

Private-Sector Initiative

The terms “privatization” and “private-sector initiative” mean similar things to some people. Distinguishing between the two, however, shows how various services have evolved over the years, and more importantly, perhaps, suggests how future relationships between the private and public sectors might be forged. “Privatization” generally refers to a governmental unit turning over a specific service to a private company, as explained in the previous section.

Private-sector initiative refers to either of two patterns: 1) private companies (for-profit or nonprofit) providing a service, for the most part, *before* government becomes involved; and 2) the private sector both funding *and* delivering a service once provided by government. The day care industry, particularly for preschoolers, represents the first type of private sector initiative. The popular Individual Retirement Accounts (IRAs) could become an example of the second type of initiative, if IRAs become important enough to provide through the private sec-

tor some of the benefits now provided through Social Security.

The term “private-sector initiative” gained prominence during Reagan’s first administration, especially during the budget-cut fights in Congress. Government is too involved in people’s lives, argued Reagan and David Stockman, former director of the U.S. Office of Management and Budget; the private sector can take over the role of government in many ways. Reagan called for private-sector initiatives with his famous “safety-net” speech. The government’s safety net would take care of the neediest people, said Reagan, and private-sector initiatives could take care of other persons no longer eligible for certain social welfare programs.

The “safety-net” image illustrates the difference between “privatization” and private-sector initiatives. Government-funded programs, at the reduced “safety-net” level, could be run by the public sector or by private companies under various contracts or vouchers—i.e., through “pri-

vatization." Private funds—through corporations, philanthropy, churches, and other groups—would fill in the gaps for those in need who no longer qualified for government-funded services, so the Reagan-Stockman theory went.

The jury is still out on whether church-sponsored food distribution projects have substituted adequately for cuts in food stamps, for example. Conservatives say churches are doing the job and poverty is declining. Social welfare groups contend the opposite, that poverty and hunger are on the rise.

The bitter partisan fights over budget cuts during the Reagan era have led to an identification of the term "private-sector initiative" with the recent rise in influence of the conservative political philosophy. In fact, private-sector initiatives have been around since colonial days, when frontier mothers educated children and farmers formed volunteer fire departments.

Over the generations, state and local governments have taken over such basic services as public education and the building and maintaining of roads (also built by private companies in the early days). President Franklin Roosevelt and his New Deal extended the arm of government into the social welfare arena, affecting virtually every American with the Social Security program and providing for those most in need through programs such as aid to the blind. The reach of government extended further in the 1960s during President Lyndon B. Johnson's Great Society, with numerous programs, ranging from Medicare to Medicaid, from Head Start for disadvantaged children to the Small Business Administration for struggling entrepreneurs.

Ronald Reagan's arrival as the nation's leading political spokesman has stimulated various proposals for enhanced private-sector initiatives. Some of the most enthusiastic advocates of the private sector, however, recognize the difficulties of shrinking government.

"As a proportion of GNP, federal spending is now well above the level of the Carter administration, forcing David Stockman last year to revise his estimate of the minimum size of government achievable to 23 percent (of GNP)—up from the 19 percent target when Reagan took office," writes Stuart M. Butler of The Heritage Foundation, a conservative think-tank. "Clearly the central plank in Reagan's platform to clamp down on government has been shattered. And if Reagan and Stockman cannot control spending, who can?"¹¹

Butler builds a case in his article, called "For Serious Action on Privatization," for providing inducements and incentives to "encour-

age Americans to seek benefits and services from the private sector that they now receive from the government." Butler also maintains that "steps should be taken to weaken the coalitions now supporting federal programs, while fostering new coalitions committed to private alternatives."

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To illustrate such a coalition, Butler points out that a pro-Individual Retirement Account coalition has emerged. IRAs have become so popular that "despite the fact that the revenue cost of IRAs has far exceeded Treasury forecasts, not only is there no effort to reduce the deduction, but there have actually been several attempts to increase it." Butler contends that such a coalition has built a private-sector initiative—i.e., promotion of IRAs by the finance industry. This initiative could lead to a "privatization" of one of the most highly protected of government services: "Diverting demand for retirement security into the private sector, the politics of Social Security will slowly but surely begin to shift to favor reform."

Private-sector initiatives, then, can lead towards "privatization"—i.e., the private sector taking over a service now provided by the government. Ironically, private-sector initiatives can also lead to the opposite result—*greater government involvement with a service*. Perhaps the best illustration of this is volunteer fire departments.

Traditionally, in rural North Carolina, volunteers have organized and provided fire protection. Since the 1950s, however, many volunteer departments have been unable to support their operations on money raised from fish fries and bake sales. New equipment costs too much for such modest funding sources. So the volunteer fire departments started asking counties for money, most often through the creation of a special fire district for tax purposes.

Counties have had the authority to establish such fire districts since 1951, and the number of districts has jumped dramatically in recent years.

From 1971 to 1982, the number increased from 170 districts in 40 counties to 485 in 61 counties. "There has been increasing public-sector aid to volunteer fire departments," says Ed Regan of the N.C. Association of County Commissioners, which compiled the data cited here. "Special tax districts have multiplied like rabbits."

Private-sector initiatives in building water and sewer systems sometimes result in *increased* public-sector involvement, as well. Often, private developers will include a water and sewer system with a housing development, particularly in a retirement area, explains Regan. But after five or 10 years, the system either breaks or becomes overloaded. Then the property owners go to the county for help. The public agency, the county, ends up funding what was once a private-sector project, adds Regan.

Such a process often happens to cities as well, explains Ellis Hankins of the League of Municipalities. Property owners go to cities for help, "whether located inside or outside the city," says Hankins.

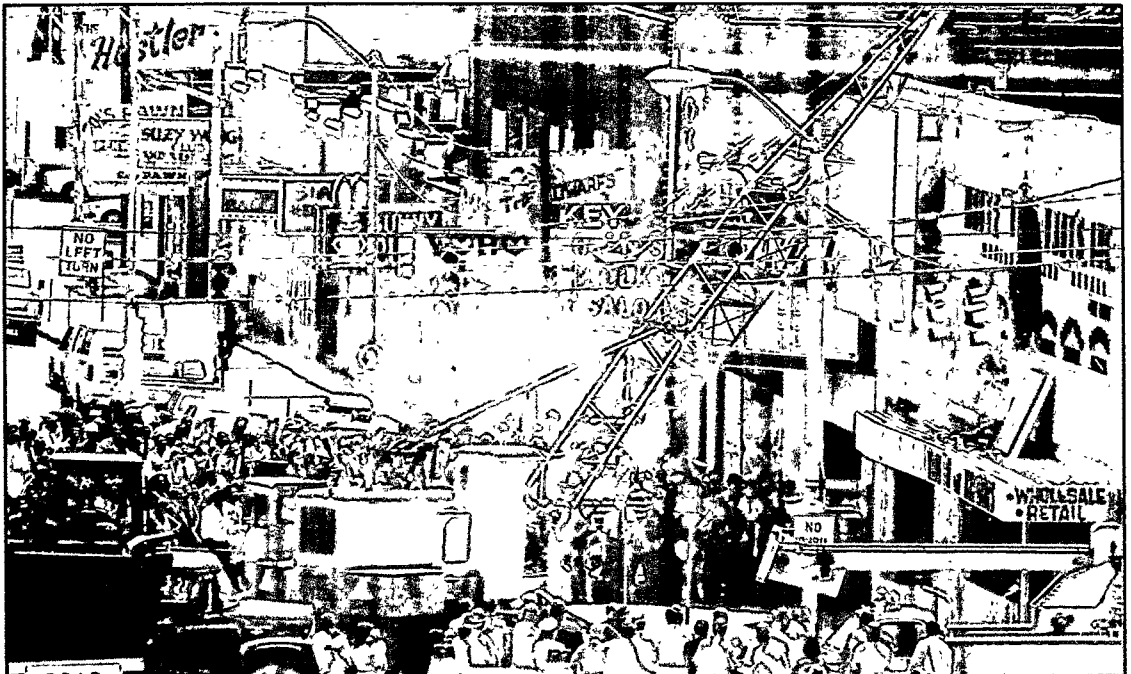
Private-sector initiatives, then, can lead either to *reduced or increased* government support. "If there is the prospect of a 'free' government-provided service, while the private sector must charge the full cost, citizens will always tend to favor government provision," explains Butler of The Heritage Foundation. Both liberals and conservatives, to use the terms

loosely, would agree with Butler on that point. But disagreements emerge over *which* services should be provided by the private and by the public sectors.

For example, the private sector has basically taken the initiative to meet a demand for preschool child-care. Now some states, including North Carolina, have become interested in adding a day-care program for preschoolers to the state-funded education system.¹² The private, for-profit day care industry has fought the proposals, and thus far little support has emerged, mostly because of the public expense involved. Private-sector initiative seems to have preempted the preschool market from government. But what about grades K through 12? Should vouchers be used to allow parents to send their children to public or private schools?

Under Butler's thesis, "a conscious campaign must be undertaken to create coalitions of beneficiaries, near-beneficiaries, administrators, and providers, committed to the private-sector delivery of a service." Would Butler's "delivery of a service" include educating children? The potential conflict between Butler's thesis and longstanding support for public education illustrates the crux of this entire issue. Deciding whether a private company might provide a service as well and as cheaply as a state or municipality depends upon the service under consideration.

Wrecking ball shatters a hole in one of Fayetteville's famous Hay Street establishments during the "block-busting" party, July 29, 1983.



Ken Cooke, The Fayetteville Observer