Forbes

Privatization and Private vs. Public Profits

By: Warren Meyer – May 21, 2013

Jason Bedrick of Cato discusses an argument I hear all the time when discussing private vs. public solutions:

> Should there be a separation of school and profit? Many opponents of education reform seem to think so.
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> Case in point, a blog post at the *Washington Post* yesterday decried "outside forces that want to make big profits on the backs of our nation's most vulnerable children."

I run a company that privately operates public parks, reducing their cost of operation so that they can stay open using only the user fees paid at the gate, rather than requiring a public tax subsidy to stay open (subsidies that are drying up in most states). The agencies we work for retain control of the land, its character, and its preservation so that we operate within very tight boundaries and cannot (as is often feared) make our money by building a McDonald's in front of Old Faithful.

The most frequent argument I hear against what we do is that "it's wrong to make a profit on public lands." Recently, I heard this from a federal manager of a large public campground and lakefront day use area. I was not in my usual diplomatic mood, and I snapped back, "so you work for free?"

If my company operated that park for the federal agency, a park that nets about $300,000 a year in visitor revenue, my company would probably make $15,000 or $20,000 a year in profit doing so, if all goes well, which it seldom does (this is a very low margin business). I have no idea what that park manager makes in salary and benefits, but I would be surprised if it were less than $55,000 plus benefits, and probably more. Why is his $55,000 "clean" but my $15,000 for the same task "dirty"? Particularly when historic increases in his and his staff's salaries and benefits have left the park financially tottering and on the brink of closure?

Just about a week ago, I was in a meeting with two California state legislators discussing initiatives to improve the financial health of their state parks organization. I won't mention the legislators' names but they seemed genuinely motivated by affection for the parks. The state wants to make its parks financially sustainable, and the discussion mainly focused on ways the state parks could generate new revenues.

This was all fine and good — there are certainly some revenue opportunities to be captured. But California State Parks has been better than probably any other state parks agency in mining these already. The low-hanging fruit is gone. So I made the observation that while new revenue opportunities might contribute a few million dollars to the parks' $400 million budget, addressing the operating cost issues the state has in the parks, particularly high salary and staffing costs, could have an order of magnitude more benefit. For example, if my company or ones like ours operated the parks (e.g. cleaned the bathrooms and did the maintenance and manned the gate house) the savings would likely be $100 million a year or more. All the parks could stay open, they could be financially secure for a generation, and money would even be left over to start addressing their huge deferred maintenance issues.

The legislators looked at me pityingly and said thanks for the idea, but it was completely politically unrealistic. And they were right. In the California legislature, it is impossible to touch the pay and jobs of state workers.

But that leads us to a question, one that also presents itself from my earlier example: For whom are we running the public parks (or schools, or any other public service)? The public, or the employees? I suppose some will try to finesse this question by saying something like "well, they are both important stakeholders." But when push comes to shove, when budgets are cut (which is happening in nearly every parks agency), who loses? Well, we can see what happens in California. State worker pay and benefits are untouchable, a political third rail, while parks are slated for closure. It leaves one with the sense that the parks are being run primarily for the benefit of their employees, and only secondarily for the public.

This employee capture, by the way, is not unique to parks — most government agencies suffer from it. In fact, it is not even a phenomenon limited to the public sector. Private organizations are similarly subject to employee capture of their various departments. The difference between private and public organizations, though, is their accountability mechanisms.   In the private world, organizations run primarily for the comfort of their employees will get out-competed and eventually will die at the hands of more vital competitors (unless they get bailed out by the government, as at GM). In the public world, accountability is mostly via elections, but public agency workers have been able to organize and wield outsize power in these elections. As a result, what should be an accountability mechanism on agencies captured by their employees in fact becomes a reinforcing device.

The Bedrick article mentioned earlier ends by quoting from Jospeh Bast, which I will do as well

> In a capitalist economy, profits are the reward earned by firms that maximize the quality of services and goods, minimize overhead and bureaucracy, motivate their workers to achieve high and consistent levels of productivity, and avoid unnecessary expenditures. Successful firms sell better, cheaper, or better *and* cheaper products and services than do other firms. Customers notice, and business gradually shifts from inefficient to efficient firms. […]
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> Low-performing government schools [or any other government service] don't gradually lose customers and face the threat of closure, the way an inefficiently run business does. As a result, there is little urgency for reform. Their assets do not move from the control of those who have misused them into the hands of others who could do a better job.