Forbes

Public vs. Private is a Spectrum, Not a Dichotomy

Timothy B. Lee - 10/01/2012

The October issue of *Cato Unbound* features an interesting essay by Sheldon Richman on privatization:

> *While an enterprise must offer its products and services to potential consumers who are free to say no, a bureaucracy looks to the taxman. Saying no is not an option for "consumers" of government services. Aside from the moral defect in this arrangement, economics tells us a bureaucracy that can compel support will lack the feedback that free consumers constantly provide competitive enterprises. In other words, government services are not subject to market pricing, leaving no way to gauge relative consumer demand. It is hardly mysterious that government services are inferior to what a competitive market would provide.*

The solution, Richman says, is to transform what was formerly a state monopoly into a competitive market. Richman draws an important distinction between (to borrow Matt Yglesias's terminology) genuine privatization and contracting-out. When the government hires a private party to perform a government function, such as a private prison, that is sometimes called "privatization." But as Richman correctly points out "when a company becomes a monopoly government contractor, to that extent it is an arm of the state rather than a private firm."

So far so good. But things get dicier when Richman moves on to specific examples:

> *Not every state asset will be amenable to classic Lockean homesteading—interstate highways, for instance. On the other hand, residential and commercial streets could be more easily devolved via some form of homesteading by adjacent property owners, a possibility Walter Block has discussed in The Privatization of Roads and Highways, with its voluminous references to the history of private provision of roads. Also see his "Free Market Transportation: Denationalizing the Roads" (pdf); the streets of Disney World and elsewhere are working demonstrations of private provision. Since the market for roads and highways was not permitted to evolve spontaneously, we cannot know what shape this part of the economy would have taken; hence it would be*

> *impossible to create what might have been. Thus devolution to a competitive freed market may not satisfy the criteria of justice perfectly in every respect. But that should not be a barrier removing roads and highways from the inherently inefficient and unjust political realm.*

This doesn't seem to take into account the complexities of the road "market." Remember, Richman's own argument for privatization hinged on the fact that "saying no is not an option" when the government offers a service. But I, like most people, only have one road leading to my front door. Whoever owns that road has a significant amount of power over me because I don't have the option of switching to a competing roadway "supplier."

Could you re-organize the urban street "market" to ensure that everyone has multiple options? After more than a decade in libertarian circles, I have yet to see a convincing explanation of how this would work. At a minimum, such a scheme would require a certain level of government supervision to prevent collusion and mergers among roadway suppliers.

But this creates a paradox. Remember that in Richman's view, a firm that enjoys a monopoly thanks to state policy is best viewed as "an arm of the state rather than a private firm." So perhaps the principled libertarian should be opposed to state regulation of the road industry as long as there's "enough" competition in the roadway market. But once the amount of competition drops below a certain threshold, it suddenly becomes a coercive state institution! Now "privatization" is needed. Then, after privatization, the government goes back to a *laissez faire* policy, starting the cycle over again.

This isn't just a hypothetical problem. In 1984, the federal government broke up Ma Bell creating a relatively competitive telecommunications industry. As I understand it, this move enjoyed the support of many libertarians. Since then, the pieces of the monopoly have been gradually consolidating. It seems plausible that in the absence of antitrust scrutiny (such as the blocking of the merger of AT&T with T-Mobile) this consolidation would be occurring even more rapidly, and before long we'd find ourselves with a new telecom monopoly.

What this illustrates, I think, is that the sharp dichotomy Richman is proposing—between coercive government services on the one hand and competitive markets on the other—isn't so dichotomous in the real world. Clearly there are some services, like the police and the courts, that are inherently coercive and monopolistic. And there are many services, like the provision of hamburgers, shoes, and iPads, that can be provided by competitive markets with minimal state involvement. But there are also some services that stand somewhere in the middle: private provision is an option, but competition is limited and fragile at best.

At the ends of the spectrum, the policy answers are easy: inherently coercive services should be provided by government, intrinsically non-coercive ones by competitive markets. But things get tricky in the middle, where competition is limited and there’s a real danger of monopoly. In these industries, it’s important to proceed by trial and error, employing a mix of approaches and seeing what works best in the real world. Trying to classify these markets as wholly private or wholly coercive becomes an impediment to clear thinking.