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PRIVATIZATION OF MUNICIPALLY-PROVIDED SERVICES

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The municipal reform movement of the progressive era succeeded throughout America in establishing local government monopoly in the provision of urban services. Competitive markets in such services as fire-fighting, street lighting, refuse removal, transit, and even policing, gave way to municipal bureaus and departments. That these reforms have resulted in unresponsive and inefficient service delivery systems should occasion no great surprise. Civil service reforms and now the advent of public employee unions have exacerbated the situation by vesting public employees with monopoly power. In recent years the monetary costs of municipally-provided services have increased more rapidly than costs in any sector of the private economy (save construction), yet the quality of these services has not perceptibly improved. The quality of many services, notably education, has deteriorated. With municipal taxes soaring, the majority of city dwellers feel — not without justification — that they are not getting their money's worth.[1]

Poor service at high cost is not the only burden; even as they continue to bear the excessive cost of monopoly municipal services, city dwellers at irregular intervals are subjected to sudden service shutdowns. They find that public employees enjoying monopoly power will occasionally exhibit that power to secure gains for themselves. This too should occasion no great surprise. State laws banning public employee strikes have proven futile, as work slowdowns and mass absenteeism can easily be arranged to achieve interruptions every bit as effective as strikes.[2]

The introduction (or restoration) of private competition in the provision of urban services — the creation of markets for these services — deserves serious and immediate consideration as a strategy for alleviating the headaches caused by the failures of municipal monopolies. With the present system widely regarded as deplorable, analysts, authorities, and the general public may finally be willing to accord this strategy the consideration it deserves. As Robert L. Lineberry has noted, "What once was taken as settled — that public services must be provided by public employees funded by public tax dollars — is now debatable".[3] The debate must be joined on both theoretical and empirical levels. The present paper will discuss what general advantages (or disadvantages) are to be expected from privatization and how best to capture (or avoid) them, will survey the evidence on possible cost savings from privatization as revealed by comparative studies of public and private systems, and will discuss particular services as candidates for privatization in light of the "public goods" question.

The term "privatization" refers not to a single strategy, but to two different strategies for removing the provision of urban services from the hands of municipal government.[4] By "contracting out" a city government can allocate tax revenues to a low-bidding private firm rather than to its own bureau for the provision of specified services. This practice is already commonplace with regard to capital construction projects. On the other hand, by "load shedding" a city government can extricate itself entirely from areas of the service sector. The government simply reduces or

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eliminates its own provision of a service, providing tax rebates or reductions where appropriate, and steps back to allow private entrepreneurs access to the newly-opened market.

Contracting out increases the number of potential suppliers who could be authorized to perform services on behalf of city government, and introduces competitive bidding for such authorization. It retains tax financing, however, and therefore cannot be considered true privatization. The supply of service remains a political issue, as government rather than the individual consumer exercises control over the quantity and quality of service chosen. Load shedding, on the other hand, clears the way for competitive market provision of a service. The price mechanism for rational allocation of resources replaces political control, and consumer sovereignty is introduced. Consumers are no longer restricted to identical service, but each may purchase the level and type of service which suits him individually.

The sharp difference between political and consumer control entails that no case, empirical or theoretical, can ever claim superior efficiency on the part of tax-financed provision. Two delivery systems can be compared on efficiency grounds only if they represent alternative means of pursuing one and the same end. Here the ends are very different. Under political control the ends of those who wield power in municipal government are pursued. Under consumer control each individual is permitted to pursue his own ends.

Most cities are already contracting with private businesses for one or more services, and a wide variety of services are so provided. A broad survey conducted by the International City Management Association in 1963 found that almost 75% of the more than 1000 reporting American cities contract out to private agencies or to other governmental bodies, with cities of 50,000 to 100,000 in population doing so more frequently than either larger or smaller cities. The design, installation, and maintenance of street lighting was the service most commonly contracted out to private firms (43% of reporting cities). Private contract water supply was also common (40%). Refuse removal has long been provided to municipalities on a contract basis; the ICMA study found that 25% contracted with private carters. Also covered by the study were health services (chiefly emergency ambulance service), which 10% of the cities contracted out to private firms, and street cleaning and maintenance (less than 10%).[5]

In other examples of contracting, private firms are being hired by cities to plow snow, maintain parks and public buildings, enforce parking laws (both ticketing and towing), perform data processing operations, patrol public buildings, operate sanitary landfills, and educate students. Firms are actually paying rather than charging New York City for the right to remove abandoned cars from city streets and for the privilege of providing bus shelters (which generate advertising revenue) on city sidewalks. Perhaps the most provocative example of an urban service contracted to a private firm is the provision of fire protection services to the city of Scottsdale, Arizona (population 90,000) by the Rural-Metropolitan Fire Protection company.[6]

The most tangible advantage cities and their tax payers can expect from privatization is substantial cost savings. These savings are due primarily to increased efficiency in production, or what economist Harvey Leibenstein has termed "*X*-efficiency".[7] Privatization increases productive efficiency by transferring production from notoriously sluggish municipal bureaucracies to competitive and profit-motivated private firms.

Without the spur of profit, or some other reward for least-cost production, management has no incentive to hold down costs. F. A. Hayek long ago pointed out with regard to competitive firms that "the task of keeping costs from rising requires a constant struggle, absorbing a great part of the energy of a manager".[8] Leibenstein, characterizing this phenomenon of rising costs as "effort entropy", has argued that the motivation of management to fight effort entropy "depends, among other things, on the environment in which the firm exists and on the pressures for changes the environment imposes on it".[9] Competitive pressure affects the intensity of

effort with which firms and their employees work; in its absence effort diminishes in favor of more relaxed interpersonal relations. If Leibenstein's conclusion that secured monopoly "provides a refuge from pressure" is true for the privately-owned firm, it is *a fortiori* true for the municipal department. A privately-owned monopoly is still subject to the constraint of acceptable profitability, while a municipal monopoly is not.

Dennis R. Young has aptly commented that the municipal bureau has "no yardsticks and no profit objective by which to measure and motivate performance". There is no threat from competitors to the bureau's survival or job security. The technical expertise required for evaluation of performance insures that "the bureau is effectively insulated from external pressure to improve productivity". The bureau is typically unable even to identify the actual money costs of its output, let alone to hold them down.[10]

Evidence of effort entropy among municipal monopolies is not difficult to find. E. S. Savas has supplied the following examples from New York City alone. The average New York City Department of Sanitation garbage truck spends more than 30% of its time out of commission, versus only 5% down-time for the trucks owned by private carters in the city. The number of New York City policemen increased by 50% between 1940 and 1965, yet the total number of hours worked by the force was actually lower in the latter year. Shorter weeks, longer lunch hours, more holidays and vacation days, and more sick leave more than made up for the greater number of workers. Similarly a 50% increase in the number of teachers plus the hiring of teaching assistants brought almost no reduction in the average size of the city's classrooms, as teachers shortened their working hours and passed along their duties.[11]

In this context contracting out seems to be a halfway-house between market competition and municipal monopoly. Where contract renewal is automatic (perhaps because the bidding is rigged — a genuine threat), the favored firm becomes a privately-owned monopoly in the market for its municipal contract. Pressure to cost-minimize operates most effectively where bidding for the contract is frequent and openly competitive.

A municipal bureaucracy, unlike a private firm, operates under restrictive personnel regulations intended to prevent the abuses of the spoils system. The system which protects municipal employees from political pressures, Peter F. Drucker notes, "also protects the incumbents in the agencies from the demands of performance".[12] Civil service rules greatly hamper productivity by making it possible for municipal employees to exert minimal effort on the job without penalty. Lyle C. Fitch points out that these rules "tend to freeze employees into positions and to prevent management from disciplining uncooperative employees; only cases of extreme recalcitrance or misbehavior will justify actual discharge".[13] Even when justifiable under civil service regulations, firing a municipal employee requires a great expenditure of managerial time and effort; it is therefore rarely a credible threat. Civil service often prevents employee transfers or high-grade entry, thus obviating the competition for higher-level jobs which motivates employees in private industry. There is clearly little chance that a municipal bureaucracy will be able to recruit ambitious workers.

Talented managers hired from the outside are more likely to generate resentment from career civil servants than to generate increased productivity. The middle level civil servant thus has close to zero motivation to do a superior job: his promotion depends not on performance but on seniority, and his opportunities for higher-paying jobs elsewhere would be minimal even if he could distinguish himself.

The problem of motivating municipal employees has become even more difficult with the advent of public employee unions. The unions typically resist any incentive pay systems (teachers' unions are notorious for this), any attempts even to measure productivity, and indeed any changes whatsoever in work routines. The more costly management finds it to alter work routines, the greater the gap liable to exist between those routines and efficient practices.[14] Under municipal control generally, and especially where unions are involved, the provision of services tends to remain unduly

labor-intensive and technologically static in contrast with other sectors of the economy.[15] For example, three men accompany each municipal sanitation truck in New York, while only two accompany the trucks of private firms.[16] Privatization offers a route for escaping the growing demands and strike threats of public employee unions as well as for escaping civil service. Union demands for excessive wages (i.e. wages above the market-clearing level) are more readily met in the public sector than in private enterprise, as the private entrepreneur must hold down costs and doesn't need the union vote to retain his position.

Budgetary controls and attendant paperwork impose further restrictions on the management of a municipal bureaucracy, primarily for the purpose of making it difficult for the bureau chief to line his pockets with more than his stipulated salary. These controls do nothing to encourage the rational allocation of resources, and often discourage it. They do not provide incentives for productive efficiency and frequently do the opposite. Any cost savings by an agency would only be recaptured by the city treasury, and would result in slimmer appropriations in the following year. The rational bureaucrat who sought to maximize his power and influence, on the other hand, might find courting crisis the best way to attract attention and running a deficit — by failing to economize — the best way of ensuring that his budget would grow.[17] Budget size is not related to the quantity and quality of service actually provided, but only to the costliness achieved in production.

The natural tendency of a public bureaucracy to expand and perpetuate itself is not limited (as the tendency of a successful private firm is) by the extent of genuine customer demand for its service nor by its comparative efficiency in meeting that demand. Public agencies face no profit-and-loss test of viability. Never allowed to die, they can persist indefinitely in extensive productive inefficiency. It is the great virtue of private firms, on the other hand, that they are free to fail and are compelled to abandon unprofitable ventures.[18] It is in this manner that the market economy maintains its vitality and flexibility. By load shedding, the provision of service is subjected to the market test, and will be continued only for as long as consumers are willing to pay for it.

While contracting out and load shedding can both achieve substantial gains in productive efficiency, only the allowance of true market provision through load shedding can achieve consumer sovereignty and gains in allocative efficiency. These latter gains are due to the ability of the price system to guide resources into those employments in which they contribute most to consumer satisfaction. The system of compulsory taxes and "free" provision of a service prevents the consumer from expressing the strength of his desire for more or higher quality service relative to his desire for more of other goods and services. The type of service supplied to a consumer bears no relation to the sort of service he individually would be willing to buy. Instead, a uniform type of service, made available to all consumers, is chosen through political mechanisms. In the absence of market pricing those demanding service are not informed of the scarcity value of the resources consumed and have no incentive to limit their demand. Unlimited demand must always exceed limited supply, and thus originates the frequently-heard claim that municipally-provided services are insufficiently supplied.

Tax financing also creates equity problems. Because services are not distributed in accordance with tax payments, some citizens end up subsidizing the consumption of others. Municipal golf courses and basketball courts, museums and sports stadiums, school systems and transit systems, all involve disparities of this sort.[19] Those on the receiving end (city employees included) have an interest in pressing for higher and higher expenditures on their favorite service. "When city-wide taxes pay for an activity", Dick Netzer notes, "there is every incentive for very small groups of beneficiaries to seek expansion of the activity, since the beneficiaries do not pay for the expansion". Netzer provides a pointed example of this incentive structure at work: the New York City Board of Estimate in July 1969 mandated alteration of the route of the Second Avenue

subway, so as better to convenience a few thousand riders. The annual costs of the alteration came to between $500 and $1000 per rider, but that cost was shifted to all city taxpayers.[20]

The size of a municipal or contract agency is likely to be non-economic, since its size is determined by political considerations (chiefly the size of the jurisdiction it serves) and not by economies or diseconomies of scale. As any economics text will attest, costs are minimized only when service is provided up to and not beyond the volume at which marginal cost begins to exceed price (or marginal revenue). A profit-seeking producer in a competitive market will try to find and establish the efficient size for his operation, and he has the necessary guidance to do so in the form of price signals. Scale economies are more difficult to locate and achieve by contracting out, since the size of the business is set by the size of the contract. A contractor may be able to produce at lower cost by serving three municipalities — or one-third of a municipality — but there are typically institutional barriers to making such arrangements. In the absence of a true market, moreover, there are no clear data to indicate efficient size.

An objection frequently raised to market provision of what are at present municipally-provided services is that they are "public" services, that is, collective goods whose provision is subject to "market failure". A collective good is a good or service which exhibits non-rivalness in consumption (the classic example being national defense) such that pricing is unnecessary for rationing purposes once the good or service exists. (It is sometimes claimed that exclusion of non-payers by the provider of a public service would be "inefficient" in that it would prevent a costless increase in the well-being of the non-payers. This claim is false; it neglects the cost of foregone revenue or utility to the would-be excluder.) "Market failure" occurs when a collective good or service cannot effectively (or "sufficiently") be provided on an individual user-charge basis due to the costliness of excluding non-payers from use. Tax financing of services, however, contributes nothing to the solution of the problem of exclusion costs. Indeed, it may hinder its solution, as it obviates any incentive for producers to discover and develop lower-cost means of exclusion.

Taxation entails compulsion against those citizens who might otherwise be "free riders", and especially against those citizens whose tastes for the services differ from those of the government. Furthermore, taxation is itself exclusionary: those who are caught not paying taxes are rather summarily excluded from enjoyment of the service.[21] Whether this compulsion is *ipso facto* justified in the case of a collective good is an issue too seldom debated; Robert Nozick, for one, has cogently argued that it is not.[22]

The assertion that certain municipally-provided services are "public" services by nature is a claim which must be examined on a case-by-case basis. Such examinations will be accompanied below by discussions of relevant empirical evidence concerning comparative production costs.

REFUSE REMOVAL

Refuse removal may be a matter of legitimate public concern due to its impact on public health and on neighborhood amenity, but it cannot be considered a collective good. An individual's neighbors (unless they enjoy disease) may be injured by the non-disposal of his trash, and thus laws regarding hygiene may be appropriate to protect neighbors from open putrefaction of waste. These "external effects" are not sufficient to make refuse removal a public good. Removal service does not exhibit non-rivalness in consumption or high exclusion costs, and thus there is no obstacle in theory to market provision.[23]

In practice refuse collection is provided under a number of institutional arrangements. Municipal, contract, and market provision of the service are all common, though market competition is more common for commercial than for residential collection. Less common are franchised provision, wherein a privately-owned firm is granted a monopoly over the sale of removal services within a city, and self-service.

This variety of arrangements, together with the relative ease of measuring service level, has enabled researchers at Columbia University to make credible cost comparisons among municipal, contract, and market provision of residential collection. Their findings are based on a comprehensive 1975 survey of American municipalities lying within Standard Metropolitan Statistical Areas of less than 1,500,000 total population. The 200 SMSAs in this sample contained one-third of the U.S. population by 1970 census figures. Municipal collection was found in 37.4% of the more than 2000 municipalities surveyed, contract collection in 20.5%, and market collection in 38.1%. An econometric model was constructed and fitted by regression analysis to hold level of service (frequency of collection, curbside or backyard pickup, etc.) and other factors (climate, local wage rates, etc.) constant. For a typical city of population 60,000, contract collection was found to be the least costly per household per year. Market collection was estimated to be 31% more costly and municipal collection 61% more costly, taking into account the fees and taxes which private firms must pay.[24]

The high cost of municipal collection is clearly due to its inefficiency in production. The study produced statistically significant figures which indicate the contrast between contract-holding firms and municipal sanitation departments for cities over 50,000 in population. Municipal departments suffer from higher employee absenteeism rates (12% versus 6.5%), use larger crews (3.26 men versus 2.15), and spend more time in picking up a given household's trash (4.35 man-hours per year versus 2.37). Municipal crews also seem to serve fewer households per shift, and seem less often to work under a labor-incentive system.[25]

The comparative costliness of market over contract collection is somewhat surprising. Market pricing should lead to greater economy on the part of consumers and thereby to pressure to hold down costs. Pricing by volume collected provides incentives to reduce the volume of refuse. A 1959 study by the American Public Works Association of twelve cities found the quantity of refuse per capita per year to be lowest (by a significant factor: 794 pounds versus the median 1430 pounds) in San Francisco, the only city in which households and firms were charged for collection on a quantity basis.[26] Pricing also provides incentives to exploit the salvage potential of refuse.

Part of the reported cost difference between contract and market collection is due to the fact that billing costs are not incurred by the firm under contract but by the municipality. Another part of the difference may be due to the greater route density (more customers per mile) enjoyed by the exclusive contract-holding firm. There is disagreement among analysts, with estimates ranging from 3000 to 50,000, as to the service area population size necessary to realize economies of scale in refuse removal.[27] The density factor should be less significant in high-density larger cities (no city larger than 720,000 in population was included in the Columbia survey). The question of scale economies of population is not identical to that of route density, but in either case the only manner in which to ascertain whether a single producer is most efficient is to allow other producers the freedom to enter the market if they can. If a single firm can serve the market most efficiently, a single firm should emerge from the competitive process. There is no need to artificially impose monopoly provision within an (arbitrarily defined) area.

The Columbia survey failed to specify the extent to which market collection in the cities surveyed was openly competitive. It distinguished an exclusive franchise arrangement from market (which it termed "private") collection, but did not consider that in many cities entry into the market is restricted by a regulatory agency. Under restricted entry competitive pressures are lessened and incentives to minimize costs deteriorate. Collusion becomes possible with regard to prices charged and neighborhoods served, since new competitors cannot undercut existing firms. Unrestricted entry is necessary to ensure that competition spurs efficiency.[28]

EDUCATION

The education of a child may confer some indirect benefit upon the general public, but it, too, is a non-collective good. Market provision of primary and secondary education is a well-established tradition in the United States, but at present is available only to those parents willing and able to pay private school tuition on top of local school taxes.

Public schools now consume the largest portion of local taxes in most municipalities, commonly as much as 60%, and their cost has been growing. Public school expenditures per pupil, in constant dollars, were nearly two-and-a-half times greater in 1974 than in 1950. Yet a 1975 survey by the Hudson Institute found educational achievement in public schools actually to have declined during the preceding 10 to 12 years.[29]

Milton Friedman fifteen years ago proposed the much-debated voucher system as a mechanism to achieve load shedding while retaining public finance.[30] With or without vouchers, a market in education, as he argued, would foster productive efficiency in schools and would promote a healthy diversity in schools by better enabling parents to purchase the sort of education they prefer for their children. Residents of central cities, whose schools are notoriously ineffective at instilling even basic reading, writing, and computational skills, seem to have the most to gain from privatization of education. Under local public provision, better education for their children is often a matter of moving to the suburbs. Much more than from decentralization, parents would gain control from privatization over the education their children receive. Only members of the current educational establishment, particularly superfluous administrators, union officials, and poor teachers, have a clear interest in opposing the opening of a market which rewards efficiency and good teaching.[31]

Accurate cost comparisons between public and private education are impossible to make because of the insuperable difficulties faced in attempting to measure the level of service provided. Private and parochial schools in New York City provide an education whose superiority is nonetheless clear, and do so while charging tuition of as little as one-fourth the sum (approximately $2600 per student in 1976–1977) spent by the city.

PROTECTION SERVICES

Police protection is frequently cited as an example of a pure collective good subject to "market failure". Gordon Tullock, for example, argues that were a single homeowner to hire a patrol service to pass by his property at irregular intervals and confront suspicious characters loitering nearby, he would be providing protection to the property of neighboring homeowners who have not paid for the service. The neighbors in such a case would have little reason to hire protection for themselves. If the situation is symmetric with respect to all homeowners in the neighborhood, there is theoretically a danger that none would individually subscribe to a patrol service, leaving the neighborhood defenseless.[32] If the patrol service could, however, ignore criminals preying on non-subscribers without consequently making provision of a given level of protection to the property of subscribers more costly, then non-collective provision is feasible. For relatively isolated or large self-contained properties the necessary feasibility would seem to obtain. Many college campuses as well as warehouse areas, shopping malls, office towers, and other commercial properties already hire their own security patrols. Such properties are clear candidates for immediate load shedding.

Residents of many urban neighborhoods have recently banded together voluntarily to hire private watchmen (sometimes residents themselves serve as watchmen) to provide security services which the city fails to provide at a high enough level. This action may be considered a "micro-collective" response to implicit load shedding. Local merchants' associations in many cities have hired patrolmen and have purchased special street lights for their blocks in a similar effort to provide security.[33]

Non-rivalness in the consumption of fire-fighting services also depends in part upon neighborhood density, and the spill-over in benefits may again be minor in certain cases.

Market fire protection on a subscription basis was the rule in colonial America, and it still exists in several towns today. Roger Ahlbrandt, Jr. has argued, "The consumption of fire services does not fit the description of a true public good because its service flow is localized and can be captured to a large extent by the individual consumer".[34] An important prerequisite for the adequate provision of fire-fighting services on an individual basis, however, is the recognition of strict liability on the part of the individual property-owner for fire damages imposed on the property of others for which he is responsible. Without strict liability the full risks of damage caused by fire on his property are not considered by the individual property-owner in his decisions to purchase protection and insurance.[35]

Fire-fighting services have long been provided under contract to the city of Scottsdale, Arizona by the Rural–Metropolitan Fire Protection Company. The firm began in 1948 as a supplier to residents outside Phoenix city limits on an individual subscription basis and was hired on a contract basis after Scottsdale incorporated in 1952. Ahlbrandt has estimated, based on cost figures from other cities, that bureaucratic provision of fire services for Scottsdale would have cost $7.10 per capita in a year in which the actual cost was $3.78, a savings of 47 per cent.[36] Rural-Metropolitan economizes on personnel costs by retaining paid reservists, who carry paging units while on call, in place of all but a small core unit of full-time firefighters. A similar personnel system is used by the Falck Company, which provides both contract and individual subscription fire-fighting services to municipalities and consumers in Denmark.[37]

Both patrol and fire-fighting services face indirect competition from alarm systems and other protective measures (e.g. locks and fences, fireproofing and sprinkler systems). Bringing police patrols and fire brigades under market pricing wherever feasible would foster allocative efficiency in the mix of these means of protection purchased by firms and consumers. Presently the tax levied on the individual for protection of either sort bears no relation to the level of service provided or potentially demanded. Households and firms presenting high risks are effectively subsidized by other taxpayers.[38]

TRANSPORTATION

Bus and subway rides are clearly not collective goods, as user charges are already imposed by municipal providers. Municipally-operated bus and rail transit systems, as well as municipal parking lots and structures, are strong candidates for load shedding. They are not strong candidates for contracting out, as experience has shown. Cities offering exclusive franchises or contracts for bus operations, often guaranteeing to cover costs in excess of fare revenues, have found costs ever rising in the absence of competitive pressure.

Municipal transit lines are particularly vulnerable to strike shutdowns. Productive and allocative inefficiencies are often blatant. "The most absurdly run New York City monopoly," Savas observes, "is mass transit". He notes that bus drivers for the Metropolitan Transit Authority work eight hours a day but receive pay for fourteen because few drivers are needed between morning and afternoon rush hours but efficient split-shift scheduling is impossible to push through.[39] He also reports that "private bus lines charging the same fare as municipal bus lines in the same area are often able to make a profit, while government lines require subsidies".[40]

The primary reason why private entrepreneurs have not captured more of the transit market is that legal and regulatory restrictions have blocked their path, particularly in introducing innovative para-transit approaches such as jitney service. Flourishing (if illegal) gypsy cab and jitney operations in poor and minority neighborhoods in many major cities demonstrate the ready supply of transit entrepreneurs. Franchising or entry controls commonly restrict the routes private buses may take or the number of vehicles (particularly taxicabs, via the medallion system) allowed to operate within a city. Entry controls do not exist in Washington, D.C., and taxi operations there are efficient and rational (except that price is regulated). Pricing regulations, found in several cities,

result in a lack of service at times or in areas where service could be profitably provided at higher prices. Outright regulation of the types of service permitted suppresses potentially viable jitney and shared cab services. Jitney service (unscheduled but frequent small-vehicle service along relatively fixed routes for a flat or zone rate fare) clearly would be profitable in convention–tourist areas, areas not served by bus lines, and between airport and downtown.[41] Where else it might be profitable can only be determined by opening up the transportation market.

The majority of American port terminals are already privately owned, but those still in the hands of local government agencies are good candidates for load shedding by auction. Most airports in the United States, while built and nominally operated by local government agencies, have most of their day-to-day operations effectively contracted out. Passenger facilities are generally leased to airlines by the square foot, while concessions are generally leased on a percentage-of-the-gross basis.[42] Long-range allocative efficiency would be fostered by transferring ownership and ultimate control of airport facilities to the private sector.

HOSPITAL CARE

Hospital care is a private good, yet public hospitals in New York City provide about 40% of its beds, about half of its outpatient care, and slightly more than half of its emergency treatment.[43] It is difficult to measure the output of a hospital, and thus to measure its productivity, but consumer demand provides an indication at least of the relative desirability of municipal care. One result of federal Medicare and Medicaid programs, which in effect are voucher programs for health care, has been to reduce the demand for space in municipal hospitals. Savas reports: "The quasi-governmental agency that runs the municipal hospitals in New York appears to have reacted in classic bureaucratic fashion: it holds on to patients who should have been discharged".[44]

STREET MAINTENANCE

As long as city streets are municipally owned, their cleaning and maintenance is a collective good in the sense that if the city government did not arrange to have its streets swept, plowed, and repaired when necessary, it is difficult to see who would. Under private ownership of streets, these services would presumably be bought or provided for each street by its owner.[45] Under municipal ownership, these services lend themselves to contract provision, as a number of towns in Los Angeles County have found. Under the "Lakewood Plan" these towns normally contract with the county government for municipal services. When the county estimated a cost of $62,000 to sweep the streets of Norwalk, California, the town solicited bids from private firms which ranged from $44,000 to $56,000.[46] The city of Montreal is divided into 52 sections each winter, 47 of which are contracted out, for snow removal. Competition among private firms is brisk for the contracts, which require meeting detailed performance specifications, and there is rivalry in doing the best and fastest job.[47]

POWER

While electrical current is not a collective good, it is generally assumed that its provision is subject to natural monopoly and concluded that power generation must be undertaken by public authority or publicly regulated monopoly. A study by Walter J. Primeaux reveals that in fact 49 cities in the United States had competition in 1966 between two electrical power suppliers, with either new customers or all customers able to choose between them for service. Typically, a private firm competed with a municipal utility, and the competition was vigorous. Through multiple regression analysis Primeaux determined that average cost was reduced at the mean by 10.75% under competition. Proponents of granting monopoly status to electric utilities argue that a monopolist can produce at lower cost than can be achieved under competition. The benefits of greater productive efficiency created by competitive pressure seem to outweigh scale economies

from monopolization, however, until very high output levels are reached.[48]

OTHER FACILITIES AND SERVICES

Any number of municipally-provided services and facilities not included in the above survey are also candidates for load shedding or contracting out of operation: water and sewers, ambulance and rescue, libraries and museums, parks and zoos, pools and beaches, golf courses and tennis courts, and still others.

NOTES

1. See Robert L. Lineberry, "On the Politics and Economics of Urban Services," *Urban Affairs Quarterly*, vol. 12, no. 3 (March, 1977), pp. 267–270.
   In historical point of fact, the civil service system was also a product of the same municipal reform movement, so that the shortcomings of municipalized services were exacerbated from the outset. In this connection the remarks made near the turn of the century by Tammany leader George Washington Plunkitt are worth noting. In a talk entitled "On Municipal Ownership", Plunkitt said:
   "I am for municipal ownership on one condition: that the civil service law be repealed. It's a grand idea — the city ownin' the railroads, the gas works and all that. Just see how many thousands of new places there would be for the workers in Tammany! Why there would be almost enough to go around, if no civil service law stood in the way. My plan is this: first get rid of that infamous law, and then go ahead and by degrees get municipal ownership."
   "One more thing about municipal ownership. If the city owned the railroads, etc., salaries would be sure to go up. Higher salaries is the cryin' need of the day. Municipal ownership would increase them all along the line . . . "
   See the delightful collection of talks recorded by William L. Riordon, *Plunkitt of Tammany Hall: A Series of Very Plain Talks on Practical Politics* (New York: E. P. Dutton, 1963), pp. 54, 56.
2. On municipal monopolies and their employees see E. S. Savas, "Municipal Monopoly," *Harper's Magazine* (December, 1971), pp. 55–60.
3. Lineberry, *op. cit.*, p. 270.
4. On these strategies see E. S. Savas, "Municipal Monopolies Versus Competition in Delivering Urban Services", in Willis D. Hawley and David Rogers (eds.), *Improving the Quality of Urban Management* (Beverly Hills: Sage Publications, 1974), pp. 480–482.
5. The ICMA figures are cited by Lyle C. Fitch, "Increasing the Role of the Private Sector in Providing Public Services", in Hawley and Rogers, *op. cit.*, pp. 526–527.
6. "When Cities Turn to Private Firms for Help," *U.S. News & World Report*, vol. LXXXI, no. 7 (August 16, 1976).
7. Harvey Leibenstein, *Beyond Economic Man* (Cambridge: Harvard University Press, 1976).
8. F. A. Hayek, "The Use of Knowledge in Society" (1945), in *Individualism and Economic Order* (Chicago: Gateway Edition, 1972), p. 82.
9. Leibenstein, *op. cit.*, p. 201.
10. Dennis R. Young, "The Economic Organization of Refuse Collection," *Public Finance Quarterly*, vol. 2, no. 1 (January, 1974), pp. 62–63.
11. Savas, "Municipal Monopoly," pp. 55–59.
12. Peter F. Drucker, "The Sickness of Government," *The Public Interest*, no. 14 (Winter, 1969), pp. 16–17.
13. Fitch, *op. cit.*, p. 507.
14. In Leibenstein's terminology, the greater the cost of relocating effort positions, the larger the inert area, and the greater the *X*-inefficiency.
15. See Sudha Shenoy, "Pricing for Refuse Removal", in *Essays in the Theory and Practice of Pricing* (London: Institute of Economic Affairs, 1967), p. 66.
16. Savas, "Municipal Monopolies Versus Competition," *op. cit.*, p. 479.
17. On budget-maximization as the goal of a rational bureaucrat see William A. Niskanen, *Bureaucracy and Representative Government* (Chicago: Aldine, Atherton, 1971).
18. Drucker, *op. cit.*, p. 17.
19. Tax financing must *always* create equity problems; see John C. Calhoun, *A Disquisition on Government* (New York: Liberal Arts Press, 1953), pp. 16–18. For an example from transit see Kevin M. Fong, "BART: Taking the Poor for a Ride," *Harvard Political Review*, vol. IV, no. 4 (Summer, 1976).
20. Dick Netzer, "The Budget: Trends and Prospects", in Lyle C. Fitch and Annamarie Hauck Walsh (eds.), *Agenda for a City: Issues Facing New York* (Beverly Hills: Sage Publications, 1970), p. 706.
21. See Armen A. Alchian and William R. Allen, *Exchange and Production: Theory in Use* (Belmont: Wadsworth, 1969), p. 252. See also Alan K. Maynard and David N. King, *Rates or Prices?*, Hobart Paper 54 (London: Institute of Economic Affairs, 1972), p. 37.
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25. *Ibid.*, pp. 68–69.
26. Gueron, *op. cit.*, p. 174.
27. For the lowest estimate see John N. Collins and Bryan T. Downes, "The Effect of Size on the Provision of Public Services: The Case of Solid Waste Collection in Smaller Cities," *Urban Affairs Quarterly*, vol. 12, no. 3 (March, 1977). For the highest estimate see Savas, "Policy Analysis," p. 64.
28. Young, *op. cit.*, pp. 51, 56; Pommerehne and Frey, *op. cit.*, pp. 225–226.
29. Robert W. Poole, Jr., *Cut Local Taxes* (Santa Barbara: Reason Press, 1976), p. 13.

30. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), pp. 85–98.
31. See Martin T. Katzman, "Pricing Primary and Secondary Education", in Mushkin, *op. cit.*, pp. 371–393.
32. Gordon Tullock, *Private Wants, Public Means* (New York: Basic Books, 1970), pp. 83–84.
33. Savas, "Municipal Monopolies Versus Competition," p. 489; William C. Wooldridge, *Uncle Sam, the Monopoly Man* (New Rochelle: Arlington House, 1970), pp. 111–115.
34. Roger Ahlbrandt, Jr., "Efficiency in the Provision of Fire Services," *Public Choice*, vol. XVI (Fall, 1973), p. 2.
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43. Sylvester E. Berki, "The Pricing of Hospital Services," *ibid.*, p. 34.
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