) in that privatization of traditionally provided services by government should lead to cost efficiency through the adoption of private providers. Bennet argues the adoption of private providers over government providers stems from that citizens should be viewed as customers; as customers, they should be served based on their needs and preferences; however, unlike government, there should be a focus on cost effectiveness “doing more with less”.

The adoption of privatization endeavors among local governments stems from the motivations that costs for providing services on behalf of government has only led to larger increases in costs and as a result has placed an undue burden in terms of the level taxation on residents within a locality; public support for government provided goods and services is at a low in terms of the perception that government is “inefficient”. Coupled together, these motivations have led to a greater degree of privatization adoption among local governments (Bennett, 1990).

Elliot Sclar (2000) dissents from Tiebout (1956) and Bennet (1990) by claiming that the competitive market model does not exist in the privatization of public services; instead, the author contends that privatization of traditionally provided government services leads to monopolistic/oligopolistic market economies in which there is no to little competition amongst providers which demotes the public choice theory concept held by Tiebout (1956) and Bennet (1990).

A lack of a competitive market does little to improve cost effectiveness or improved delivery of service; a monopolistic market which derives out of privatizing can instead lead to increased costs of providing services as there is no competitive market in place in which to determine market rate value, and a lack of competition provides little to no incentive for a private provider to enhance delivery service to residents “consumers” in the market.

Sclar contends that privatizing government provided services does little to promote a competitive market, and on the contrary aids in establishing monopoly markets as competition is often squeezed out; contracts which are given to private companies are often renewed and put in place little incentive for new competing companies to enter an established market which does little to drive, or spur competitive market practices. Localities instead should focus on restructuring endeavors which promote providing their services that will enhance delivery and lower costs through efficiency instead of seeking out privatization under the held belief that it will lead to greater efficiency (Sclar, 2000).

Empirical Studies

Warner and Hefetz (2004) on behalf of the ICMA tracked the changes in government's service delivery methods i.e. traditional in comparison to privatization adoption. Beginning with the year 1982, when the ICMA first began tracking service delivery approaches among local governments; ICMA found that by 2002 at least each of the local governments surveyed employed at least one form of alternate service delivery over traditional government. Surprisingly, what has experienced the greatest amount of adoption has been the use of public private partnerships (PPP)'s which accounted between 15 and 20 percent of total service deliveries handled. The survey concludes that the adoption of a private form of service delivery has not been more renowned due to lack of competitive markets, the same criticism cited by Sclar (2000).

Jeffery (1996) unveiled that privatization on behalf o local governments is occurring all throughout the country; however, he notes that some regions of the country are experiencing a greater degree of adoption of privatization in relation to service traditionally offered by government. Southern cities in particular experienced the highest proportional growth in privatization at a rate of 158% between 1982 and 1992. Midwestern cites experienced growth of adoptive privatization at a rate of 131%, while Western cities experienced proportional growth rate of 102% and Northern cities experienced the least amount of proportional growth at a rate of 64%.

The type of services that led in privatization efforts among local governments was in support functions; support functions accounted for a rate of privatization of 508%. Public safety saw the second highest rate of privatization adoption at rate of 218%, and parks and rec. saw a privatization adoption rate of 218% overall. Jeffery (1996) contends that while the rate of privatization may not appear to be relatively as prominent according to other studies existing in the field; the author notes that the rate of adoption of privatization largely depends on the regional context and the level of market influences and budgetary conditions that exist within each locality to account for the rate of privatization adoption (1996).

Case Study: Transportation Infrastructure Privatization

The City of Chicago made headlines in January of 2005 when it became the first government to privatize an existing toll road; the Chicago Skyway Bridge was the beginning of the long-term concession agreement PPP in the United States. The bridge was constructed in 1958 to act as a connector to the Indiana toll road and it served more than 18 million motorists in 2002 and collected record revenues in the amount of $43 million. In 2003 the bridge served over 17 million motorists and generated revenues of $39.7 million ("Chicago Privatizes", 2004).

For almost 50 years (Chicago Skyway, 2005) the bridge was operated and maintained by the City of Chicago's Department of Streets and Sanitation; unfortunately, the bridge had been a drain on the city's budget since its inception and did not turn a profit until the mid to late '90's. Mayor Richard M. Daley looking to alleviate the cost burdens associated with the operation of the bridge, and pay off its $400 million in debt and other debts the city of Chicago held, leased the bridge to Cintra-Macquarie a

Spanish-Australian private investment consortium. In exchange to leasing the bridge for a period agreement of 99 years, the City of Chicago received a onetime cash infusion of $1.8 billion (Dannin, 2009; Ortiz & Buxbaum, 2008; GAO, 2008; Richard, 2010).

Local governments facing budget shortfalls and budgetary constraints, coupled with a need to invest in highway infrastructure development have moved forward with adoption of privatization of traditionally provided government services such as transportation infrastructure as a solution to their troubled budgets. Privatization of transportation infrastructure most commonly occurs in one of two ways; One, private investment provides the financing of a new road/bridge/roadway i.e. transportation infrastructure; in addition, to providing either all or some of the construction of the project, operation, and maintenance of the project is granted/leased to the private investment for a specified time period through a contractual agreement with the government. Two, an existing road is leased by the government to private investment which assumes control of the operation and maintenance of that road; in exchange, the government receives an up-front payment and the private investment inherits the right to collect tolls over the term of the agreement (Dannin, 2009, 2011; Richard, 2010).

Privatization of traditionally managed transportation infrastructure in the city of Chicago has showed to be a viable option for meeting the growing demands of costly transportation infrastructure transportation; privatization has shown that local governments can generate revenue through the use of leasing existing transportation infrastructure to fund other public service needs in the locality and as well cover financial budget shortfalls as a result of economic downturns (Dannin, 2009, 2011).

Caveats of Privatizing Traditionally Government Provided Services

Elisabeth R. Gerber, Christianne K. Hall, and James R. Hines Jr. (2004) argue that it is incredibly hard to show the connection between efficiency and privatization empirically due to the difficulty in accounting for all the variables involved in creating a model that would be reliable. The authors note that often times the results of studies are often mixed and cite studies in relation to trash collection where in some studies private companies were more efficient than their public counterpart; but, they also reference other studies on trash collection where the opposite is true.
The authors note that depending on the service, there may be little to no incentive to provide a service at a reduced cost i.e. efficiency. Take for example the idea of a product with inelastic demand; that product, no matter the price, will always be in demand; services with inelastic demand such as education, water services, and security (police) may not lead to promised efficiency and cost savings that is often associated with privatizing adoption of traditionally government provided services (Gerber, Hines & Hall Jr., 2004).

Conclusion

Privatization adoption on behalf of local governments has been a mixed affair in terms of response and outcomes; however, privatization of traditionally government provided services has been occurring at a varied rate for the past 3 decades among localities. Adoption of a privatization model seems to be largely determined by regional economic and market environments among local governments; effects such as demand for services, and budgetary constraints can have an influential role in determining if privatization is a viable means to meet those conditions in which are faced by localities.

While efficiency and cost savings have been the predominant consensus of thought that underlie the premise of privatization, there have been instances (as seen in the city of Chicago case) where privatization was seen as a means to address budgetary shortfalls and using privatization in essence as a revenue generator for the locality. So while the consensus of thought may be predisposed to seeing privatization as a one trick pony, case studies would seem to argue there are exceptions to the norm.

Despite all the promise that may be held in privatizing traditionally government provided services, there remains contention in the field of study as to whether or not those believed promises are actually met. The research is still out and there currently is not empirically based research that either confirms privatizations benefits, or refutes those benefits as well. Research in the field has brought up concerns relating to privatization on behalf of local governments regarding issues such as accountability, and monopolistic market creation stemming from such endeavors of privatization adoption.

Despite these differences of opinion among the existing research, there is agreement however that privatization endeavors by local governments is occurring nationwide and is a distinct phenomena that is not bound to a particular region or area; the only thing that seems to vary based upon regional conditions is the rate of adoption on behalf of local governments. Whether or not privatization will either be proved of its presumed benefits or refuted is still in contention at this time and perhaps for the foreseeable future. However, privatization is occurring among local governments as they struggle with an ever evolving globalized economy, budgetary constraints, and changes of sentiment among community members in their willingness to pay increasingly more for traditionally publicly provided services.

Whether you love it or you hate it, privatization adoption by local governments is (for now) here to stay for the foreseeable future.

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