Written by Dennis Behreandt on July 22, 2009

Privatization's Pitfalls

As our nationalized economy continues imploding, government feels the financial pinch that used to hurt taxpayers alone. And so a passion for privatization now rages. Towns in California, Kansas, Oregon, Tennessee, and Texas have privatized their libraries; Chicago went that route with its Skyway in 2005, four parking garages in 2006, and Midway International Airport last year; some states are following suit with Medicaid, prisons, and universities. Has a new day of freedom dawned despite the fascism eclipsing liberty's light?

Enemies of the State applaud. The more government facilities and functions are privatized, the better…right?

Wrong. Politicians, think tanks, the media, and even taxpayers mean something very different by "privatization" than libertarians do. When we understand that disparity, we'll no longer wonder that politicians embrace what they ought to reject and taxpayers despise the whole concept. Meanwhile, the longer and louder we cheer privatization, the more enemies for freedom we make.

When you or I speak of privatizing highways, Social Security, airports or other governmental intrusions in daily life, we mean that the State sells the infrastructure or service in question to a private entrepreneur. The sale strips government of its power over a market it should never have usurped in the first place. Entrepreneurs replace bureaucrats. Service improves. Taxpayers become customers as the private market with its efficiency, wide selection, and friendliness takes over from uncivil servants. Everyone's happy.

But that's not what happens. Privatizing politicians don't sell: they lease. Rather than admit their incompetent management and auction off their failures, they rent them to corporations while retaining control.

Some folks dub this shotgun wedding between business and government a private-public partnership or, less accurately, corporatism. Our grandparents called it fascism. By any name, privatization enthralls politicians because it hands them huge chunks of money. The corporation typically pays billions upfront for a lease spanning decades. Chicago Midway's new managers ponied up $2.52 billion when signing their 99-year lease (that deal has since failed thanks to the tight credit market. Nevertheless, the city kept $125 million in "earnest money" and shamelessly gloated that the transaction "wasn't a total loss"). The lessee then assumes day-to-day management, during which it recoups its outlay by charging users.

And since its outlay was enormous, so are its fees: Chicago's mayor, Richard Daley, "described the effective sale price of $61,000 for each of 9,178 parking spaces [as] 'among the highest prices per parking space ever paid in the U.S.'" Apparently, the mayor considers his constituents ignoramuses who believe that when a purchaser overpays, he eats the cost rather than passing it on to his customers. In essence, privatization deeds assets we've already bought to corporations that expect us to pay a second time — and handsomely — for using what we own.

But politicians and bureaucrats are still in command, still ensuring a monopoly, still dictating the rules of operation while subsidizing the project with our taxes via bonds and even outright grants. The corporation has little flexibility for responding to shifts in its market or patrons' preferences. Then again, who needs flexibility when he enjoys a monopoly?

Meanwhile, the corporation is accountable to politicians, not customers. In fact, the people using whatever's been "privatized" resemble customers only because they now pay directly for each use. That's in addition to taxes: Chicagoans haven't seen any reduction in what the city extorts from them despite its savings on operating the Skyway and the garages.

So it's ironic that privatization's fans and foes both insist the scam's "market-based." But privatization and the market have about as much in common as the IRS and an usher's passing the plate at church. Privatization's enemies need not fear, nor its enthusiasts hope, that it diminishes government in favor of the free market. Just the opposite: it nourishes the State with money, and lots of it – something no decent person should countenance.

Privatization harnesses the market's power to government's engine. But that engine belches evil. The State wages war, steals money via taxes and inflation, imprisons dissidents, and lies to hide its crimes. Privatized services and infrastructure usually function better than those left solely to bureaucrats — but are more punishing prisons, murderous wars, and efficient taxation desirable? Privatization perverts the market's virtues into governmental vice. Hoteliers who want guests entice them by pleasing them. Private prison companies also want guests — so they please the rulers who can deliver them.

Privatization isolates one feature of the market — profits — from the others that keep those profits legitimate, an entrepreneur's reward for pleasing customers. That strips morality from the transaction because it shifts the entrepreneurs' focus from patrons to politicians. It limits the customer's options as much as it unleashes the State's power. What recourse remains to a driver frustrated by traffic on the Skyway? There are few alternate routes — and none that the State doesn't bungle.

Greed is a universal human failing. Everyone would love to sell $5 widgets for $500, but competition forbids that. The free market magnificently transmutes greed into self-interest. Then the magic goes further, tempering that self-interest with courtesy and consideration for others. Entrepreneurs might want to save a bundle on heat, but if they hope to attract shoppers, they must provide warm malls. The market also chastises laziness: a businessman may prefer sleeping till noon, but he must make himself available at his customers' convenience.

Profit rewards those who learn these lessons. That's why everyone but socialists commends money earned from "honest" labor and why moralists frown on gambling: it separates profit from the market's context and virtues.

Privatization does as well. Because the State still owns and controls the privatized project, it insulates the entrepreneur from the consequences of his actions, or at least those few actions regulations don't dictate. His "customers" can't punish his high prices and poor service by patronizing his competitors: the State ensures that there are none. And it often subsidizes the corporation that loses business. If aldermen in Chicago pass legislation that "'negatively impact[s]' meter revenue," the *Sun-Times* reports, "the private operator will have to be 'made whole.'"

The market's essence is choice, voluntary cooperation, freedom. But government is force. It can neither compromise nor "partner" with the private sector because force always extinguishes freedom.

Politicians learned this long ago. Why haven't we?

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