

# Government Ownership and Privatization

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Ec 10

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- Fifty years ago, economists, politicians, and the public believed that important industries should be owned by the government.
- Reasons included concern with monopoly power and a lack of regard for social objectives.
- In many developing but also developed countries (not to mention communist states), “key sectors” such as banking, energy, transportation, steel became government owned.

By 1980s, it became widely recognized that government ownership is extremely inefficient.

It is associated with:

- Excessive Employment

- High Wages

- Low Quality Products

- Low Innovation

- Huge economics losses

It appeared that governments owned firms for political objectives rather than for social welfare.

As a consequence, many countries privatized.

Everything started in the UK with Mrs. Thatcher, who “invented” privatization.

It continued on fantastic scale with selloffs of state firms in Latin America, Asia, Europe.

Countries sold off communications, transport, and other large industrial firms

After the fall of Berlin Wall, Eastern Europe and the former Soviet Union started mass privatization programs in which firms were sold off not for cash, but for vouchers distributed to citizens.

Overall, over 100 countries had privatization programs.

Privatization became part of what economist John Williamson dubbed the “Washington Consensus.”

The problem of state ownership vs. privatization is still relevant today.

Countries such as Russia, China, and many poor countries in Africa still have large state sectors.

The U.S., the U.K., and the Netherlands all nationalized several financial companies during the financial crisis, and it remains an open question as to what to do with these holdings.

Perhaps at a more basic level, there is a question of whether roads, schools, prisons, or hospitals should be public or private.

Remember the heated exchanges over a public option for health insurance in the recent U.S. healthcare reform debate.

# Privatization Raises Many Questions:

- What, if anything, is wrong with public ownership?
- What are the benefits of privatization and of contracting out to private sector providers?
- What are the costs of privatization?
- How far should privatization go?

# Take an example close to home:

## **Greenhouse Café in the Science Center**

It is now run by Harvard Food Services, but it could easily be contracted out to a private provider.

Harvard is a bit like the government...

The Greenhouse is like a state enterprise...

So let us do some empirical work with....

# TUNA SANDWICHES





FINEST QUALITY INGREDIENTS  
**YORK ST.**  
**MARKET**  
*Handmade Daily in Small Batches*

\*\*\*

**Tuna Sandwich on  
Multigrain**

**\$7.40**

NET WT 7.0 OZ (198g)

KEEP REFRIGERATED

ENJOY THRU 3/3/2016







ENJOY THRU

3/3/2016

**Nutrition Facts** Serving Size 1 Container (198g), Amount Per Serving  
Calories 350, Calories from Fat 90, Total Fat 11g (16% DV), Saturated Fat  
1.5g (8% DV), Cholesterol 15mg (5% DV), Sodium 750mg (31% DV), Total  
Carbohydrate 38g (13% DV), Dietary Fiber 2g (7% DV), Protein 23g,  
Vitamin A (45% DV), Vitamin C (8% DV), Calcium (2% DV), Iron (8% DV). Not  
a significant source of trans fat and sugars. Percent Daily Values are based  
on a 2,000 calorie diet.

Ingredients: Tuna Salad (Tuna (Tuna, Water), Mayonnaise (Vegetable Oil  
(Soybean, Canola), Egg Yolk, Water, High Fructose Corn Syrup, Vinegar,  
Contains Less Than 2% Of: Salt, Spices, Calcium Disodium EDTA To Protect  
Flavor), Celery.), 8-Grain Bread (Enriched Bleached Flour (Wheat Flour, Malt  
Barley Flour, Niacin, Ferrous Sulfate, Thiamin Mononitrate, Riboflavin, Folic  
Acid), Water, Whole Wheat Flour, Sesame Seed, Sunflower Seeds, Flax Seeds,  
Soy Oil, Salt, Vegetable Shortening (Partially Hydrogenated Soybean, Cottonseed  
and/or Canola Oils), Dextrose, Yeast, Sugar, Rye Meal, Rye Flour, Soy Flour,  
Corn Meal, Oatmeal, Mono-Diglycerides, Corn Starch, Barley Flakes, Millet,  
Malt, Potassium Bromate, Lactic Acid, Acetic Acid, Ascorbic Acid, Enzyme, Malt  
Barley Flour, L-Cysteine), Green Leaf Lettuce

Contains Soy, Wheat, Fish (Tuna), Egg, Treenut

MAY CONTAIN SOY, WHEAT, FISH, EGG, MILK, SHELLFISH,  
PEANUTS, TREENUTS

Meanwhile, at Dado Tea,  
a private enterprise...







At Harvard Law School,  
where food services are  
contracted out...



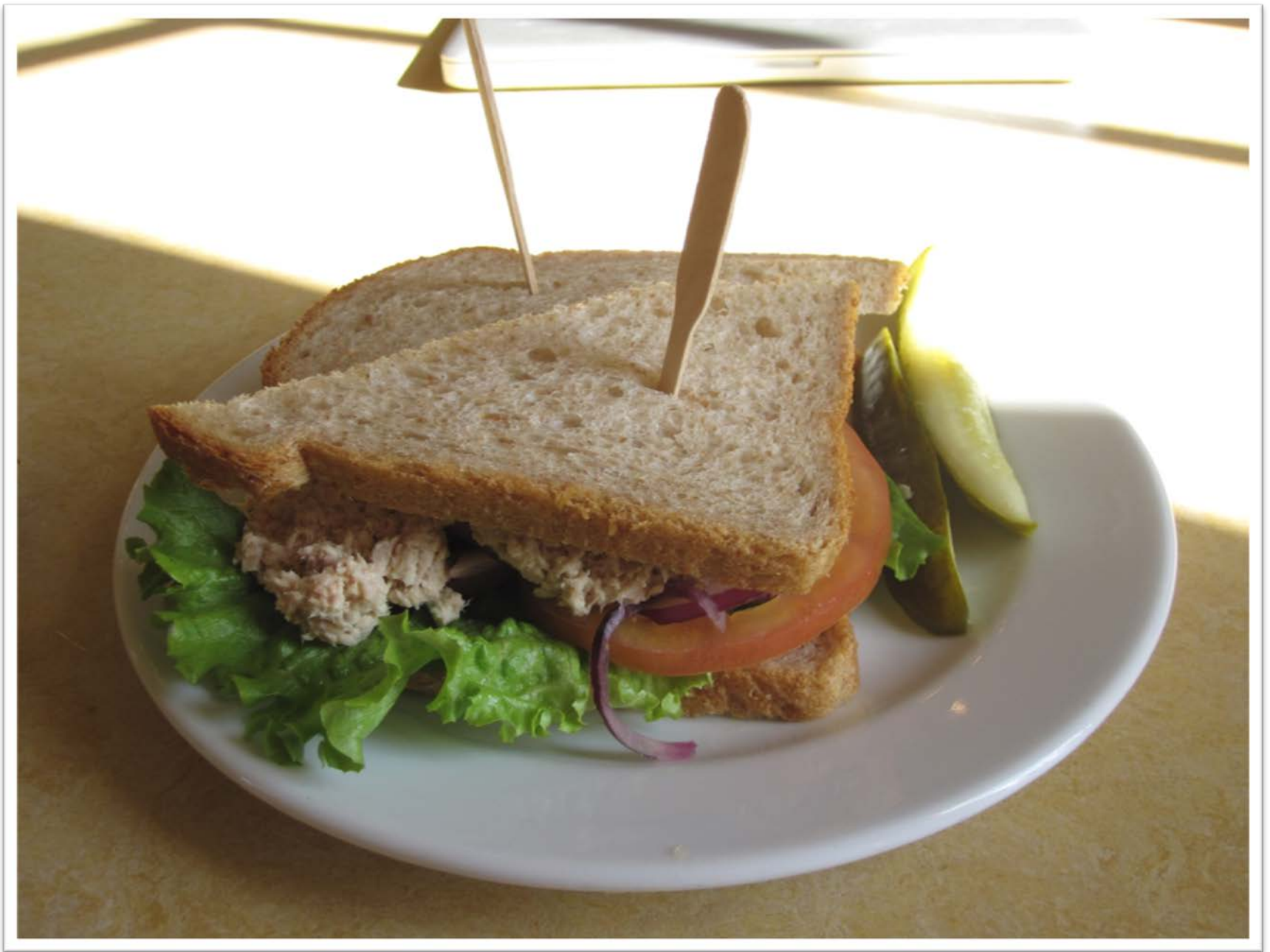






And at Harvard Business School,  
again with contracted out  
private services...





# So maybe the Greenhouse Tuna Sandwich is much cheaper?

Actually, prices are as follows:

- Greenhouse Café: \$7.40, premade, no pickle, no chips
- Dado Tea: \$6.50, freshly made, choice of bread, toppings, at least twice as much tuna
- HBS: \$6.50, freshly made, choice of bread, toppings, pickles, chips
- Law School: \$6.20, freshly made, choice of bread, toppings, pickle

No dispute in my survey that the Greenhouse tuna sandwich is by a wide margin the least appetizing.



# WELCOME FRESHMEN AND FAMILIES

We are the food service workers of Harvard University's dining halls and cafés, and we will be your friends over the next four years...a tradition that we are proud of.

We invite you to join with us in a struggle we are engaged in with Harvard's administration for Sustainable Foods and Sustainable Jobs. You'll be hearing a lot about this issue in the coming months:

Food for the Harvard Community should be produced in house in a healthy, sustainable manner.

Harvard should honor the social compact with us.

Hundreds of food service workers are facing financial crisis as much food production has moved off campus, and as we face long periods of unemployment. Many of us have been recently...

- o Late on the rent and some have been evicted
- o Late on mortgage payments;
- o Have had our phones shut off ;
- o Have had a hard time paying our medical co-payments;
- o Have a hard time affording food.

We hope you join with our movement for sustainable foods and sustainable jobs.



SUSTAINABLE FOOD  
SUSTAINABLE JOBS

# Wages

<i>Classification</i>	<i>Current</i>			<i>6/19/2011</i>			<i>12/18/2011</i>		
<b><i>Classification</i></b>	<b><i>Start</i></b>	<b><i>After 1 year</i></b>	<b><i>After 2 years</i></b>	<b><i>Start</i></b>	<b><i>After 1 year</i></b>	<b><i>After 2 years</i></b>	<b><i>Start</i></b>	<b><i>After 1 year</i></b>	<b><i>After 2 years</i></b>
First Cook**	20.78	22.10	23.00	20.98	22.30	23.20	21.23	22.55	23.45
Pastry Cook**	20.78	22.10	23.00	20.98	22.30	23.20	21.23	22.55	23.45
Second Cook	20.28	21.60	22.50	20.48	21.80	22.70	20.73	22.05	22.95
Host/Hostess	19.82	21.06	21.94	20.02	21.26	22.14	20.27	21.51	22.39
Assistant Second Cook	19.82	21.06	21.94	20.02	21.26	22.14	20.27	21.51	22.39
Butcher	19.61	20.81	21.68	19.81	21.01	21.88	20.06	21.26	22.13
Truck Driver/Storeroom Comb.*	19.58	20.79	21.66	19.78	20.99	21.86	20.03	21.24	22.11
Fine Dining Cook**	19.35	20.51	21.36	19.55	20.71	21.56	19.80	20.96	21.81
General Cook	19.35	20.51	21.36	19.55	20.71	21.56	19.80	20.96	21.81
Pantry Steward	19.35	20.51	21.36	19.55	20.71	21.56	19.80	20.96	21.81
Assistant Cook	18.37	19.41	20.11	18.57	19.61	20.31	18.82	19.86	20.56
Short Order Cook-Counter Comb.	18.37	19.41	20.11	18.57	19.61	20.31	18.82	19.86	20.56
Lead-Dining Room Service	18.00	19.01	19.63	18.20	19.21	19.83	18.45	19.46	20.08
Truck Operator - Electric	17.62	18.61	19.20	17.82	18.81	19.40	18.07	19.06	19.65
Kitchenperson-Pantry Comb.	17.61	18.59	19.19	17.81	18.79	19.39	18.06	19.04	19.64
General Service/Wait	17.46	18.39	18.96	17.66	18.59	19.16	17.91	18.84	19.41
Saladperson-Pantry Comb.	17.30	18.25	18.82	17.50	18.45	19.02	17.75	18.70	19.27
Kitchenperson/Chef's Helper/Potwasher/Laundryperson Comb.	17.25	18.20	18.77	17.45	18.40	18.97	17.70	18.65	19.22
Storekeeper	17.25	18.20	18.77	17.45	18.40	18.97	17.70	18.65	19.22
Pantryperson	17.22	18.16	18.72	17.42	18.36	18.92	17.67	18.61	19.17
Checker	17.19	18.13	18.69	17.39	18.33	18.89	17.64	18.58	19.14
Checker/Barista**	17.19	18.13	18.69	17.39	18.33	18.89	17.64	18.58	19.14
General Service Employee	17.05	17.98	18.55	17.25	18.18	18.75	17.50	18.43	19.00
Grill Cook	16.77	17.41	17.62	16.97	17.61	17.82	17.22	17.86	18.07

\* Employees in higher or equivalent classifications may not bump into the Truck Driver classification under Article 16.

\*\* When bumping is permitted under Article 16, these classifications may bump into the similar or lower classifications. Examples: Barista to Checker, Fine Dining Cook to General Cook.

# Wages

<i>Classification</i>	6/17/2012			6/16/2013			6/15/2014		
<b><i>Classification</i></b>	<b><i>Start</i></b>	<b><i>After 1 year</i></b>	<b><i>After 2 years</i></b>	<b><i>Start</i></b>	<b><i>After 1 year</i></b>	<b><i>After 2 years</i></b>	<b><i>Start</i></b>	<b><i>After 1 year</i></b>	<b><i>After 2 years</i></b>
First Cook**	21.73	23.05	23.95	22.28	23.60	24.50	22.88	24.20	25.10
Pastry Cook**	21.73	23.05	23.95	22.28	23.60	24.50	22.88	24.20	25.10
Second Cook	21.23	22.55	23.45	21.78	23.10	24.00	22.38	23.70	24.60
Host/Hostess	20.77	22.01	22.89	21.32	22.56	23.44	21.92	23.16	24.04
Assistant Second Cook	20.77	22.01	22.89	21.32	22.56	23.44	21.92	23.16	24.04
Butcher	20.56	21.76	22.63	21.11	22.31	23.18	21.71	22.91	23.78
Truck Driver/Storeroom Comb.*	20.53	21.74	22.61	21.08	22.29	23.16	21.68	22.89	23.76
Fine Dining Cook**	20.30	21.46	22.31	20.85	22.01	22.86	21.45	22.61	23.46
General Cook	20.30	21.46	22.31	20.85	22.01	22.86	21.45	22.61	23.46
Pantry Steward	20.30	21.46	22.31	20.85	22.01	22.86	21.45	22.61	23.46
Assistant Cook	19.32	20.36	21.06	19.87	20.91	21.61	20.47	21.51	22.21
Short Order Cook-Counter Comb.	19.32	20.36	21.06	19.87	20.91	21.61	20.47	21.51	22.21
Lead-Dining Room Service	18.95	19.96	20.58	19.50	20.51	21.13	20.10	21.11	21.73
Truck Operator - Electric*	18.57	19.56	20.15	19.12	20.11	20.70	19.72	20.71	21.30
Kitchenperson-Pantry Comb.	18.56	19.54	20.14	19.11	20.09	20.69	19.71	20.69	21.29
General Service/Wait	18.41	19.34	19.91	18.96	19.89	20.46	19.56	20.49	21.06
Saladperson-Pantry Comb.	18.25	19.20	19.77	18.80	19.75	20.32	19.40	20.35	20.92
Kitchenperson/Chef's Helper/Potwasher/Laundryperson Comb.	18.20	19.15	19.72	18.75	19.70	20.27	19.35	20.30	20.87
Storekeeper	18.20	19.15	19.72	18.75	19.70	20.27	19.35	20.30	20.87
Pantryperson	18.17	19.11	19.67	18.72	19.66	20.22	19.32	20.26	20.82
Checker	18.14	19.08	19.64	18.69	19.63	20.19	19.29	20.23	20.79
Checker/Barista**	18.14	19.08	19.64	18.69	19.63	20.19	19.29	20.23	20.79
General Service Employee	18.00	18.93	19.50	18.55	19.48	20.05	19.15	20.08	20.65
Grill Cook	17.72	18.36	18.57	18.27	18.91	19.12	18.87	19.51	19.72



# Other Reasons

- Local Monopoly Power, but HBS and Law School contractors have such power as well
- Rent, but Dado has to pay it, Greenhouse does not
- Management Quality

# Why is The Greenhouse Café inside Harvard Food Services?

- Union power
- Management jobs at food services would be at risk
- FAS slow compared to professional schools
- Harvard has a social compact with employees
- Can The Greenhouse Café be contracted out?

# General evidence on what happens after privatization from thousands of firms

- Employment falls, but not much
- Wages do not fall
- Management changes
- Efficiency, innovation improve sharply
- “Social objectives” improve

# More general issues

What are the limits of privatization/contracting?

Examples:     Air Force 1  
                  Nuclear Weapons  
                  Prisons?

What are the broader issues of contracting out and “quality”? Can we guarantee quality with contracts?

For high security prisons, probably not. For The Greenhouse Café, probably yes.