

# INDIANAPOLIS BUSINESS JOURNAL

CENTRAL INDIANA'S BUSINESS AUTHORITY

VOL. 27 NO. 40 • DECEMBER 11-17, 2006

## Is privatizing public services the answer?

Since being elected governor, Mitch Daniels has unveiled several big ideas, a common theme of which is the privatization of public assets. Privatization is not a new idea or a big idea.



**BRIAN  
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*Commentary*

Indianapolis residents are familiar with privatization, specifically of the city's wastewater treatment facility and Indianapolis International Airport. While these privatization efforts purportedly have generated significant savings, none of those savings have been remitted to Indianapolis citizens, whose utility rates and ticket and parking fees helped construct and maintain those assets.

One has to question if the governor's push to privatize government services is a response to poor government processes or poor managerial decisions. In either case, it should be noted that public-sector employees are taxpayers, too, and presumably also expect government to be cost-effective. Why not dedicate energy and intellect to hiring and empowering managers to improve government service?

Capitalism is the organizing principle of the governor's efforts. As Hoosiers, we love this idea. Capitalism is one of the organizing principles of our own lives, and capitalism is one of the main reasons America enjoys such opportunity and wealth. Hoosiers do not need an economic analysis to understand that

market forces can improve service and lower prices. We know monopolies create inefficiencies, lethargy and high prices.

However, before we support the distribution of public assets, we should reach a consensus on what is worth selling, outsourcing or privatizing. When evaluating proposals to privatize government resources and services, we should consider several factors:

■ **Performance measures**—As the importance of the public benefits produced from a service increases, the ability to use market signals to track performance wanes. This is one reason services were placed within the public sector initially. A limited ability to judge the effectiveness of a service through market mechanisms increases the need for oversight. However, with oversight comes room for interpretation and the opportunity for incentives counter to public objectives. How stringent will the governor be in measuring poor-relief performance when 1,000 call center jobs are at stake?

■ **Effective choice**—It is consumer choice that propels the competitive tendencies of the private market. The effectiveness of this choice for the individual is predicated upon an assessment of the consumer's preferences and appropriate and accurate information regarding how well varying suppliers will satisfy these preferences. We should not expect government to engineer appropriate competitive processes with equal effectiveness for all goods or services. However, a competitive market or the failure to provide effective choice can produce equally poor results through privatization.

■ **Accountability to public objectives**—Accountability is diminished if we do not clearly articulate the performance objectives and how those performance objectives align with the public good. Forty years from now, will the operators of the Indiana toll road continue to make infrastructure improvements if by chance the vast majority of the commuter traffic moved to rail, leading to only heavy truck traffic and lower concession revenue from gas stations?

■ **Inadequate competition**—Governments often pursue private involvement in production to reduce costs by inducing characteristics of private markets. Competitive incentives are expected to create pressures for efficiency and innovation. It is often argued that economies of scale may be realized by private producers through delivering services to a number of government units. However, economies of scale and competitive pressures are often mutually exclusive and impair competition.

Government efficiency in serving taxpayers and managing tax dollars is a worthy goal. However, that efficiency should not come at the loss of our valuable assets or at the expense of our commitment to serve those least able to help themselves. We should evaluate carefully, debate openly, decide collectively and manage diligently efforts designed to place public assets in private hands. •

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