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Book Notes

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BOOK NOTES

PRIVATIZING THE PUBLIC SECTOR: HOW TO SHRINK GOVERNMENT

By E.S. Savas

Chatham, New Jersey: Chatham House Publishers, Inc., 1982. Pp. 164, notes, tables, index. $15.00 hardcover.

"How-to" books have proliferated in the book market in recent years. Authors have been instructing their readers on how to invest wisely, how to build their own greenhouse, and how to raise baby. E.S. Savas now offers yet another volume with which Americans can enhance their know-how: *Privatizing the Public Sector: How To Shrink Government.*

Bigger has been commonly regarded as better in America. More has traditionally been better than less. Occasionally, however, there are exceptions. AT&T proved to be an exception. Mr. Savas posits government as another exception. According to Mr. Savas, many Americans, or at least those who put President Reagan into office, are seriously disgruntled with the burgeoning bureaucracy of government and are demanding that something be done about it. The solution, as his title suggests, is to reduce the size of government.

Mr. Savas does not suggest that government be reduced willy-nilly. Rather, he seeks to "present a way of thinking about the proper role of government" (p. 4). To do so, he establishes a conceptual framework which distinguishes various types of goods and services and considers alternative means of delivery of those services. He then identifies liberty, justice, and efficiency as the values through which existing and proposed delivery systems should be evaluated. Finally, he presents his blueprint for shrinking government down to size.

Mr. Savas distinguishes the "vast jumble of goods and services" according to two related concepts, exclusion and joint consumption (p. 30). As Mr. Savas notes, potential consumers of goods can be excluded from using the goods unless they meet certain conditions which the supplier sets. Groceries are a typical example. A customer cannot take the groceries out of the store unless the grocer agrees, usually after payment.

Exclusion, Mr. Savas explains, is not an absolute characteristic of goods but is conditioned by cost. Thus, exclusion may not be feasible where the cost of excluding users is relatively high. A fireworks display is an example of a "good" for which the cost of exclusion is relatively high, since spectators outside the grounds can see at least part of the display.

Furthermore, according to Mr. Savas, goods and services may be classified along a continuum between individually and jointly consumed goods. The latter are goods which may be simultaneously consumed by more than one customer without diminishing quantity or quality. Mr. Savas offers television broadcasts as an example of a joint-consumption good and a fish or a haircut as examples of individually consumed goods.

Combining the concepts of exclusion and joint consumption, Mr. Savas develops four categories of goods and services: private, commonpool, toll, and collective. Private goods, such as store-bought goods, are individually consumed and largely exclusive. Common-pool goods, such as ocean minerals and air, are individually consumed and not highly exclusive. Toll goods, such as cable television, are jointly consumed and highly exclusive. Finally, collective goods, such as television broadcasts, are jointly consumed and not highly exclusive.

Alternative means of providing these goods are identified as: government service, inter-governmental agreement, contract or purchase of services, franchises, grants, vouchers, the marketplace, voluntary service, self-service, or combinations of the above. Mr. Savas considers these alternatives based on the values of liberty, equality, and efficiency. He concludes that no single arrangement is ideal and that more than one good way to provide a service is generally available. Thus, for Mr. Savas, grants, vouchers, the marketplace, or self-service are viable means of providing private goods while government service, inter-governmental agreement, contract, or voluntary services are viable alternatives for providing collective goods.

Mr. Savas then outlines his strategy for shrinking government down to a sensible size. He calls for the private sector to rise again and reclaim its role in the delivery of goods and services to the public. He encourages the use of user charges wherever possible and he urges maximum competition in delivery arrangements.

In doing so, Mr. Savas fails to adequately address the political viability of reducing government services to beneficiaries. He overestimates the responsiveness of the competitive market in providing the public with basic needs. He ignores the historical inequities created by the marketplace and minimizes the continuing effects of discrimination and high concentrations of economic power.

My quarrel with Mr. Savas lies not with the conceptual framework he has designed, but in his admittedly subjective characterization of goods and services and the conclusions he draws from these characterizations. Mr. Savas argues that one reason government has grown so profusely has been the shift away from considering goods as private or toll goods and the subsequent increase in goods considered common-pool or collective goods. Education is one service he cites which has undergone this collectivization. He notes that, historically, education was a private good, individually consumed and highly exclusive. He seems to suggest it should have stayed that way, or at most, that government should provide citizens with education vouchers instead of public schools.

Though education can be characterized as a private good, it can also be characterized as a collective good. Though it may be individually consumed, conventional wisdom holds that society will benefit from the education of all. Though it may be feasible to render it exclusive, it is not desirable to do so—in part because intellectual development should not be contingent upon financial status.

Any work concerned with the proper role of government should also consider the government's role as regulator as well as its role as a provider of services and goods. Though Mr. Savas does not ignore this function of government, his treatment tends toward the superficial. For instance, he laments the passage of the time honored arrangements made with relatives, neighbors and friends for the day care of children. Here, according to Mr. Savas, as in so many areas, government has stuck in its busy-bodied nose through increased financing and restrictions, "with the bizarre result that most families and homes today would not be approved by government as suitable for child care" (p. 120). Mr. Savas suggests that government withdraw from this newly created service whereupon "voluntary arrangements will surely reemerge and expand to fill the need" (p. 120). He even envisions a McDonald's franchise of day-care centers. (Over a billion kids cared for?).

Once again, Mr. Savas fails to address the historical factors which led to the current structure of child care: the dramatic increase in single parent families; the majority of households with both parents working; the increased mobility of families and the concomitant restructuring of family and neighborhood ties. The question naturally arises that if voluntary arrangements are so readily available to fill the need, why did government emerge as a regulator and provider of this service? This question Mr. Savas leaves unanswered.

Mr. Savas offers a valuable structure for analysis and he highlights the potentially serious danger of depending upon only one means of delivery for goods and services. These attributes make *Privatizing the Public Sector* well worth reading. It is useful as raw material. But, like many "how-to" books, it leaves out some crucial steps so that the finished product is more than slightly lopsided.

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AN INQUIRY INTO THE POVERTY OF ECONOMICS
By Charles K. Wilber and Kenneth P. Jameson

Notre Dame and London: University of Notre Dame Press, 1983. Pp. 289, notes, index. $8.95 paper.

An Inquiry into the Poverty of Economics attempts to provide a model for the U.S. economy which would simultaneously provide full employment, stable prices, and sustained economic growth. In arriving at their model, the authors examine what they call the "reigning orthodoxies" of Keynesianism and free enterprise (laissez-faire) economics, as well as two competing models: long-term cycle theory and Marxism. Using history as their evidence, the authors attempt to prove the inadequacy of traditional economic thought and that a new social contract is necessary to reach our economic goals.

The book begins with an explanation of why two orthodox theories, Keynesianism and free enterprise (including Reaganomics), have failed to solve our economic problems. Free enterprise theories are said to be too simplistic in their assumptions about how markets behave. The authors point to the 1920's as an example of how pure free enterprise results in the winners of the economic race getting larger and larger while the losers drop out. Government intervention in the form of anti-trust legislation was necessary to prevent competition from destroying itself.

So why did Americans embrace a form of free enterprise in Reaganomics? The authors suggest that the public turned to its simple solutions of less government and lower taxes in search of an America they thought they once had. However, Americans forgot the lessons of the 1920's and failed to see that the simple solutions of Reaganomics would not solve our complex economic problems.

Keynesianism, on the other hand, rescued the United States from the Great Depression by the use of government intervention. The free market system had proved itself to be inherently unstable, so government had to step in and provide jobs, prevent monopolies, and give people a sense of economic freedom. For forty years government intervention stabilized an otherwise unstable market place—Keynesianism was triumphant. However, the economic boom of the 1960's was followed by the end of the Vietnam War and the beginning of a worldwide oil shortage. Excessive spending, a large money supply, and high oil prices had produced a new phenomenon—stagflation. Neither laissez-faire economics, nor government intervention could solve the simultaneous problems of high unemployment, high inflation, and stagnant economic growth.

The authors also examine the deficiencies of two competing economic models: cycle theories and Marxism. Cycle theorists claim that there are inevitable cycles of economic boom and bust that can be predicted. However, as the authors point out, there is no way of telling where we are in the cycle until the cycle is long past. Moreover, cycle theories fail to explain how to change a cycle, even if we knew where we were. The authors also reject Marxist economic theory as a useful model. They point out that not only do most Americans have an inherent distrust of the revolutionary tendencies of Marxism, but that the failures of the Russian, Chinese, and Polish economies are living examples of the failure of Marxist economics.

These descriptions of different economic theories take up more than half the book. For the layman, it is an outstanding and easily understandable attempt to put conflicting theories and economic dilemmas into their historical context.

Part three of the book, somewhat repetitiously, describes historical and methodological considerations in searching for a new political economy. Traditional economic models are criticized for placing too much emphasis on scientific predictability without providing the empirical proof necessary to choose the best theory. But before providing their answers to our economic woes, the authors describe the structure and operation of the U.S. economy and seek to explain stagflation and the general economic crisis facing the U.S. today.

One problem with the economic structure of the U.S. economy, the authors maintain, is that it is based on the faulty premise that labor, land, and money are commodities produced for sale. The misconception exists that these commodities follow the laws of self-regulating markets. For instance, the authors point out that people frequently do not simply choose the job with the highest wage. Happiness, contentment, challenge, and security are also considerations. So, it is not surprising that policies attempting to eliminate unemployment by changing the wage structure will fail. A better understandinng of people is necessary to formulate a sound policy to eliminate unemployment.

Moreover, restructuring corporate America is necessary to combat inflation. Thirty-eight of the top one hundred economies in the world are corporations. The authors claim that the vast resources of such companies make them immune to economic declines. By laying off workers they cut costs, and by increasing advertising they control what consumers purchase. Thus, large firms set prices rather than having to take prices from the market. Additionally, the struggle for profit shares between ownership and labor leads to a cycle whereby management must increase prices to cover the increasing cost of labor. So, inflation is built into our economic structure.

Finally, the authors assert that our stagnant economic growth stems in part from poor planning by American businesses. The exigencies of the marketplace—the need to beat the competition—induce companies to stress short term profits at the expense of future planning. Thus, the better managed Japanese and German firms surge ahead in technological developments and efficiency. Their products are of higher quality and lower price, resulting in falling sales of U.S. products.

Compounding the problem of falling sales is worker apathy. The authors believe that workers feel as if they have no say in determining management policy and that they are merely replaceable cogs of a corporate wheel. Thus, productivity declines as workers take less pride in their work. The new result of these two phenomena is stagnant economic growth.

The solution to our economic problems, according to the authors, is the formation of a new social contract. This idea is a unique departure from the positive economic theories which the authors criticize. They claim that neither free markets nor bureaucratic controls have been able to meet the three proper goals of any economic system: life-sustenance, esteem, and freedom. These goals can be achieved only when altruism motivates people in their allocation of resources and examination of externalities. [1]

To meet the goal of life-sustenance, the principle of stewardship must be a guiding force. Ownership of property should not merely be by right; rather, it should be by right so long as it is not used to harm the common good. Such property rights as firm relocation, natural resources, and the ownership structure of businesses would be controlled by a national economic planning board. This board would plan and recommend policies to meet the goals of full employment, economic growth, and price stability.

The goal of esteem can be met by adopting an ethic of jubilee, whereby income, housing, and employment would be guaranteed to all people. In the case of guaranteed employment, a computerized national employment service would put people back to work in jobs they enjoy. This would eliminate the psychologically devastating effects of unemployment and job dissatisfaction. Moreover, providing job security and satisfaction would reduce the emphasis on competition for higher wages. Thus, the twin goals of price stability and increased worker productivity could be more easily met.

Lastly, freedom can be promoted by decentralizing mega-institutions so that every person feels he can make a difference. Bringing workers into decision-making, encouraging the electorate to vote, and revitalizing neighborhood unity can give people a better sense of economic and political freedom. This sense of freedom, coupled with guaranteed employment, would enable workers to take a more active role in management. Companies might then become more concerned with long-term plannning and stable growth and less concerned with short-term profits and monopolistic competition.

1. Externalities are effects of policy not taken into account in developing economic models, *e.g.*, clean air.

The authors' proposals, however, require close analysis. Creating a new series of entitlements to meet the basic needs of all people is a vast undertaking. Social Security is a living example of the failure of such an approach. Restructuring the corporate form and limiting growth of businesses also raises due process of law issues. Moreover, the authors' deemphasis of the profit motive runs against a principle deeply ingrained in the American psyche.

The authors say that such change takes time. Yet they give us nothing more in the way of turning their ideas into reality. Legislation would be resisted by deeply-rooted, powerful lobbies. National planning confronts continuity problems with four-year changes in the presidency. And such a monumental change in the American way of thinking must overcome the severe inadequacies of the public schools in providing the education necessary to promote understanding, awareness, and political action.

In proposing the elimination of mega-institutions, the authors fail to see that they want to give even more power over economic planning to the largest institution in American history, the U.S. Government. We are left with a narrow line to walk between centralized government power and decentralized individual power. Ultimately, the authors rest their hopes on the theory that ideas alone can move the world; others might disagree and say that the world is moved by people.

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