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Privatization of federal government functions : Reagan, Clinton and the theory/action paradox.

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PRIVATIZATION OF FEDERAL GOVERNMENT FUNCTIONS:
REAGAN, CLINTON AND THE THEORY/ACTION PARADOX

A Dissertation Presented

by

PETER FAIRMAN

Submitted to the Graduate School of the
University of Massachusetts Amherst in partial fulfillment
of the requirements for the degree of

DOCTOR OF PHILOSOPHY

September 2001

Political Science

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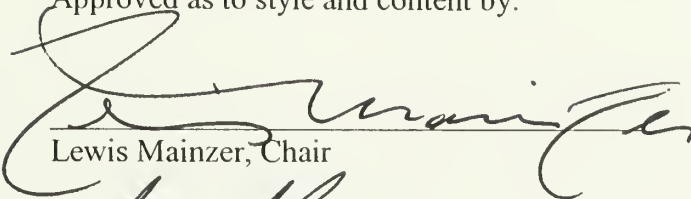
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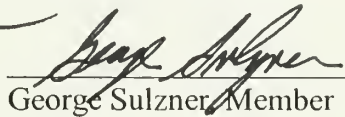
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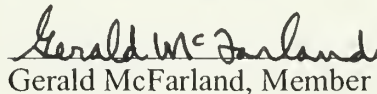
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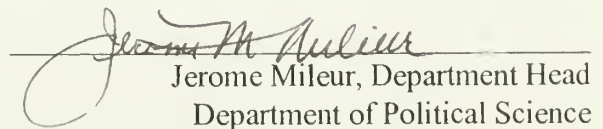
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ABSTRACT

PRIVATIZATION OF FEDERAL GOVERNMENT FUNCTIONS: REAGAN, CLINTON AND THE THEORY/ACTION PARADOX

SEPTEMBER 2001

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Unlike the vast majority of privatization studies that examine efforts at the state and local levels, this dissertation focuses on national privatization policy by examining the actions of the Reagan and Clinton administrations. The paper begins with a review of the political and academic movements toward privatization that have occurred during the last thirty years. The volume then explores the small amount of privatization that took place during Reagan's time in office, despite his own forceful statements for privatization and public anti-government sentiment during his presidency. The Reagan administration seemed unaware of the political ramifications of its primary privatization effort, the attempted sale of numerous United States public lands, apparently believing that its anti-government ideology alone would bring political success.

By contrast, the Clinton administration chose not to turn the privatization question into one of "big versus small" government, and instead sold the privatization-friendly Federal Activities Inventory Reform (FAIR) Act as a politically neutral management reform, thereby achieving what it wanted on the legislation. While there are potential implementation pitfalls in the law, the FAIR Act established a process that encouraged

political debate regarding government's legitimate functions. The volume concludes that such dialogue is the only path to a political understanding regarding the privatization issue.

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CHAPTER 1

AN OVERVIEW AND BRIEF HISTORY

The soaring popularity of privatization is one of the most striking political phenomena of the past two decades and is a major part of the success of an ideology which preaches the need for a smaller, more efficient government. The question of public sector size and range of function seemed settled after the New Deal era when opposition to larger government was noted more for its sincerity than its success. But beginning in the late 1960s, suspicion of government swelled, even as citizens continued to expect the same level of public sector services. Policymakers have responded to these contradictory political factors by privatizing an array of functions in an effort to reconcile big government practice with small government theory.

Along with privatization's increased use has been a plethora of scholarly writings on the topic. Most of these works, however, focus either on taking a position on the issue¹ or on describing the privatization movement in general.² Very few efforts have been made to examine the politics of privatization and even fewer have explored its political implications at the national level. The dearth of literature on national privatization politics³ has left unanswered a most interesting question: what political,

¹See, for example, E.S. Savas, *Privatization: The Key to Better Government* (Chatham, N.J.: Chatham House, 1987); Stuart Butler, ed., *The Privatization Option: A Strategy to Shrink the Size of Government* (Washington, D.C.: Heritage Foundation, 1985); *Passing the Bucks: The Contracting Out of Public Services* (n.p.: American Federation of State, County and Municipal Employees, AFL-CIO, 1983); and Ronald Moe, "Exploring the Limits of Privatization," *Public Administration Review* 47 (1987): 453-460.

²See, for example, Sheila Kamerman and Alfred Kahn, eds., *Privatization and the Welfare State* (Princeton, N.J.: Princeton University Press, 1989); Ira Sharkansky, *Wither the State: Politics and Public Enterprise in Three Countries* (Chatham, N.J.: Chatham House Publishers, 1979); and Mimi Abramovitz, "Privatization of the Welfare State: A Review," *Social Work* 31 (1987): 257-264.

³Of the studies published concerning national government privatization efforts, one of the best is Fred Smith, "Privatization at the Federal Level," *Proceedings of the Academy of Political Science* 36 (1987): 179-189.

constitutional and social factors have kept privatization from riding the waves of political culture and public opinion that would seem to suggest a great predilection to privatize?

What is Privatization?

Before beginning exploration into the privatization movement, it is necessary to clarify the term. Explanations of the word have varied from the simple to the complex. One of the sparsest definitions comes from Stuart Butler, who has described it as “the shifting of government functions into the private sector.”⁴ While straightforward and in accord with a meaning the term may well evoke, this definition is somewhat misleading, for in many instances, the private entity only partially takes over responsibility for performance of the given function. More useful is George Gordon’s definition:

a trend or tendency in provision of government services for governments either to join with private sector enterprises or to yield responsibility outright to such enterprises, for provision of services previously managed and financed by a public entity or entities.⁵

This nicely suggests a range between all or nothing, a necessary element in any subtle understanding of the term “privatization.” In seeking to understand the dialogue about privatization, one should be aware of the important distinction between a service’s provision and its production. It is often assumed that privatization means the government automatically removing itself completely from responsibility for a government function. Ted Kolderie was one of the first to point out that “observers fail to distinguish between the primary policy decision of government to provide a service and the secondary decision to produce a service. Either function or both may be ‘turned over’ to private parties.”⁶ Kolderie expresses a common fear that if the private entity is responsible for

⁴Butler, *The Privatization Option*, vii.

⁵George Gordon, *Public Administration in America* (New York: St. Martin’s Press, 1992), 547.

⁶Ted Kolderie, “Two Different Concepts of Privatization,” *Public Administration Review* 46 (1986): 285.

both provision and production, “the objective of social equity may be put seriously at risk.”⁷ While others would dispute that, both sides of the debate base some of their arguments on Kolderie’s distinction.

The most common type of privatization, usually referred to as “contracting out,” is defined by privatization guru E.S. Savas in *Privatization: The Key to Better Government* as “an award of monopoly privileges to a private firm to supply a particular service, usually with price regulation by a government agency.”⁸ However, there are other types of privatization about which the reader should be aware. Savas explores many different levels of involvement by the private sector in producing services. For example, three other arrangements less commonly thought of as privatization are: (a) grants, in which the government provides financial assistance to a private entity performing a service, (b) vouchers, in which consumers are subsidized and are allowed generally free rein to spend the funds as they wish for the service, and (c) franchise agreements, which yield monopoly rights to the private sector body to produce the given function. As Savas points out, privatization is not always the government turning over a service to the private sector. Indeed, the opposite sometimes occurs, in what is called “government vending,” in which a government sells its services to a private entity. One example would be a sports arena paying the local police department to provide extra security for an event.⁹

⁷Kolderie considers the activities of “policy making, deciding, buying, requiring, regulating, franchising, financing, subsidizing” as provision and those of “operating, delivering, running, doing, selling, administering” as ones which qualify as acts of production. That is as close as Kolderie comes to defining these two terms, but our understanding of them is enhanced by the *Random House Webster’s Dictionary*, which defines “to provide” as “to stipulate beforehand...to take measures with due foresight [or] to supply means of support.” “To produce,” on the other hand, is interpreted as “to make or manufacture,” or “to bear or yield.” The key difference seems to be that provision is the arrangement of a service and production is the actual performance of it. Sol Steinmetz, ed., *Random House Webster’s Dictionary* (New York: Ballantine Books, 1993), 285, 527.

⁸Savas, *Privatization*, 75.

⁹For a more detailed exploration of these various arrangements, see E.S. Savas, *Privatizing the Public Sector: How to Shrink Government* (Chatham, N.J.: Chatham House Publishers, 1982), 53-75.

Each of these arrangements brings up its own set of policy questions. When citizens are given vouchers, will the basis of people's market choices be what policymakers want them to be? Should government grants go only to the private entity best suited for a given service? This study will not examine such issues in detail. The important point is that the term "privatization" really represents a variety of different arrangements, each of them a manifestation of the movement away from full governmental provision and production of a service.

The Case for Privatization

Some of the motives for privatization are purely practical. Since the number and complexity of the tasks government does has grown, it naturally has to depend on the private sector for expertise. The responsibilities have not only become more numerous, but also much more complex. Programs often get at least partially privatized because some goods and services are not available in the public sector, and the technology age sometimes yields situations in which private sector involvement is mandatory. But even in 1980, well before the computer age, Dwight Waldo wrote of "administrative overload," as he pondered whether the federal government could really handle all the responsibilities it had undertaken,¹⁰ and indeed, no organization could possess the technical prowess necessary to fulfill all the demands that have been placed on government.

There are a number of other practical reasons that make privatizing an attractive option in certain cases. Since the political grounding for projects often makes them difficult to stop once they are started, a fixed date in a contract is sometimes an effective way to ensure that a project can be halted if that is deemed necessary. Contracting out the

¹⁰Dwight Waldo, *The Enterprise of Public Administration: A Summary View* (Novato, Calif.: Chandler and Sharp Publishers Inc., 1980), 186-7.

construction of a building often prevents the government from having to pay its entire cost at the time it is built. In such cases, the firm borrows the money and then includes the cost of the mortgage payments in the rent it charges the government.¹¹

While privatization is in one sense a purely practical response to the realities of governing, there has been growing political and academic support for the practice, especially in the last fifteen years. Some of the argument for privatization centers around what its advocates believe to be the irreplaceable benefits of competition. Privatization proponents claim that since government agencies are often not subject to competition for either the provision or production of a service, the incentive to perform a service well (or face the penalty of going out of business) is missing, thus decreasing the quality of their “product.” Its advocates predict that privatization will introduce a much stronger element of accountability and reduce corrupt political deals by injecting the signals of the market into the process. Privatization’s backers maintain that only the force of the marketplace gives an organization the motivation to strive for excellence in service.

Even the threat of privatization encourages efficiency, according to privatization advocates. Only if it is in danger of losing its funding source will a government agency be compelled to find the latest technology, upgrade its service or make other improvements. Privatization advocates point to alleged improvements in performance that have occurred whenever the agency was forced to quantify and compare its efficiency to a potential private sector producer. In addition, the purchasing rules, civil service laws and other forms of regulation which can hinder government operations are much reduced in the private sector, enabling a greater amount of innovation and creativity to take place.

The idea that government harms efficiency is certainly not unique to the late twentieth century. A large part of Adam Smith’s *The Wealth of Nations* attempts to make the case that European commerce flourished despite governmental economic

¹¹ Sharkansky, *Wither the State*, 120.

mismanagement.¹² But the privatization movement goes beyond charges of governmental incompetence. According to privatization supporters, doing a job efficiently and correctly is not only difficult, but undesirable for government officials. The heart of the privatization argument lies in the fervent belief held by many that most people in government care only about obtaining as much power and money as possible for themselves and the agency for whom they work. Since a government entity is often rewarded for mismanagement by being given more money if it cannot do a job within its current fiscal constraints, the theory goes, public sector employees have a disincentive to be effective. Public choice theory, the primary theoretical foundation for this belief, will be examined in chapter two. But one must be aware at this volume's beginning of the critical impact that the theory has had on the privatization debate.

The increased acceptance among both the political right and left of the belief that most government employees are only interested in their own self-interest has been a godsend for the privatization movement. The allegedly corrupt, or at least self-serving, nature of government necessitates that it be reduced, and privatization has been seen as a valuable tool for that purpose. Cynicism about government has also helped privatization advocates on the public relations front, as it has been the assumption of many persons concerned with the issue that the only reason public sector unions argue against it is because they are afraid that the jobs of their members will be lost. While there is an element of truth in this observation, frequently overlooked is the potential financial gain private sector producers receive when a decision is made to privatize. Some participants from both sides of the debate, then, are no doubt seeking to advance money or job

¹²Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Indianapolis, Ind.: Bobbs-Merill Company, 1961), 153.

interests. But there are serious arguments for and against (or in a shaded area) about the privatization issue, arguments in no way undermined by pointing to self-interested motives.

The Case Against Privatization

Privatization's opponents doubt the premise that government is less efficient than the private sector, saying that most or all of the evidence of the government's incompetence is anecdotal, and that similar stories could be told from the business world. One of the more passionate arguments for government is offered by Charles Goodsell:

American bureaucracy by no means works perfectly. Any large, immensely complex and far-flung set of institutions will be riddled with individual instances of inefficiency, maladministration, arrogance, and even abuse of power. But in this country, these deficiencies are particularized rather than generalized, occur within tolerable ranges of proportionate incidence, and are minor compared to many bureaucracies of the world. In fact, most nations would do almost anything to possess an equivalent social asset.¹³

Even assuming that government is more inefficient than the private sector, some doubt that privatization will give us more for less money. Once again, much of the argument goes back to the provider/producer distinction. Privatization's opponents suspect that being only the provider is more trouble than it is worth, insisting that oversight of a service's producers is a more arduous and costly duty than privatization's advocates claim. For some scholars, much depends on the kind of function that is privatized.¹⁴ If a private company is picking up trash, it is relatively easy to observe whether it has been done properly. But if health care, prison management, or certain

¹³Charles T. Goodsell, *The Case for Bureaucracy: A Public Administration Polemic* (Chatham, N.J.: Chatham House Publishers, 1994), xi-xii.

¹⁴For example, see David R. Morgan and Robert E. England, "The Two Faces of Privatization," *Public Administration Review* 48 (1988): 979-87.

other policy areas are privatized, using meaningful program evaluation tools to monitor the producer will be much more of a challenge, since performance in these areas is harder to define and quantify.

Unlike government, the private sector's predominant interest is making money, and that difference in aims causes privatization's opponents to fear that a private company will do only what is easy and profitable rather than what is good policy. The costs of preventing that are seen by opponents to be potentially prohibitive. Linda Lampkin, director of research for the American Federation of State, County, and Municipal Employees (AFSCME) argues, "[With privatization] the government must develop the bids...prepare the contracts [and] monitor those contracts. It may even have to hire some people to do that job, actually increasing employment."¹⁵ And should anything go wrong with the contract, it is the government entity, not the private producer, that usually takes the blame. Many people remember that NASA was the government agency associated with the Challenger disaster in 1986, but very few recall that Morton Thiokol was the company which built the rocket booster responsible for the accident. At the very least, contract monitoring is a challenge requiring capable administrative machinery. Privatization opponents would call it nonsensical to denigrate government, but then expect it to be efficient and trustworthy enough to monitor a contract effectively.

Privatization is no fiscal solution, its opponents say, not only due to the challenges presented in managing the contracts, but also due to the political problems arising from having yet another set of claimants looking for favorable government treatment. Some point to the military-industrial complex as an example of the heavy use of contracting out that has resulted in "lowballing" (the intentional submitting of a low estimate to the government with the intent to raise the actual price subsequently), favoritism, corruption, and other forms of manipulation of the political process by private companies looking to

¹⁵Richard L. Worsnop, "Privatization: The Issues," *Congressional Quarterly Researcher* 2 (1992): 981.

obtain government funds. Privatization foes wonder if a similar dynamic will not take place if the government is heavily privatized in other policy areas. Opponents contend that too much contracting out will leave the public sector too dependent on the private sector for certain products and services, in some cases because only one or two private sector producers possess the necessary technical expertise, thus undercutting the competition at the heart of the privatization theory.

Even if government saves money through privatizing, opponents claim that the nonfinancial costs of the private sector taking over some of the government's tasks would be too high. Having a private sector entity implementing policy places one more barrier between the voters and the laws that affect them. In addition, the business world is far less subject to public pressure to serve goals such as racial equity or individual procedural rights than a government agency. The procedural regulations government must follow, so often the object of derision, ensure that citizens are fairly treated and well served. Al Bilik, president of the AFL-CIO's public employee department speaks of privatization's costs to workers when he asserts:

The private sector has no magic wand. Their 'savings' are achieved through paying substandard wages, inadequate benefits, creative accounting methods and a host of other questionable business practices that earn profits simply by cutting corners on quality and placing a large burden on their employees.¹⁶

Bilik's words illustrate a fundamental argument of opponents: the claim that there is a danger of sacrificing equity and other worthy aims in the name of efficiency, should private companies perform functions traditionally done by government. Their case rests on the conviction, widely accepted until the 1960s, that government is a noble and

¹⁶Ibid., 980.

effective actor ably serving the public interest. The degree to which that description of government is accurate is the central question around which the privatization issue revolves.

A Brief History of Privatization

While the current fervor over privatization makes it seem as if the practice is new, government has used private interests to achieve public purposes since the largely private sector ventures which discovered the American hemisphere. When the United States was still under British rule, colonial overseers often granted subsidies to those able to supply food, shelter and medical care to the poor at the lowest price,¹⁷ and during the Revolutionary War, the long standing practice of using military contractors for defense was established when private warships were employed in the fight against the British.¹⁸ A steady line of private involvement in government policy implementation can be traced from this country's beginning to the present. Even the post New Deal era, a period mostly associated with a vastly expanded governmental presence, had the private sector as the essential ingredient in virtually every major government initiative.¹⁹

Before the twentieth century, private entities, whether church, business or voluntary agency, were largely seen as the principal actors on most issues. As odd as it would sound today to many citizens distrustful of government's motives, the reason the public sector began to be employed more at the twentieth century's beginning was in order to alleviate concerns about the shortcomings of the private sector. At the local level, government began to take more responsibility for municipal duties such as sanitation and fire protection. Just as importantly, the industrial revolution created for the

¹⁷Abramovitz, "Privatization of the Welfare State," 257.

¹⁸John Whiteclay Chambers II, ed., *The Oxford Companion to American Military History* (Oxford: Oxford University Press, 1999).

¹⁹World War II, the Great Society and the journey to the moon are a few of the more notable examples.

first time a belief among some that the national government should act to mitigate capitalism's more undesirable effects through "trust-busting," food regulation, railroad regulation, and other varieties of political, economic and social reform.²⁰

The 1920s saw a renewed belief in private enterprise, and with it people's enthusiasm for government action cooled in the midst of a booming economy. But the Great Depression and its misery yielded a new era of national government intervention to rescue millions of Americans from abject poverty. The New Deal encouraged a faith in national government action that has never completely left us. It is no coincidence that while multiple presidential commissions during the first half of the 20th century were similar to later ones in calling for more efficiency in government, they were very different from later efforts in their belief that government could be the source of the increased efficiency.

With the pressing needs of the Great Depression and World War II in the past, there was a slight shift toward private sector provision in the early 1950s, and a 1955 Bureau of the Budget (BOB) bulletin ordered, "The federal government will not carry on any commercial activity to provide a service or product for its own use if such a product or service can be procured from private enterprise through ordinary business channels."²¹ Although this policy was confirmed in another BOB document two years later, it was followed sporadically at most, as the bulletins were a tiny pebble against the rushing waters of the vibrant welfare state.²² The end of the Eisenhower years saw another BOB

²⁰For examples of Progressive reform efforts, see H. Landon Warner, ed., *Reforming American Life* (New York: Pitman Publishers, 1971).

²¹Jim McIntyre, Deputy Director, Office of Management and Budget. House Subcommittee on Employee Ethics and Utilization, Committee on the Post Office and Civil Service, *Contracting Out of Jobs and Services*, 95th Cong., 1st sess., 28 March 1977, 18.

²²President Eisenhower was generally not supportive of the national government's expanded role, but felt powerless to stop it. Iwan Morgan, *Eisenhower Versus the Spenders: The Eisenhower Administration, the Democrats and the Budget* (New York: St. Martin's Press, 1990).

bulletin issued saying for the first time that contracting out should not occur when “procurement from commercial sources involved higher costs.”²³ But this directive was also ignored, and privatization, when it was discussed at all, was castigated.

Nowhere is the marginalization of the privatization idea better illustrated than in the case of Barry Goldwater’s idea to privatize the Tennessee Valley Authority (TVA). Goldwater had been an avid opponent of the expanding national government and had excoriated Eisenhower for his seeming acquiescence to the welfare state. In keeping with his ideological predilections, presumed Republican presidential hopeful Goldwater suggested in 1963 that part of the TVA be sold. The TVA, created during the New Deal and for many a great example of government being a positive actor for the public good,²⁴ had started to lose its luster for the same reasons government had, as it was increasingly seen as inefficient and authoritarian. The slight drop in the TVA’s prestige did not prevent Goldwater from being verbally pummeled for his proposal from politicians of all stripes. President Kennedy cheerfully made political fodder out of the controversy, joking in a press conference that it would not be fair to attack Senator Goldwater because he “had a busy week selling TVA.”²⁵ Lyndon Johnson used the issue repeatedly on the stump during the 1964 election, grouping the proposal with Goldwater’s supposed desires to “abandon education...make social security voluntary...forget our farm programs...these are the most radical proposals that have ever been made to the American people.”²⁶ By 1985 TVA would be described by the liberal magazine *The Nation* as a “bureaucratic monster with an atomic appetite no more accessible than its private counterparts,”²⁷ and

²³Worsnop, “Privatization,” 984.

²⁴A good exploration of the idealism behind the TVA’s creation is Walter Creese, *TVA’s Public Planning: The Vision, The Reality* (Knoxville, Tenn.: University of Tennessee Press, 1990).

²⁵John F. Kennedy, *Public Papers of the Presidents: 1963* (Washington, D.C.: U.S. Government Printing Office, 1964), 828.

²⁶Lyndon B. Johnson, *Public Papers of the Presidents: 1964* (Washington, D.C.: U.S. Government Printing Office, 1965), 1440.

²⁷Editorial, “The Big Sellout,” *The Nation*, 11 January 1986, 4.

ideas to privatize it were embraced. But in what was a microcosm of the political history of the privatization movement, any notion in the 1960s of selling the TVA was resoundingly rejected.

Although the drubbing Goldwater took in the 1964 election seemed to settle the privatization question, it would be only two years before the issue returned to the national government, and this time the results were lasting and profound. Office of Management and Budget (OMB) Circular A-76 is not what first comes to mind when reviewing the Lyndon Johnson presidency, but it is undoubtedly the single most important document in United States privatization history. For the first time, the United States government issued a detailed procedural policy to encourage competition between the public and private sectors regarding a given function. The circular also attempted for the first time to define what should properly be considered a government or commercial function. Although the document was attacked by conservatives as too skewed toward government, and the policy was not followed the vast majority of the time,²⁸ Circular A-76 established the parameters of future government debate about privatization and laid important groundwork for later action.

With the exception of the sale of the Federal National Mortgage Association in 1967, there were no major privatization efforts by the national government from the late 1960s to the 1980s. Despite its new presence in policy debates, even minor privatization efforts were still a rarity, and compliance with Circular A-76 was haphazard. Significantly, however, privatization slowly emerged as a viable alternative to traditional government production, and by the end of the 1970s, a perception existed in many minds that government had grown too big. Even the leader of the Democratic Party, President

²⁸Jim McIntyre noted that the Congressional Commission on Government Procurement concluded in its December 1972 report, "We believe that a new approach and stronger implementation of the program is needed to achieve consistent and timely governmentwide [*sic*] application of the policies set forth in Circular A-76." House Subcommittee on Employee Ethics and Utilization, *Contracting Out of Jobs and Services*, 19.

Jimmy Carter, appeared to be no automatic supporter of government action, saying, “When the government must perform a function, it should do it efficiently. Wherever free competition would do a better job of serving the public, the government should stay out.”²⁹

Jimmy Carter, though proud of his emphasis on efficient management, was unable to convince the voters that he was the one who could reduce government. Ronald Reagan, Carter’s successor, had a convincing election victory, impeccable conservative credentials and impressive political skills, all of which produced great anticipation in the hearts of privatization advocates and he got off to a fast start in fulfilling their hopes. Early in his administration, the National Consumer Cooperative Bank was privatized, a major presidential commission was established to examine privatization (The President’s Private Sector Survey on Cost Control, commonly known as the Grace Commission) and an ambitious program to sell public lands was announced. But these three steps would prove to be symbolic of Reagan’s failure on the privatization front. Much to their dismay, all that privatization backers had to remember Reagan by at the end of his term were outright failures such as the collapse of the effort to privatize public lands, minor government downsizing initiatives that received halfhearted administration support, and ignored recommendations of marginalized presidential commissions.

While the fiscal pressure of the 1990s led to an abundance of privatization at the state and local level, that flurry of activity never spread to the national government. One of the most puzzling parts of the privatization movement is that with the exception of vigorous privatization efforts in 1996;³⁰ it has not really affected the national government. Adding to this mystery is that privatization, rather than being a policy fad, seems

²⁹Ibid., 20.

³⁰During 1996, the Naval Petroleum Reserve, the Alaska Power Administration and the United States Enrichment Corporation were all privatized.

to be a response to several political and cultural elements of the United States that one would think would produce vigorous privatization efforts at every level of government.

Privatization: A Reflection of the Polity

Privatization is a manifestation of many important elements of American politics. First on the list is citizens' disillusionment with politics and government. The end of the Cold War saw the decline of anti-communism as an organizing political force. One could make a strong case that suspicion and cynicism about government has taken its place. Indeed, many of the major policy debates of the last decade, such as education, health care, and crime, have as a major component a discussion of whether a plan is pro big government.³¹ Even Democratic President Bill Clinton, a professedly pragmatic moderate, had as the theme of his 1996 State of the Union Address, "The Era of Big Government is Over."³²

The recent rise in distrust of government is augmented by our political tradition, which generally has discouraged dependence on government or other forces except the free market to achieve desired policy outcomes. As John J. Corson observed twenty-five years ago, the assumption in the United States is that:

between an all encompassing government which can perform a vast and increasing range of services within its own offices...and a smaller government that performs those services with the aid and through a large number of enterprises in the private sector, the preference of democratic peoples is necessarily the latter.³³

³¹Such a debate is less surprising when discussing legislation like President's Clinton's 1994 health care reform bill or President Bush's 2001 tax cut plan. But anti-government rhetorical strategies can occur in surprising places. For example, one contention made against the Clinton omnibus crime bill in 1994 was that the government should not operate "midnight" basketball leagues to combat juvenile crime. This seemingly benevolent enough scheme was condemned by some as dangerous federal government intrusion.

³²"Clinton Aims for the Center, Praises GOP Themes," *Congressional Quarterly Weekly Report* 54 (1996): 258.

³³Background paper by John J. Corson, prepared for the Anglo-American Conference on Accountability, held at Williamsburg, Va., September 1971. Cited in Bruce L.R. Smith, *The New Political Economy* (New York: John Wiley and Sons, 1975), 13.

This attribute seems to be an important factor in privatization's rise, as Americans tend to prefer the free market to government and admire rugged individuals who are able to survive on their own. Furthermore, nongovernmental entities have usually been seen as superior for providing services to those who cannot survive without help. It is an easy jump to privatization from values like these.

Despite the American affection for the Horatio Alger model that says capitalism always rewards hard work and determination,³⁴ it would be simple-minded to assert that there is an American ideology, uniform and unchanging, of free enterprise and devil take the losers. Another seemingly permanent aspect of the American ethos that has a bearing on the privatization debate has emerged in the last sixty years. Since the Great Depression, there has been an assumption made increasingly by Americans that it is government's job to provide for the well-being of its citizens and that people have a "right" to a great many services from the public sector. Americans thus are caught between two opposing creeds. According to Ralph Kramer:

At one pole is a cluster of ideas associated with Social Darwinism, laissez-faire, individualism, free enterprise, and a distrust of government. At the other is the American creed of humanistic liberalism and a belief in progress and in governmental intervention to achieve security and equality.³⁵

The privatization movement responds to this ideological contradiction by seemingly allowing Americans to follow their belief in Lockean liberalism by limiting government, while not asking them to give up the services of twentieth century liberalism on which they have come to depend or to which they think they are properly entitled. The same president who made "The Era of Big Government is Over" his theme in 1996 made

³⁴See Richard Weiss, *The American Myths of Success: From Horatio Alger to Norman Vincent Peale* (New York: Basic Books, 1969).

³⁵Ralph M. Kramer, *Voluntary Agencies in the Welfare State* (Berkeley, Calif.: University of California Press, 1981), 72.

central to his 1998 State of the Union speech the phrase, “Save Social Security First.”³⁶ One of the primary reasons that studying the privatization phenomenon is so useful, then, is that it illustrates citizens’ ambivalent attitudes about how big a role government should play in the polity.

Two other important political trends are highlighted by privatization’s emergence. One is the declining influence of certain constituencies that have traditionally been in favor of a larger role for government. Ethnic minorities which came to see the federal government as a protector in the post-World War II era have in the last twenty years lost some of their ability and, in some cases, desire to demand services from government effectively, and surely that is encouraging to privatization advocates. But perhaps the best example of such a constituency is unions. Although there has recently been a slight upsurge in unions’ popularity, generally the trend for them over the last thirty years has been towards a greatly diminished standing with the public. The decline in union power is at least suggested by the fact that membership in labor unions has dropped from 24.8% of the labor force in 1956 to 14.5% forty years later.³⁷

A final element of modern day American politics of which the privatization phenomenon is evidence is the trend toward emphasizing efficiency as the chief criterion in defining quality work. From the “Reinventing Government” movement of President Clinton’s first term to President George W. Bush’s call for a top-to-bottom review of the Pentagon, all the most powerful sections of the political spectrum have made efficiency the mantra for what will again make government worthy of our trust. Efficiency was, of course, one of the rallying cries of the Progressive movement.³⁸ Unlike that era, however,

³⁶“Clinton Stresses Accomplishments, Calls State of the Union Strong,” *Congressional Quarterly Weekly Report*, 56 (1998): 251.

³⁷U.S. Department of Commerce, *Statistical Abstract of the United States: 1960* (Washington D.C.: U.S. Government Printing Office, 1960), 233, table 298, and U.S. Department of Commerce, *Statistical Abstract of the United States: 1997* (Washington D.C.: U.S. Government Printing Office, 1997), 440, table 688.

³⁸For a study of Progressivism’s emphasis on efficiency, see Martin Schiesl, *The Politics of Efficiency* (Berkeley, Calif.: University of California Press, 1977).

today's sentiment calls for more involvement by the private sector, for citizens today feel that there is no better way to ensure "business-like efficiency" than to have business perform the service. In sum, citizen distrust of government, American preference for the free market in general while maintaining a commitment to government provision of certain services to citizens, the declining power of groups supporting more active domestic government and a renewed emphasis on efficiency as the key value in judging government all support the privatization movement.

Privatization and the Academy

Privatization also reflects certain elements of scholarship. Public choice theory, with its inherent suspicion toward government, is easily the most powerful academic catalyst for the privatization movement. But there are other academic schools that have aided privatization's rise in less recognized and sometimes surprising ways. The new public administration movement, for example, came from the political left, but at times sounded as suspicious of government as the public choice school on the Right. American public administration theory has, ever since its origins as a self-conscious study a century ago, used a politics/administration dichotomy which, though not originally intended, seems to invite the substitution of a different "neutral" instrument for agencies of public administration. While the list is long of major academic figures who have strongly dissented from this vision of the politician and administrator's proper roles,³⁹ the dichotomy is often assumed by political actors to be a self-evident truth, with the private sector recently emerging as a primary source for these neutral, supposedly more efficient instruments.

³⁹See for example Paul Appleby, *Policy and Administration* (Tuscaloosa, Ala.: University of Alabama Press, 1949), and Norton Long, "Power and Administration," *Public Administration Review* 9 (1949): 257-64. A good summary of the scholarship behind this argument is James Fesler, "Public Administration and the Social Sciences: 1946-1960," in Frederick Mosher, ed., *American Public Administration: Past Present and Future* (Tuscaloosa, Ala.: University of Alabama Press, 1975), 97-141.

Privatization has also established itself as the one of the latest managerial solutions which scholars and those outside the academy embrace as the “magic pill” that will make all the tough decisions about spending priorities for us while simultaneously making citizens feel less disillusioned with their government. Of course, that is a great deal to expect from any reform measure. Sociologist James Finckenauer believes that similarly unfair hopes were placed in the “Scared Straight” program of the early 1980s, which attempted to discourage young offenders from continuing a life of crime by taking them to visit prison inmates. Finckenauer described what he called at the time “the panacea phenomenon:”

First, a certain approach is posed as a cure-all or becomes viewed and promoted as a cure-all...It may be promoted and sold as *the* all-encompassing solution to the...problem...Unfortunately, the approach, no matter what it is, almost always fails to...live up to the frequently unrealistic or unsound expectations raised by the sales pitch. As this failure slowly becomes apparent, frustration sets in; but then the search for the next panacea...begins anew.⁴⁰

Some have argued that the privatization phenomenon is facing such a fate. Others would dispute that point, but privatization is nevertheless a good example of the twentieth century penchant for trying to solve political problems, such as a lack of faith in government, with managerial solutions. We need only mention such examples as the Planning, Programming, Budgeting Systems (PPBS) and Management by Objectives (MBO) initiatives, reforms promising more than they could deliver, which have led some scholars to be skeptical about all governmental management fads.⁴¹ Many public administration scholars have furthered this managerial solution tendency by embracing privatization in recent years, joining in the cynicism about governmental bureaucracy.

⁴⁰James O. Finckenauer, *Scared Straight! and the Panacea Phenomenon* (Englewood Cliffs, N.J.: Prentice-Hall, 1982), 5.

⁴¹See Fred A. Kramer, “The Panacea Phenomenon and the Fate of Total Quality Management in the Public Sector,” *Business and the Contemporary World* 6 (1994): 141-9.

Privatization and the American Political Experience

Privatization's connection with scholarship is one illustration of the fact that however defective arguments surrounding the privatization debate may be at one moment or another, they are centered on political issues which are far from trivial. In fact, the privatization question recalls certain issues from the most important periods of the American political experience. We have already noted the concern for efficiency which runs through both progressivism and the arguments of privatization's present-day supporters. As another example, during the country's founding era, two theories of government emerged that have been in tension ever since. These two philosophies have helped to lay the foundation for the beliefs of both sides of the privatization issue.

The first is usually associated with Alexander Hamilton and stresses the necessity of a strong central government and sense of nationhood. Since citizens often cannot be trusted to act responsibly, the theory goes, a powerful government, albeit one ultimately responsible to the people, is mandatory. Thomas Jefferson is considered the father of the second school of thought, which is much more suspicious of governmental power.⁴² The Hamiltonian/ Jeffersonian dilemma revolves around a question directly relevant to the privatization debate: what can be considered the appropriate level of power for government? Indeed, even the names of these two framers are regularly invoked when debating this question. During a 1994 Senate debate, Senator Robert Graham (D-FL) argued for a measure cutting \$94 billion in federal government spending over a five year period by saying "President Jefferson felt it was unethical for one generation to use a future generation's income to finance its current spending."⁴³ Senator Robert

⁴²See Lynton K. Caldwell, *The Administrative Theories of Hamilton and Jefferson: Their Contribution to Thought on Public Administration* (Chicago: University of Chicago Press, 1944).

⁴³Richard E. Cohen, "Jeffersonian Ideals, Harsh Realities," *National Journal* 26 (1994): 435.

Byrd's (D-WV) response to Graham was instructive. Reminding the senator that the Jefferson administration endorsed \$15 million of deficit spending during the Louisiana Purchase, Byrd asked, "Why did Jefferson say one thing but do another?"⁴⁴

Byrd's question illustrates well how the Hamiltonian/Jeffersonian dilemma has frequently necessitated a governmental balancing act. To be sure, Senator Graham's call to cut billions from the government's books strikes a chord among many. But Senator Byrd reminds us that while being Jeffersonian about federal spending is popular in theory, the philosophy's namesake violated his own doctrine many times because he realized the necessity and frequent popularity of strong government action. Privatization tries to respond to this dilemma by giving citizens services while reducing the public sector role.

Privatization and the Modern Day

Privatization is important to study for reasons old and new. It raises issues with which democratic governments are continually struggling. How much government is too much? How much efficiency, if any, should be sacrificed for equity's sake? Can a third party delivering services ever be as neutral as some like to think? But the privatization phenomenon also points to very recent trends which are vital for anyone wanting to know the state of today's politics. As suggested earlier (and discussed in greater detail in chapter three), respect for government and almost every other political institution has declined in the last twenty-five years, as has the political power of those who frequently argue on government's behalf. These developments have been helped along by a tradition which has always been somewhat suspicious of government. At the same time, however, due to a competing political tradition and the perception that policy problems are growing greater and more complex by the day, Americans frequently call for

⁴⁴Ibid.

government action to address many of the challenges of our time. Think, for example, of the remarkable expansion of governmental responsibility for purity of air, water, and land in recent decades.

In this simultaneous call for more and less government lies much of the reason for privatization's emergence in political dialogue. Due to the dual political traditions of Hamiltonianism and Jeffersonianism, recent political trends, the perceived mushrooming of policy problems, and the inherent difficulty of the issue, United States citizens are simply unsure as to the proper level of government involvement. Privatization seemingly provides citizens with a unique opportunity to answer the big versus small government question both ways, allowing them to reduce the size of the public sector while keeping much of what it does. No definitive pronouncements will be made in this volume about whether privatization is sound policy. But the fact that calling for privatization is often smart politics is clear.

One might notice that this volume has begun by calling attention to the political success of the *ideology* of privatization and by asserting that *calling for* privatization is often smart politics. Those words were chosen carefully. While neither president in this study suffered politically for endorsing privatization in the abstract, controversies frequently arose at the national level when substantial privatization plans were put into practice. The reasons for this fact strike at the heart of everything this volume is about. Privatization is frequently seen as one of the best ways in politics for citizens seemingly to have their programmatic cake and eat it too, as they keep all the services their Hamiltonian hearts love while believing they reduced government to levels any Jeffersonian would embrace.

When private companies perform more simple functions, the compromise between Hamiltonianism and Jeffersonianism can be a political and policy success. But the attempt to find a middle ground between our dual political traditions potentially has high political costs when privatizing more complex duties. For example, Ronald Reagan

found out that proposals to privatize public lands brought other values besides efficiency into play, and having a larger number of differing value priorities among participants naturally created a greater amount of controversy. Reagan's political problems were worsened by the fact that he was working at the national level. Unlike state and local governments where the other political branches are sometimes unable to contest the executive's policies, in the national government the political institutions almost always have the capability to provide vigorous opposition. State and local governments can also be the site of domination by a given interest. At the national level, however, there tend to be a greater variety of powerful constituencies involved in policy decisions.

The Reagan administration did not adequately convey its concern for those competing values and different interests. But those failings should not mask the inherent difficulty of privatizing major policy functions at the national level. Once it enters the national realm, privatization quickly becomes a much more partisan, ideological, and controversial issue, making supporting it in practice often a risky proposition. Those risks are substantially reduced when, as was begun in the Clinton administration, lines are carefully drawn, with appropriate input from all affected parties, between what are governmental and commercial functions. That is the only possible path to dealing with each relevant interest and fully addressing policy values which frequently contradict each other.

Sophisticated political understanding requires a realization of what privatization can and cannot do. While privatization may well have a role to play in ensuring that government gets the most for its dollar, it will not automatically produce clear decisions about spending priorities, nor will it automatically make citizens feel less disillusioned with their government. One also cannot take subtle, complex issues like health care and lands management and equate them with filling in potholes or stapling forms, treating the given policy as a managerial problem needing only technical solutions. Neither

privatization nor any other managerial change can serve as the substitute for the careful deliberation, subtlety in approach and dialogue between interested parties that governance requires.

CHAPTER 2

THE THEORY OF PRIVATIZATION

One can discern a number of different explanations for the privatization movement, including basic American cultural tendencies of hundreds of years, contemporary political events and major scholarship from the political right and left. Although the issue's roots grew earlier, those in and out of the academy began to discuss the privatization question in the late 1960s, a time of political discontent and discord. The impact on our nation's politics will be discussed in chapter three, but important to note here is the marked increase in distrust toward government and all other institutions, a phenomenon that was felt in the academy. It is not a surprise that this was the time when some scholars, disillusioned with the national government, began to consider having entities outside the public sector address social problems.

Most of the 1960s was marked by calls for sweeping action by the national government on an array of issues. The decade's middle saw liberal Democrat Lyndon Johnson wallop conservative Republican Barry Goldwater at the polls and undertake an enormous increase in national government spending under the umbrella title the "Great Society." In keeping with the politics of the day, much of the scholarship at the time concerned itself with creating the political conditions for social change led by an activist president. Richard Neustadt, one of the first and most significant advocates of this movement, summarized the predominant academic attitude when he characterized the primary aim of his famous book *Presidential Power* as illuminating "what a President can do...to carry his own choices through that maze of personalities and institutions called the government of the United States."¹

¹Richard Neustadt, *Presidential Power* (New York: John Wiley and Sons, 1960), v.

Even in a time of electoral misfortune at the national level and general rejection in the academy, the conservative movement was advancing ideas that would make it highly popular only a decade and a half later. During the New Deal era, though conservative opposition was always present and sometimes effective, such an outcome would have seemed improbable. Franklin Roosevelt and the Democrats were seen as using national government action to tackle the two biggest American challenges of the twentieth century: the Great Depression and World War II. These experiences had led most people in both parties to accept the national government as a powerful policy actor. Even Dwight Eisenhower, who greatly worried about the negative consequences that could come from the national government's expansion, knew it was political suicide to attempt anything more than minor reform of the new social welfare state.²

The conservative movement was undeniably marginalized at that time, but the ideas that would capture many minds beginning in the late 1960s were already being offered in the form of intellectual treatises arguing the inherent inferiority of bureaucratic government. "The strait jacket of bureaucratic organization paralyzes the individual's initiative," warned Ludwig von Mises, "while within the capitalist market society an innovator still has a chance to succeed."³ Against the backdrop of Nazi Germany, Friedrich von Hayek warned that the consequences of the socialism which he felt to be a part of the current American and British political fabric could be of the most dire sort: "Few are ready to recognize that the rise of fascism and nazism was not a reaction against the socialist trends of the preceding period but a necessary outcome of those tendencies."⁴

²Morgan, *Eisenhower Versus the Spenders*, 16.

³Ludwig von Mises, *Bureaucracy* (New Haven: Yale University Press, 1944), 124.

⁴Friedrich Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944), 3-4.

Over the next twenty-five years, thinkers like William F. Buckley, Richard Weaver, and Russell Kirk created a cogent, coherent philosophy suspicious of government involvement.⁵ Greatly aided by the triumph of the Goldwater wing within the Republican party and the success of the *National Review*, an intellectual outlet for their ideas, their philosophy rose out of political obscurity. According to E.J. Dionne, “By the early 1960s, conservatism had a working philosophy and a growing following.”⁶ Although it would take another decade to happen, this antigovernment ideology, helped along by the Vietnam War, the Watergate scandal and a host of other events in and out of government, became a powerful political force in and out of the academy.

Privatization Emerges in Scholarship: The 1960s

The emergence of antigovernment thought in the political mainstream during the 1980s led to privatization for the first time being a substantial focus of discussion among policy thinkers. But as one might expect, the issue was not suddenly born at that time. The idea had been quietly proposed by some thinkers beginning in the mid-1960s. In 1965, Richard Cornuelle published *Reclaiming the American Dream*, which called for government to at least partially remove itself from the task of trying to solve social problems. Voluntarism through what Cornuelle called the “independent sector” (clubs, churches, community organizations, and so on) would perform some of the tasks previously done by the public sector. Significantly, Cornuelle did not say that commercial enterprises should fill the gap. But his belief in the power of a people unfettered by government intervention to “do much more of the country’s serious business, with more efficiency, precision, and understanding” is clear.⁷ Cornuelle’s idea,

⁵See William Buckley, *Up From Liberalism* (New York: McDowell Press, 1959); Richard Weaver, *Ideas Have Consequences* (Chicago: University of Chicago Press, 1948); and Russell Kirk, *The Conservative Mind: From Burke to Santayana* (Chicago: H. Regnery Company, 1953).

⁶E.J. Dionne, *Why Americans Hate Politics* (New York: Simon and Schuster, 1991), 169.

⁷Richard Cornuelle, *Reclaiming the American Dream* (New York: Random House, 1965), xv.

of course, was hardly new, as he himself notes that the United States has used the “independent sector” for these purposes since the nation’s birth. But his book is noteworthy for the fact that even at a time when Democratic liberalism carried the political day, the discontent with government and resulting desire to have other entities take its policy place were well on their way to political prosperity.

The debate went a step further in 1969 when privatization was explicitly set forth in scholarship for the first time in *The Age of Discontinuity: Guidelines to Our Changing Society* by Peter Drucker. Drucker was prophetic in his assertion that what we know today as the “information age,” the “knowledge economy,” and the “global economy” were all well on their way. The title of Drucker’s book aptly described the era we were entering in the late 1960s, as does his observation that “the one thing that is certain so far is that it will be a period of great change.”⁸ The author was convinced that government would not be able to handle the policy challenges presented by the new age with wisdom or responsibility. As a result, private business was for the first time in the privatization scholarship presented as a valuable resource in the conduct of public policy.

The private sector is, according to Drucker, more flexible, more open to innovation and more in tune with the quality of its service due to the awareness of a “bottom line.” By contrast, “the best we can get from government in the welfare state is competent mediocrity. More often we do not even get that; we get incompetence such as we would not tolerate in an insurance company.”⁹ While there are certain costly policy functions which only the public sector would be willing to perform, for the most part government should only be “the conductor in the orchestra of institutions.”¹⁰ Other institutions, such as universities and hospitals, should also be involved in the achievement

⁸Peter Drucker, *The Age of Discontinuity: Guidelines to Our Changing Society* (New York: Harper and Row, 1969), 10.

⁹*Ibid.*, 218.

¹⁰*Ibid.*, 234-5.

of policy objectives. But private business is, according to Drucker, uniquely qualified to take on the challenges of the new age, since “of all social institutions, it is the only one created for the express purpose of making and managing change.”¹¹ Drucker’s reasoning is that private firms are more open to innovation, less encumbered by civil service regulations, and more in touch with how well they are doing relative to the bottom line. It would still be a decade before Drucker’s ideas began to take hold. But what is noteworthy about these arguments is their resemblance to current ones. Drucker’s book was the first to offer a scholarly defense of the privatization idea, one which would be used with great success over the next thirty years by a multitude of conservative thinkers.

The Debate Picks Up Steam: The 1980s

Despite further decline in government’s standing with the public during the 1970s,¹² it would not be until a decade later that privatization moved from being an abstract academic notion of a few to a budgetary and management tool of cities and states. Surveys during the 1980s found that about 80% of cities were using privatization in some form, primarily because it was seen by many as having the potential of providing higher quality service at less cost.¹³ The degree to which privatization provided cheaper and better quality service for state and local government was a matter of intense debate. But while its policy ramifications were unclear, its political effect was not. Privatization was thrust into the spotlight as a possible solution to an allegedly overbearing and inefficient national government. No longer did the debate involve simply nuts and bolts service delivery questions. Now it was a political and ideological war fought by those aiming to reduce government.

¹¹Ibid., 236.

¹²This phenomenon is explored in chapter three.

¹³Jeffrey D. Greene, “How Much Privatization? A Research Note Examining the Use of Privatization by Cities in 1982 and 1992,” *Policy Studies Journal* 24 (1996): 634.

The privatization movement seemed to find the perfect president with whom to work in the person of Ronald Reagan. In 1981, the newly inaugurated president stood on the United States Capitol steps and proclaimed that “Government is not the solution to our problem. Government is the problem.”¹⁴ The moment represented an exhilarating victory for the conservatives who had been in political exile three decades before. Reagan had articulated his campaign message as well as any candidate for the nation’s highest office ever had, and that message was bedrock conservative. His nomination acceptance speech at the 1980 Republican convention sounded in part as if it had been composed by Hayek or Mises: “Government is never more dangerous than when our desire to have it help us blinds us to its great power to harm us.”¹⁵

Reagan’s devotion to the anti-government cause naturally led him to appoint in office a great many people from within and outside the academy who shared his vision. None would have more influence on the privatization debate than Health and Human Services appointee E.S. Savas. Like Reagan, Savas had been arguing for government reduction for years. As early as 1971, Savas had appeared in the mainstream *Harper’s Magazine* with a piece excoriating most local governments as places where “staffs are automatically tempted to exercise...monopoly power for their own parochial advantages” and where “instead of a merit system, there is a seniority system. Promotions occur incestuously from within, based on examinations that attempt but fail to measure performance.”¹⁶

Savas’s scholarly breakthrough came with *Privatizing the Public Sector: How to Shrink the Government*. The title said it all. This was not a book about having the private sector take over a few marginal governmental duties in the name of efficiency. This was

¹⁴Ronald Reagan, *Public Papers of the Presidents of the United States: 1982* (Washington, D.C.: U.S. General Printing Office, 1982), 1.

¹⁵“Reagan: Time To Recapture Our Destiny,” *Congressional Quarterly Almanac* 38 (1980): 37B.

¹⁶E.S. Savas, “Municipal Monopoly,” *Harper’s Magazine*, December 1971, 54.

part of a broad, ideologically based effort to “reconsider[r] the respective roles and responsibilities of government, the individual, the family, voluntary associations, private firms, and the marketplace.”¹⁷ Privatization was no mere management technique. In Savas’s mind, it was a way to “check the growth of government and to reduce unwarranted and unwanted dependence on government,” thereby preventing a path in which “a large and powerful government...displace[s] and swamp[s]...other institutions like family, church and voluntary group associations.”¹⁸ Like Reagan, Savas clearly did not shrink from an ideological fight. But while Savas did not suffer from a deficiency of conviction, he lacked political acumen. Like many others in the administration who worked on this issue, he hurt the cause with a stridency that led many people to grow uncomfortable with the Reagan team’s seeming readiness to reduce government in policy areas seen as needing public sector involvement.

The conservative ideologues’ failure led to a discussion in the middle of the decade about how to mitigate the issue’s political weaknesses. The most prominent voice on this score was another Reagan administration member, Stuart Butler, who left government before writing *Privatizing Federal Spending* in 1985. Butler’s central strategy was to beat the anti-privatization special interests at their own game by encouraging those who would gain from the privatized area to lobby for the cause. His proposal to privatize public lands, ignored by the administration he left, is illustrative of his main argument. Instead of simply counting on the public to become convinced eventually of privatization’s merits, Butler suggested *giving* land to environmental groups. This would, in his view, satisfy them enough to keep them quiet and perhaps even get them to lobby for privatization, enabling policymakers to deal with the rest of the land in the most economically efficient way.

¹⁷Savas, *Privatizing the Public Sector*, 6.

¹⁸*Ibid.*, 4.

Butler's book did not make as much of a splash as Savas's, but it was significant in that it was one of the first from a conservative viewpoint to recognize that the argument for privatization, no matter how sound or well-intentioned, will die on the vine unless it is nurtured politically. The Reagan administration could well have listened to Butler more since it never was able to sell privatization in any meaningful way. While the administration was far from politically smooth in its privatization efforts, the larger reason for the policy's political failure lay in people's ultimate reluctance to have government reduce its presence. As we will see in chapter four, the Reagan team's political skills were wanting on the issue of privatizing public lands. This was a primary target for Reagan, but people did not feel comfortable selling public lands to the highest bidder.

Privatization and the Progressives: A Partial Echo

Public resistance to pursuing meaningful privatization suggested a new strategy for privatizers. No longer would as much political and scholarly energy be expended questioning government's role. While this argument would remain a key part of conservatism, it would be de-emphasized, and in its place would be an emphasis on bemoaning the public sector's inefficiencies. While this had been a part of the reasoning of Reagan ideologues in the 1980s, drawn from it was a conclusion which was more tailored to those from the middle and left of the political spectrum. The new thinking did not question the value of government action in the abstract, but rather asserted that until the public sector could curtail its wasteful and inefficient practices, privatization was one of the strategies to ensure better management of taxpayer money.

Perhaps the most popular government management book of the 1990s, *Reinventing Government: How the Entrepreneurial Spirit is Transforming America* by David Osborne and Ted Gaebler, asserts explicitly:

America's crisis of confidence in government has turned books about public policy into a growth industry. Most deal with *what* government should do...This book is different...its subject is not what they do, but how they operate...We have new goals, yes, but our governments cannot seem to achieve them. The central failure of government today is one of *means*, not *ends*."¹⁹

Not only did this new emphasis on good management change the discussion from the controversial notion that government was inherently harmful, it also recalled a classic theme from twentieth century American political thought: government was in desperate need of a sounder, more frugal management of taxpayer money. The privatization movement is hardly the first time the government has been charged with inefficiency. For example, Woodrow Wilson, Frederick Taylor, Theodore Roosevelt or almost any other Progressive thinker one can name were all concerned with instilling better management of time and money. To that end, Progressives saw much merit in employing outside experts to provide efficient, nonpartisan, ethically run services. Samuel Hays captures the flavor of Progressivism well in his study of conservation policy during this era:

Since resource matters were basically technical in nature, conservationists argued, technicians rather than legislators, should deal with them... Pressure group action, logrolling in Congress, or partisan debate could not guarantee rational or scientific decisions. Amid such jockeying for advantage with the resulting compromise, concern for efficiency would disappear.²⁰

Even after the Progressives' political power had faded, the professed need for better and more efficient management and the belief in the power of the expert to achieve it never left public administration scholarship. It is tempting to recall the privatization movement's call for better management and more efficiency and then to assume that

¹⁹David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming America* (Reading, Mass.: Addison-Wesley Publishing Company, 1992), xxi.

²⁰Samuel P. Hays, *Conservation and the Gospel of Efficiency: The Progressive Conservation Movement, 1890-1920* (Cambridge, Mass.: Harvard University Press, 1959), 3.

privatization is a mere repeat of Progressivism. But there is a crucial difference between the two movements regarding how to achieve these goals. Unlike Progressivism, the recent movement equates efficiency with smaller, decentralized government. Limited government and decentralized government have gone together for the privatization movement from the start. Drucker's primary reason for proposing privatization in his landmark 1969 text was that centralized, bureaucratic institutions seemed to him to be unable to deal with the challenges presented by the rapidly changing society. Similarly, Vincent Ostrom, in the landmark *The Intellectual Crisis in Public Administration* argued vigorously against centralization: "Overlapping jurisdictions of widely different scales are necessary conditions for maintaining a stable political order that can advance human welfare under rapidly changing conditions."²¹

That reasoning would seem very strange to Progressives, whose response to their quickly changing world was the centralized administration so feared by many today. Few, for example, would call Progressive Theodore Roosevelt an advocate of decentralized government. "The betterment which we seek must be accomplished," Roosevelt consistently argued, "mainly through the national government."²² For Roosevelt and most other Progressives, it was the business world just as much as narrow partisanship that was corrupting American life, a point most privatizers would undoubtedly contest. It is almost impossible to imagine Richard Cornuelle, Ronald Reagan or E.S. Savas writing as Lincoln Steffens did in the Progressive tract *The Shame of the Cities*, "The commercial spirit is the spirit of profit, not patriotism; of credit, not humor; of individual gain, not national prosperity; of trade and dickering, not

²¹ Vincent Ostrom, *The Intellectual Crisis in Public Administration* (Tuscaloosa, Ala.: University of Alabama Press, 1973), 99.

²² Theodore Roosevelt, *The New Nationalism* (New York: The Outlook Company, 1910), 27-8.

principle.”²³ The respective values of politics and business are different, many Progressives felt, and thus an efficient and centralized governmental bureaucracy was the polity’s best hope for achieving justice.

The idea that American governmental bureaucracy can be a positive actor in citizens’ lives began with the Progressives and stayed with the study of government well after the Progressives had peaked. The rise of anti-government scholarship makes it easy to overlook the century long academic tradition of acceptance and admiration of governmental administration. Leonard D. White, for example, was a Republican, but his work reflected a deep respect for civil servants. No one lacking genuine admiration for the government official would write, “The primary value of a high prestige attaching to public employment is that it predisposes young men and women of the greatest promise to seek a permanent connection in government circles.”²⁴ White’s words seem even more antiquated when he writes, “The fact that college graduates looking forward to public employment commonly turn their eyes to the federal government is a recognition of the relatively high prestige enjoyed by it compared with city or state positions.”²⁵

This belief in government among many scholars was given new impetus when the national government grew in power in response to what most felt to be the genuine need growing from the Great Depression and World War II. The enlarged national government presence was a catalyst for a vigorous expansion in public administration programs and, more importantly, an awareness that the public administrator was a significant political actor who should be viewed as a legitimate part of the democratic political process.²⁶

²³Lincoln Steffens, *The Shame of the Cities* (New York: McClure, Phillips and Company, 1902), 7.

²⁴Leonard D. White, *Further Contributions to the Prestige Value of Public Employment* (Chicago: University of Chicago Press, 1932), 87.

²⁵Ibid.

²⁶See, for example, Appleby, *Policy and Administration*.

Well into the 1960s, the notion that government, if managed effectively, could be a powerful source of positive and even noble action on behalf of its citizenry won over most students of government.

Leaving the Faith

During the last 30 years, there has been a major philosophical movement away from the Progressive faith in bureaucratic government. Its source comes from the great call for economic efficiency that has occurred during that time. Public choice theory, unquestionably the intellectual cornerstone of the privatization movement, has at its core the assumption that government has proven to be an inefficient and self-serving guardian of people's interests. This observation, combined with the privatizers' belief in the natural superiority of the free market, has led followers of public choice theory to seek out the private sector for delivery of many programs and services.

The public choice movement is in great contrast to theories which see policymakers as concerned with the public interest. Bureaucrats, the public choice ideology goes, are only concerned with their own self-interest, and so will pursue a bigger agency budget any way they can, including squandering resources so they can justify having to obtain more. They are able to get away with this behavior not only because they have expertise in the given policy area, but also due to politicians' interest in not upsetting the constituencies who have come to depend upon the given funding or service.²⁷

Another key part of the public choice philosophy is offered by Mancur Olson, who, in his landmark work *The Logic of Collective Action*, asserted that interest groups can successfully demand ever growing slices of the budgetary pie because of the

²⁷William A. Niskanen Jr., *Bureaucracy and Representative Government* (Chicago: Aldine-Atherton Inc., 1971).

phenomenon of concentrated benefits and dispersed costs.²⁸ A given interest is willing to make great sacrifices to obtain the policy outcome it wants. An individual citizen, by contrast, will rarely feel enough of an economic pinch to take action against that interest.²⁹ This enables well organized interests to carry the political day, even if they are far from being in the majority. A perfect illustration of such logic is by E.S. Savas:

The bigger the government, the greater the force for even bigger government. Budgets will expand, resulting in the appointment of more officials and the hiring of more workers. These will go to work at once to enlarge their budgets, do less work, hire still more workers, obtain better-than-average raises, and vote for more spending programs, while encouraging their constituencies and beneficiaries to do the same. The forecast seems ominous: Sooner or later everyone will be working for government.³⁰

The political alliance, or “iron triangle” between bureaucrats, interest groups, and politicians, was widely discussed in the late 1950s and early 1960s,³¹ and William Niskanen wrote as early as 1971 that perhaps competition was one of the remedies to stop it. Niskanen was speaking primarily of agencies competing with each other, rather than with the private sector, but the principle behind public choice theory has been the same ever since: whether it is through a contract with government that must be renewed or

²⁸Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge, Mass.: Harvard University Press, 1971).

²⁹Some other scholars have discussed and expanded upon this phenomenon. See, for example, William Riker, *Liberalism Against Populism: A Confrontation Between the Theory of Democracy and the Theory of Social Choice* (San Francisco: W.H. Freeman, 1982) and Pendleton Herring, *Group Representation Before Congress* (1929; reprint New York: Russell and Russell, 1967).

³⁰Savas, *Privatizing the Public Sector*, 25-6.

³¹This symbiotic relationship was first discussed by Pendleton Herring, *Public Administration and the Public Interest* (New York: McGraw-Hill, 1936). Many of the people who articulated the iron triangle theory during the period of its greatest influence (the late 1950s to the early 1970s) came from the liberal part of the political spectrum. See for example Douglass Cater, *Power in Washington* (New York: Vintage Books, 1964.) Ironically, the theory has since been used by public choice theorists to support what most would call conservative political causes. This is a good example of the fact that over the last thirty years, even though each critique is devoted to different failures, liberals have often helped the conservative cause by being almost as willing as those from the right to criticize government.

through competition with other potential providers, an organization will be compelled to provide efficient, quality service only if it is continually at risk of losing its money source.

Few would entirely disagree with the goal of efficiency, but no school holds it on a higher pedestal than public choice theory. Economist William Niskanen summarized the primary objective of public choice theorists when he wrote, “The primary purpose of analysis and better accounts is to identify *more efficient* combinations of production processes for the same public service.”³² For public choice theory and the privatization movement that stems from it, efficiency has been the primary criterion by which an organization’s work is to be judged. At bottom, then, the argument for privatization revolves around a simple series of assertions: economics is the basis for decisions made in the business sector, politics is behind most of what happens in the public sector, and economics has proven to be the more efficient and rational of the two.³³ Rational decision making, it is asserted, is the test of an efficient organization and efficiency is the test of good provision of services to the public.

The New Public Administration Movement

Public choice theory, largely a product of thinkers who align themselves with the political right, has been far and away the primary catalyst for the increasing suspicion toward bureaucracy within the academy. One should not assume, however, that all of government’s critics have been politically conservative. Another school, the New Public Administration (NPA) movement, was much less influential than public choice theory, but no less vociferous in some of its attacks on government bureaucracy.

While there had been other strands of scholarship during the twentieth century which did not view government officials through rose colored glasses, many of those

³²Emphasis added. Niskanen, *Bureaucracy and Representative Government*, 209.

³³One of the best examples of this philosophy is found in Mises, *Bureaucracy*.

movements still saw government as a beacon of hope to all those seeking redress. The behavioral revolution, for example, had at its foundation a belief that government was just another political actor, no more motivated by the public good than any other, and thus worthy of our attention only in the context of studying the political process. But along with that view was the expectation that government responds to those in need. One of the best known studies of interest group behavior, *The Governmental Process* by David Truman, was an argument against what Truman referred to as the “uncontrolled anger” of those who “view with alarm the threats to the international security and internal stability of the American system”³⁴ that allegedly resulted from interest group activity. In Truman’s mind, latent interests formed naturally, petitioned the government and more often than not, had their concerns addressed.

The belief that those truly in need were being helped by government was dismissed in the late 1960s in a scathing critique of bureaucracy which arose from the political left in the form of the NPA movement. Government was excoriated as “a key medium through which the middle class maintains its advantaged position vis a vis the lower class...serv[ing] to maintain and reinforce patterns that are associated with the culture of poverty.”³⁵ In the definitive NPA text, *Toward a New Public Administration*, movement founder H. George Frederickson, outlined this school of thought’s viewpoint:

Pluralistic government systematically discriminates in favor of established stable bureaucracies and their specialized minority clientele...and against those minorities who lack political and economic resources. The continuation of widespread unemployment, poverty, disease, ignorance, and hopelessness is the

³⁴David Truman, *The Governmental Process: Political Interests and Public Opinion* (New York: Alfred A. Knopf Inc., 1951), 12, 528.

³⁵Gideon Sjoberg et al., “Bureaucracy and the Lower Class,” *Sociology and Social Research* 50 (1966): 325. See also Michael Lipsky, *Street Level Bureaucracy: Dilemmas of the Individual in Public Services* (New York: Russell Sage Foundation, 1980), and Frances Fox Piven and Richard Cloward, *Regulating the Poor: The Functions of Public Welfare* (New York: Pantheon Books, 1971).

result. This condition is morally reprehensible and if left unchanged constitutes a fundamental, if long-range, threat to the viability of this or any other political system.³⁶

NPA advocates were of the belief that government had not only failed us, but had been overbearing in the process, “relying explicitly on coercive hierarchical control.”³⁷ Just as had occurred with public choice theory, the conviction held by NPA scholars that the national government had become coercive led to calls for decentralization. Frederickson summarized the NPA’s organizational philosophy in a 1997 retrospective as “decentralization, flatter hierarchies, funding projects, contracting out and systems of co-production or public-private partnerships.”³⁸

By itself, this quote resembles public choice theory to the letter. Crucial to understanding the NPA movement, however, is an awareness of the difference in the kind of decentralization advocated. Public choice theory sought to decentralize the government almost out of operation, leaving the public sector to handle only the most inherently governmental functions. But when the NPA movement spoke of control by private entities, it more often than not meant putting power into the hands of ordinary citizens, with a vigorous and capable public administration intact.

The hope among the NPA school is that the interaction between a younger, more progressive class of administrators and the people they are serving will add more normative values such as social equity to the list of primary governmental goals. This would not only begin to help those whose concerns were previously ignored by government, but would give public administration a renewed relevance to political

³⁶H. George Frederickson, “Toward a New Public Administration,” in Frank Marini, ed., *Toward a New Public Administration: The Minnowbrook Perspective* (Scranton, Penn.: Chandler Publishing Company, 1971), 311.

³⁷Mary Timney Bailey and Richard T. Mayer, *Public Management in an Interconnected World: Essays in the Minnowbrook Tradition* (New York: Greenwood Press, 1992), 133.

³⁸H. George Frederickson, “Comparing the Reinventing Government Movement with the New Public Administration,” *Public Administration Review* 56, no. 3 (1996): 267.

scientists and young college graduates more of an incentive to consider a career in government service.³⁹ NPA's ultimate vision, a respected class of public administrators bearing much discretion to carry out progressive policies on behalf of an engaged citizenry, could not be more different than the future the public choice school imagined.

Unlike the NPA movement, public choice theory held that government was *inherently* inefficient and self-seeking and thus could never be reformed in a way that could earn citizens' trust. One should not lose sight of the fact, however, that in the process of describing the problem, the NPA rhetoric came close to echoing the public choice school on the Right. The other primary founder of the NPA school, Frank Marini, described one of the assertions made by some of the participants at a landmark NPA conference in 1968: "A sort of goal displacement was typical of public organizations, with the perpetuation of the organization assuming a more important position than performing the client-oriented functions for which many public organizations had been created."⁴⁰ Though they probably would have felt out of place ideologically at the conference, William Niskanen or E.S. Savas could have just as easily made that assertion.

The NPA movement disappeared from the radar screen before it could address the contradictions in its philosophy. It is possible that the tension between calling for more active government and castigating it at almost every turn might have been resolved over time. But before that could happen, the NPA school's chief contribution was to obscure the difference in its long-term goals from that of public choice theory by echoing the anti-government sentiments of their colleagues on the Right, thus giving any interested observer all the more reason to distrust government.

³⁹The 1962 Committee on Political Science as a Discipline did not include public administration as one of political science's subfields, and, in 1967, public administration was no longer an organizing category at the annual American Political Science Association meeting. See Ralph Chandler and Jack Plano, *Public Administration Dictionary: Second Edition* (Oxford: ABC-Clío, 1988), 25-6.

⁴⁰Marini, *Toward a New Public Administration*, 352.

The Arguments Against Public Choice

Antigovernment theories rose steadily in popularity among the Right and Left throughout the 1970s and 1980s. The criticism of government coming from the Left went largely uncontested, since those from the other side of the political aisle were not prone to defend government. Just as significantly, those who still believed in government failed to enunciate a clear, coherent theory around which to unite, causing scholars like Robert Reich to wonder whether a “new public philosophy” could be found against conservatism that was “at once adequate to reality and emotionally compelling.”⁴¹

No school has successfully rallied government’s supporters around a theory encouraging a rebirth of trust in bureaucracy. But no one should assume that there have not been some thinkers who have tried. Some scholars, in fact, have directly challenged the most basic assumptions of public choice thinkers. One of the public choice tenets particularly relevant to this study that has been vigorously criticized is the notion that privatization is a pathway toward giving citizens more control over government. In *Down from Bureaucracy: The Ambiguity of Privatization and Empowerment*, Joel Handler warns readers not to be fooled: privatization is not the objective managerial panacea or the neutral, scientific quest for efficiency it is sometimes portrayed to be. It is, in his view, an exercise in hardball politics that has at its core a struggle for power and resources between the relevant interest groups and stakeholders.

What is especially distressing to Handler is that the struggle takes place among actors with unequal resources and that privatization worsens such inequities by radically decentralizing service delivery. Such arrangements have been defended by some scholars. For example, Vincent Ostrom argues that providing taxpayers with a wide variety of potential public and private sector providers would yield efficiency in

⁴¹Robert Reich, “Toward a New Public Philosophy,” *Atlantic Monthly*, May 1985, 79.

government and empowerment for the citizenry.⁴² It is Handler's belief, though, that such a myriad of overlapping constituencies is confusing and alienating to those who lack the resources to negotiate them. Although he is not the only person to note the connection between overlapping service delivery entities and citizen disillusionment,⁴³ Handler is one of the more eloquent at picking apart some of the central assumptions of the public choice school.

Some scholars have gone even further than Handler by boldly embracing government and encouraging others to do the same. John Rohr, Charles Goodsell, Gary Wamsley and others surmised the problem not to be an inefficient bureaucracy, but rather an unrespected one. "If direct performance measures can be accepted at face value," Charles Goodsell wrote in his polemic *The Case for Bureaucracy*, "several of these measures reveal surprisingly high proportions of success. Unmistakably, the indicators we have say that bureaucracy works most of the time."⁴⁴ Not only was an active bureaucracy believed by some to be underrated, it was viewed by many as essential in addressing the problems of the modern day. One group of scholars in the early 1980s released "The Blacksburg Manifesto," a piece that argued that "our political dialogue must shift from 'whether' there ought to be a public administration to what the role of the Public Administration and the Public Administrator should be."⁴⁵ Not surprisingly, these scholars did not completely turn back the tide toward a scholarship friendlier to

⁴²Vincent Ostrom, *Intellectual Crisis*.

⁴³Clinton administration Office of Management and Budget Director Alice Rivlin argues strongly for greater delineation in policy responsibilities between the federal and state governments, one primary reason being her belief that "the blurring of state and federal roles contributes to cynicism about politics." Alice M. Rivlin, *Reviving the American Dream, The Economy, the States and the Federal Government* (Washington D.C.: Brookings Institution, 1992), 16.

⁴⁴Goodsell, *The Case for Bureaucracy*, 140.

⁴⁵Gary Wamsley et al., "Public Administration and the Governance Process: Shifting the Public Dialogue," in Gary Wamsley et al., *Refounding Public Administration* (Newbury Park: Sage Publications, 1990), 51.

government. But they did receive a substantial amount of attention and, perhaps most importantly, tried to give their pro-government side the coherent message it had long lacked.

Is There A Public Interest?

The arguments of those opposed to public choice theory are reminders that the objections to privatization have gone beyond the nuts and bolts variety to extend to the ideological and philosophical. Steven Rathgeb Smith has gone so far as to state, "Privatization is at the center of the ongoing debate on the shape of the state and the proper boundaries between the individual, the community, and the state."⁴⁶ One of the more important philosophical questions surrounding the privatization debate is whether there is something special and even noble about the public and the public interest. For those who feel that there should be a notion present in the polity of a "public interest" or common good, the loss of a commitment to the common good is the terrible price that privatization extracts. To believe otherwise, according to this school, is to deny the historical differentiation between public and private. Aristotle wrote that "man is by nature an animal intended to live in a polis. He who is without a polis...is either a poor sort of being, or a being higher than man."⁴⁷ The idea that public institutions are where you develop virtue and search for the common good has been carried forth to the modern day.

One of the more interesting understandings of the "public interest" is in Alexis de Tocqueville's *Democracy in America*. One could point to isolated passages of *Democracy in America*, Tocqueville's most famous work, and dismiss the book as simply

⁴⁶Steven Rathgeb Smith, review of *The Privatization Decision: Public Ends, Private Means*, by John Donahue, *Political Science Quarterly* 106 (1991): 175.

⁴⁷Aristotle, "The Theory of the Household," in *The Politics of Aristotle*, trans. Ernest Barker (Oxford: Clarendon Press, 1946), 5.

the nostalgic writings of an apologist for the status quo. But such a conclusion ignores Tocqueville's genuine concern with the public interest. It is certainly true that stability is essential to Tocqueville's philosophy. He complains in *Democracy in America* that the language of the democratic age "is in as much confusion as society" and refers with disdain to the "disease" of instability in American industry.⁴⁸ But his interest in stability only scratches the surface of what are his primary concerns.

The democratic age seems to offer a great deal of stability in many important respects. The problem for Tocqueville lies in the sources and kinds of stability present, as he believes many of them to be injurious to the public interest. For example, materialism, according to Tocqueville, is a natural byproduct of a democratic system, and thus leads to stability. Someone making money from the system in place will not be anxious to overturn it. Despite its being a force for the status quo, however, Tocqueville is bothered greatly by materialism, fearing that the challenge of achieving prosperity and enjoying its monetary rewards may cause people to be apathetic toward the public interest. If that happens, the conditions are ripe for a leader to emerge who promises prosperity provided he receives authority unencumbered by democratic procedures. A society would then be destined to undergo the centralization of governmental power Tocqueville fears. It is clear, then, that Tocqueville values the notion of a public interest immensely, and all his fears of the democratic age are driven by that concern. It is a concern that philosophers from Augustine to Machiavelli to Rousseau to Montesquieu have shared. Given that philosophical and historical understanding, supporters of the public interest concept ask, why should we now assume that the terms "private" and "public" are neutral and that one could be substituted for another?

⁴⁸Alexis de Tocqueville, *Democracy in America*, trans. George Lawrence, ed. J.P. Mayer (New York: Harper Perennial Books, 1988), 481, 554.

The answer to that question in the minds of those on the other side is that the concept of a public interest agreed to by political actors with the country's best interest at heart is an illusion, and, some would say, a dangerous one at that. Utilitarian thinkers such as Jeremy Bentham and John Stuart Mill believed that community welfare is simply the sum of interests of anyone in the polity. Bentham is best known for the utility principle, which held that "an action may be said to be conformable to the principle of utility...when the tendency it has to augment the happiness of the community is greater than any it has to diminish it."⁴⁹ While the greatest amount of happiness could well be produced at the expense of an unfortunate few, Bentham believes that it is not the place of government to intervene on behalf of a suffering minority. As one scholar put it, his primary interest was in "a removal of hindrances to the increase of the happiness of the greatest possible number of citizens," not in "what would generally be thought of as positive interference with the freedom of the individual."⁵⁰

It is not surprising that Bentham advocates policy decisions made as much as possible through majority rule. In his view, government is a collection of individuals who, like everyone else, are out for their own happiness. The state, therefore, rather than being trusted to be a positive presence in people's lives, should be a political cash register which records people's demands, crunches the numbers, and issues a policy decision based solely on a happiness quotient. Like most philosophical movements, utilitarianism is not monolithic. Not every utilitarian would argue as vigorously as Bentham against the idea of a common good. However, essential to utilitarian thought is the belief that government action should always be viewed with a suspicious eye, as utilitarians tend to reject abstract notions of the common good, suspicious of their vague claims.

⁴⁹Jeremy Bentham, *An Introduction to the Principles and Morals of Legislation*, ed. Laurence LaFleur (New York: Hafner Publishing Company, 1948), 3.

⁵⁰Frederick Copleston, *A History of Philosophy*, vol. 8 (Paramus, N.J.: Newman Press, 1966), 14-5.

Some theorists who have questioned the notion of a public interest feel that any attempt to define such a concept is not only difficult (a point on which most would agree) but also unwise and even dangerous. Henry David Thoreau, the nineteenth century American transcendentalist, claimed that automatically supporting what others deem is the “public interest” stifles the radical individualism so central to his philosophy. “The only obligation I have a right to assume,” Thoreau wrote in his famous essay “Civil Disobedience,” “is to do at any time what I think right.”⁵¹

For Thoreau, an attachment to anything other than one’s own conscience can mean submission to immoral institutions such as slavery. Any plea from government that a particular policy is in the public interest would carry no weight with Thoreau, for he has little or no faith in the state to do what is wise (“Most governments are usually, and all governments are sometimes, inexpedient.”) or what is moral (“The government itself is equally liable to be abused and perverted before the people can act through it.”⁵²). Individual choice free from institutional constraint was Thoreau’s aim, and it is thus no accident that in the last thirty years, as respect for institutions has declined, Thoreau has become increasingly popular.

To some, philosophical debates about the notion of a public interest may seem irrelevant to the daily political struggles surrounding privatization. One should remember, however, the contrast between Thoreau’s unyielding lack of trust in government and Aristotle’s adoration of public service. Those are two radically different views, and they lead to an important point: the debate about whether a society should consciously aim for the satisfaction of “a public interest” often revolves around what the privatization debate revolves around - i.e. the level of trust and respect felt for government. If the state is, as Bentham and Thoreau believe, just one more collection of

⁵¹Henry David Thoreau, *Civil Disobedience and Other Essays* (New York: Dover Publications Inc., 1993), 2.

⁵²*Ibid.*, 1.

individuals out for their own interest, however disguised in the language of a shared larger good, then trusting them to act in the public interest would be foolhardy and the best solution may be to keep as many duties as possible in private hands. But if our leaders are (or at least may reasonably be held to be) genuinely interested in the welfare of the populace and qualified to address those needs, placing more trust in the public sector to do what is right is appropriate. No definitive proclamations can be made for either side, but it can be said with certainty that while privatization is very much a current concern, it strikes at the heart of debates that have been going on for centuries.

The Search for Consensus

Many participants in the privatization debate feel comfortable with a “practical middle ground” that privatization is good policy if genuine competition occurs. John Donahue, one of the better known spokesmen for this viewpoint, lays out definite conditions under which successful privatization is more likely to occur: “The more precisely a task can be specified in advance and its performance evaluated after the fact, the more certainly contractors can be made to compete...the stronger becomes the case for employing profit seekers rather than civil servants.”⁵³

Whether this is the correct view, most people, academics or not, now feel that if the correct managerial conditions are met, the private sector has as much or more to contribute to achieving policy goals than government. This position is intimidating even to many of privatization’s most vehement opponents who, significantly, now often object to privatization only on the grounds that it will not yield meaningful competition, leaving aside the basic question of its merits.

⁵³ John Donahue, *The Privatization Decision: Public Ends, Private Means* (New York: Basic Books, 1989), 79-80.

One factor in privatization's success has been the evolution in the conception of privatization from ideological weapon to practical management tool. Even E.S. Savas, who was the embodiment of the aggressive ideological approach taken by the Reagan administration in the 1980s, softened his approach in his 2000 volume, going so far as to include a section on the arguments against privatization.⁵⁴

Despite the shift, one still has to wonder why, given the vast increase in anti-government sentiment, privatization has only rarely been a significant part of the national governmental agenda. We will see in the next chapter that the answer lies in people's ambivalence about how much they like government action. Citizens do not know whether to believe Rohr or Drucker, Goodsell or Savas, Reagan or Roosevelt. Privatization's supporters respond to people's contradictory feelings by steering dialogue away from politically dangerous subjects like government reduction and toward safer topics like greater management efficiency. While Reagan emphasized the former goal and got almost nowhere with privatization, Clinton put his focus on the latter and achieved much of what he wanted on the issue.

⁵⁴E.S. Savas, *Privatization and Public-Private Partnerships* (New York: Seven Bridges Press, 2000).

CHAPTER 3

PRIVATIZATION'S POLITICAL ROOTS

The evolution toward privatization in the academy has been matched by several political and societal trends that have compelled almost every part of the political spectrum to become more suspicious and cynical about government and thus more willing to embrace its reduction. Politics and scholarship favorable to privatization have had an undeniable impact, as the last thirty years have seen the private sector increasingly viewed as a superior service provider to a degree one could not have imagined just a few decades ago. Nevertheless, there do seem to be limits to what the public will tolerate exposing to the vagaries of the business world. The one major privatization idea proposed by George W. Bush early in his administration, the partial privatization of social security, was the subject of fierce political attack, so much so that President Bush has remained largely silent early in his term. A president considered by most to have taken a markedly aggressive conservative approach during his first few months in office merely appointed a commission when it came to the social security issue, an indicator of the controversy his administration feared would result from a proposal to privatize.

The case studies of privatization efforts during the Reagan and Clinton years will give us a better understanding of why Americans have only stuck a toe in the privatization waters despite the fact that political, academic and social factors seem to indicate they would dive in. But before our exploration into the Reagan and Clinton efforts, it is first important to understand fully what have been the factors behind privatization's rise outside the academy.

The privatization phenomenon, an anti-state movement, seems to be rooted in the great increase in governmental responsibilities which has occurred in the twentieth century. If the first response to vastly enlarged social and economic responsibilities was to develop the modern American "state," notably a governmental bureaucracy, the second

seems to be devolution of state responsibilities to “private” organizations. Perhaps no development in the national government this century is more significant than growth in its size, functions, services and power over citizens. Louis Galambos informs us that during the nineteenth century, the national government “performed only a narrow range of functions; it collected very little income and employed a minuscule percentage of the work force.”¹ It was not until the Great Depression of the 1930’s that the national government took a proactive role in the economic health of its citizens. Since then, each decade has brought with it new challenges to which the national government felt compelled to respond. World War II, the Cold War, the civil rights movement and many other events in the last sixty years have all given the national government more to do. As a percentage of the gross domestic product, spending by the national government grew from 3.4% in 1930 to 22.9% in 1985,² even though that year was the midpoint of a very conservative administration.

As noted in chapter one, this expansion of governmental responsibilities combined with the technology age has necessitated the public sector having to turn to the business world more for production of goods and services. But the ramifications of government expansion have gone beyond the practical into the political and ideological. Governmental growth has led to a great fear of its overexpansion, and policymakers often believe that turning duties over to the private sector will result in better, cheaper delivery of services. We have seen that this theory has gained greater acceptance in the last thirty years in academic circles. Yet to be explored, however, are the many elements of public opinion which help to make privatization a politically wise option.

¹Louis Galambos, *The New American State: Bureaucracies and Policies Since World War II* (Baltimore: Johns Hopkins University Press, 1987), 6.

²By 1999, this figure had gone below 19 percent for the first time since 1974. Executive Office of the President of the United States, *Historical Tables: Budget of the United States Government, FY 2001* (Washington, D.C.: U.S. Government Printing Office, 2000).

Inefficiency: The Ultimate Sin

Many elements of public opinion suggest a predisposition to depend on the private sector for delivery of goods and services. Over the years, Americans have consistently expressed great admiration for the free enterprise system. One poll done every year from 1975 to 1983, for example, found over 90% consistently agreeing that “we must be ready to make sacrifices if necessary to preserve the free enterprise system,”³ and there has been no sign of this admiration changing.

Partially because Americans hold capitalism in such high regard, they often feel more comfortable with the private sector administering government programs. But it is not an unqualified admiration of the business world that causes many people to choose the private sector over the public for the delivery of services. In fact, many who like capitalism are not nearly so taken with business as an institution, especially large corporations. Small businesses remain the embodiment of the kind of capitalism Americans hold dear. 59% in one 2000 poll expressed either “a great deal or quite a bit of confidence” in “small business” and an additional 27% had at least “some confidence.”⁴ By contrast, in a periodic survey from 1973 to 1999 assessing people’s confidence in a variety of American institutions, “big business” always finished among the bottom, with only 20-30% saying they had “a great deal” or “quite a lot” of confidence in it.⁵

Despite all the negative feelings about big business there still seems to be a widespread belief that the private sector can better perform public services than government can. In 1981 Ralph Kramer wrote, “The public more readily accepts

³Cited in Seymour Lipset and William Schneider, *The Confidence Gap: Business, Labor and Government in the Public Mind* (Baltimore: Johns Hopkins University Press, 1987), 285.

⁴NBC News/Wall Street Journal Poll, Roper Center for Public Opinion Research, University of Connecticut, Storrs, Conn. [www.ropercenter.uconn.edu]

⁵George Gallup Jr., *Gallup Poll Monthly* 383 (1997): 24.

government funding and standard setting if nongovernmental organizations deliver the public goods and services,”⁶ and that sentiment has not changed significantly among the public since that time. A large reason is the tremendous cynicism and suspicion prevalent among overwhelming numbers of the population about government’s ability to act with any semblance of efficiency.

Businesses are often perceived as being less hampered by regulations and civil service rules that hurt entrepreneurial spirit, able to pay lower wages and benefits, and generally more cognizant of a “bottom line” that compels them either to be efficient or cease to exist. By contrast, it is believed that government has no similar incentive, and in fact, has a motivation to be inefficient, since that will bring more money to an agency. Surveys consistently reveal a decisive lack of confidence in governmental efficiency. An overwhelming 80% in one 1996 poll described the government as “wasteful and inefficient,”⁷ and the number in a semiannual poll saying that “people in government waste a lot of tax money” rose from 43% in 1958 to 61% forty years later, reaching a high of 78% in 1980.⁸ It is little wonder, given those numbers, that the private sector is often seen as the better choice for program administration and service delivery.

This general lack of faith in governmental efficiency (many would see that as a contradiction in terms) is bad news for government in an age in which public policy problems are increasingly seen as being questions which can be solved simply by administering government with more efficiency. No public figure embodied this idea more in the last decade than presidential candidate Ross Perot. A self-made millionaire

⁶Ralph Kramer, *Voluntary Agencies in the Welfare State* (Berkeley, Calif.: University of California Press, 1981), 73.

⁷Richard Morin and Dan Gelz, “Americans Losing Trust in Each Other and Institutions,” *Washington Post*, 28 January 1996, sec. A, p. 1.

⁸University of Michigan National Election Studies, online database, table 5A.3. [www.umich.edu/~nes/]

from Texas, Perot used his own brand of homespun rhetoric to advocate the use of what he felt to be “common sense” approaches to policy problems which would use objectivity and efficiency as guides.

Good management without concern for politics (because the answers to management questions were, in his view, beyond debate) was for Perot the key to effective government. Perot’s words from his closing statement in one of the 1992 presidential debates captured his philosophy well:

If the American people want to do it and not talk about it, then I’m one person they ought to consider. If they just want to keep slow dancing and talk about it and not do it, I’m not your man. I am results oriented. I am action oriented. I built my businesses getting things done in two months that my competitors took ten months to do.⁹

Perot’s rather eccentric behavior caught up with his presidential candidacy. But his fervent belief that getting government away from the politicians and in the hands of experts in order to run it like a business struck a resonant chord with many voters, enabling Perot to receive 19% of the vote in 1992, an impressive total for any United States third party presidential candidate.¹⁰ In this “age of the ascendancy of the expert and...decline of the traditional politician as chief architect of policy,”¹¹ there is a corresponding move toward criteria in evaluating policy which emphasizes values traditionally more associated with the private sector, such as efficiency, productivity and rationality.¹² What better way to run a government than to move away from what many

⁹William J. Clinton, *Public Papers of the Presidents: 1992* (Washington, D.C.: U.S. Government Printing Office, 1993), 1843.

¹⁰Rhodes Cook, “Clinton Picks the GOP Lock on the Electoral College,” *Congressional Quarterly Weekly Report* 50 (1992): 3549.

¹¹Bruce L.R. Smith, *New Political Economy*, 38.

¹²Gordon, *Public Administration*, 528. As Gordon notes, those are three key values represented in Frederick Taylor’s work that are representative of the Progressive Era.

see as the immorality of politics and toward, as Ross Perot would say, “just getting under the hood and fixing it?” Having a private company deliver a service is seen by many as the perfect instrument to fulfilling that vision.

Ironically, in an age in which scientific inquiry is looked upon positively as a process that helps set us free from politically motivated decisions, people also like instant action. But what is often not realized by those who advocate quicker action is that the very structure of our government makes that extremely difficult to achieve. Since the United States Constitution is designed specifically to prevent people in power from acting with undue haste, the public sector has and always will have a difficult time responding to citizens’ frustration at government’s pace. However much the public distrusts corporations, they are at least free of government’s commitment to separation of powers, checks and balances, federalism and similar constitutional elements that seem ill suited to fostering the sort of efficiency claimed for the business world.

Public Suspicion of Government

In 1974, Arthur Miller wrote of a distrust of government among Americans that greatly increased “the potential for revolutionary alteration of the political and social system.”¹³ Although right-wing militia groups who frequently advocate the overthrow of the United States government have increasingly made the news in the last decade, there is little sentiment for a radical change of our political system among the general public. In one 1987 poll, more than 9 out of 10 respondents agreed that “whatever its faults may be, the American form of government is still the best for us,”¹⁴ and 68% in an early 2001

¹³ Arthur Miller, “Political Issues and Trust in Government,” *American Political Science Review* 68 (1974): 951-72.

¹⁴ Stephen Craig, *The Malevolent Leaders: Popular Discontent in America* (Boulder, Colo.: Westview Press, 1993), 3-4.

survey pronounced themselves either “very or somewhat satisfied” with our system of government,¹⁵ a solid number considering the poll was taken a month after an extremely divisive presidential election which put key parts of the Constitution in the spotlight.

Despite their sanguine attitude about the basic constitutional order, however, Americans tend to be highly cynical about the government that works within that system. In 1981, conservative columnist George Will warned against “indiscriminate skepticism about the competence, even the motives of government,” assuming that “government cannot do anything right anyway.”¹⁶ Today, people are if anything more cynical about government’s motives and the results of its work. Indeed, the change occurring in the last forty years in the confidence Americans have in government is striking. In 1964, 76% agreed that “you can trust the government to do the right thing just about always (or) most of the time.” By 1995, the percentage expressing that sentiment had plummeted to 40%.¹⁷

Manifestations of the great distrust felt by many toward government are everywhere in our culture. As one political observer has noted, “From the Leno and Letterman monologues to...the titles of new books like ‘Tell Newt to Shut Up!’ by two *Washington Post* writers... cynicism about politics descends on the public like a fog.”¹⁸ Many popular movies from the 1990’s have had a distinctively anti-government viewpoint. Popular films such as *JFK*, *Clear and Present Danger* and *Independence Day* featured a government conspiracy as a key part of their respective stories. This anti-government slant has even been present in more lighthearted fare. The comedy *Dave* featured Kevin Kline as an average man succeeding when he is forced to play the president, the message being that a lack of experience, far from being harmful to one’s

¹⁵Gallup Organization, Princeton, N.J. [www.gallup.com/poll/releases/pr010202asp]

¹⁶“GOP Finds Fed Not All Bad,” *Bloomington Pantagraph*, 26 March 1981, sec. A, p. 10. Cited in Gordon, *Public Administration*, 531.

¹⁷University of Michigan National Election Studies, table 5A.1.

¹⁸Peter S. Canellos, “A Disdain for Politics Becomes Political Vogue,” *Boston Globe*, 9 October 1996, sec. A, p. 1.

chances of achievement in government, enhances them because one is not tainted by the corrupt ways of the nation's capitol. By contrast, with occasional exceptions like the 1990s TV hit *The West Wing*, it would be difficult to find corresponding elements of popular culture which convey respect or affection for government. Whether popular culture reflects or shapes public attitudes, it seems reasonable to presume some harmony between the two when both distrust government.

Causes of Decline in Government's Popularity

The two most common complaints about government are that the people in it frequently act dishonestly and, when its intentions are good, it is too poorly managed to make a positive difference anyway. What has left many citizens so convinced that government cannot handle efficiently the tasks it is given? The causes are many. Certainly, the United States is not the only country which has experienced a decline of respect for its government. Britain, for example, experienced some of the same public opinion trends during the 1980's and privatized extensively during that time. It is also significant that one of the largest "big government" plans ever implemented, communism, crumbled around the world during the last fifteen years.

While these recent global phenomena have affected public attitudes, some of the most convincing explanations for the rise in public cynicism about government are based on events in this country. In the last thirty years, we have witnessed the emergence of what many refer to as the "entitlement society." The increased use of entitlements within that time¹⁹ has served to weaken government in the public eye. Entitlements are usually funded every year virtually automatically, and everyone meeting the criteria for the given program receives its benefits. As citizens become used to the benefit, a "what-have-you-

¹⁹For an exploration of the increased use of entitlements in the United States budget, see Aaron Wildavsky, *The New Politics of the Budgetary Process* (Boston, Mass.: Scott, Foresman Publishers, 1988).

done-for-me-lately” mentality takes over, yielding little public gratitude and thus only a small political benefit relative to the money spent.²⁰ Citizens also tend to resent strongly any attempt to reduce such programs, putting into place a political cycle harmful to the government’s prestige. John Logue’s comments about recent political problems of the welfare state are relevant here. Logue argues convincingly that the welfare state has been:

a victim of its success, not of its failures. It has succeeded in banishing the specter of material deprivation through illness, loss of employment, disability, and old age that has haunted past generations. But the abolition of the threat has abolished the fear it engendered. The collective memory is short; political allegiance is often based on past wrongs, rarely on past achievements.”²¹

This lack of faith in the welfare state shows itself in the words and actions of both parties. Democratic President Bill Clinton led a “New Democrat” movement throughout the 1990s to move his party away from its association with New Deal-style bureaucracy and anti-business rhetoric.

Most striking about the “entitlement society” and postindustrialist age is that liberals are as willing as conservatives to criticize government when it is seen as not delivering the service to which they feel entitled. Going along with this anger is a lack of faith, felt by many across the ideological spectrum, that working through political channels brings satisfactory policy results. One response to this cynicism during the last twenty-five years has been to try to remove politics from the process as much as possible by setting in place legal machinery that is designed to bring the desired policy automatically.

²⁰ An interesting examination of a similar phenomenon in Europe is John Logue and Eric Einhorn, *Welfare States in Hard Times: Problems, Policy and Politics in Denmark and Sweden* (Kent, Ohio: Kent Popular Press, 1982).

²¹ John Logue, “The Welfare State: Victim of its Success,” *Daedalus* 108 (1979): 85. Cited in Ralph M. Kramer, *Voluntary Agencies*, 272.

Three out of the ten planks in the GOP's electorally successful 1994 "Contract With America" platform contained calls for amendments to the United States Constitution,²² all reflecting a distrust of politicians. Those three planks (proposing automatic congressional term limits, a presidential line-item veto and a balanced budget amendment) were all ways of keeping decisions out of the hands of the politicians and bureaucrats whom Americans hold in such scorn. In addition to further weakening public confidence in government by sending the message that it cannot be trusted to manage its own affairs, such behavior has the effect of taking control of policy outcomes out of the hands of the people who are frequently held responsible for them.

Philip K. Howard's *The Death of Common Sense* accepts reluctantly the seeming inevitability of big government. (Howard laments, "We know in our hearts that any reduction will occur at the edges."²³) But he complains that when the government acts, "judgment is foreclosed by...the belief that judgment has no place in the application of law."²⁴ Missing from Howard's analysis is the fact that measures which force the government to run on automatic pilot lend themselves to situations in which the government will end up looking stupid because officials are forbidden to exercise what many would view as proper discretion. Public administrators are thus caught in an impossible bind, as they are at once asked to be rule-bound and impartial, while exercising flexible common sense.

Increasing the criticism leveled at the government is the fact that the "monopoly of expertise" government used to have regarding many policies is gone. In an age in which information can be shared around the country instantly, policymakers who go against the wishes of a given interest can be attacked quickly and vigorously, forcing

²²Theodore Lowi and Benjamin Ginsberg, *American Government: Freedom and Power* (New York: W.W. Norton and Co., 2000), 409.

²³Philip K. Howard, *The Death of Common Sense: How Law is Suffocating America* (New York: Random House, 1994), 8.

²⁴*Ibid.*, 18.

them to spend a great deal of time defending their decisions through the many access points in our political system. The ability of citizens to participate in virtually all aspects of government has drastically increased in the last thirty years. While most Americans see this development as positive, it does have an impact on opinion about government.²⁵ The time spent by governmental policymaking bodies defending their actions makes the process move more slowly, frustrating citizens further.

The suspicion and cynicism many feel about government turns into sheer anger when people do not feel that politicians are held accountable for their failings. Elections, the primary way to reward or punish public officials for their behavior, are increasingly seen as being inconsequential.²⁶ Only 45% agreed that “elections mak(e) the government pay a great deal of attention to what the people think” in 1998, a drop from 65% in 1964.²⁷ This perceived lack of accountability led to calls within the last twenty-five years for greater citizen input into the political process.²⁸ Ironically, however, the increased participation by people often makes it much harder for the government to get anything done. As one example, with the cameras on, the atmosphere that fosters cooperation among policymakers is greatly hindered, as politicians worry about the constituents watching them. This hurts chances for the compromises that often need to take place for substantive policy change to occur.

Regardless of the political dynamics that surround it, the calls for greater participation are resounding, and, many would say, what more powerful form of participation exists than privatization? Government can never be open enough to the people for it to earn our trust, the argument goes, and so only the signals of the market

²⁵A good discussion of the various effects of increased democracy is Douglas Yates, *Bureaucratic Democracy: The Search for Democracy and Efficiency in American Government* (Cambridge, Mass.: Harvard University Press, 1982).

²⁶Benjamin Ginsberg and Martin Shefter, *Politics by Other Means* (New York: Random House, 1990).

²⁷University of Michigan National Election Studies, table 5C.3.

²⁸Such disillusionment historically has resulted in calls for more democracy. See Samuel Huntington, *American Politics: The Promise of Disharmony* (Cambridge, Mass.: Belknap Press, 1981).

will provide true accountability.²⁹ As early as 1975, a decade after the Great Society's emphasis on giving increased political and administrative control to community based groups, Bruce Smith wrote, "A partly alternative approach to obtaining public accountability from the modern public sector would *discount political answerability in favor of commercial or objective criteria*."³⁰ The ability of privatizers to instill in many citizens a preference for market mechanisms over political controls as the preferred path to accountability greatly furthered their political objectives.

The Role of the Media

It was noted at the beginning of this chapter that there has been a tremendous increase in government's responsibilities during this century. As more citizens have come to depend on the government for services, there have been a greater number of failures in government policy (along with the successes), and a highly cynical media increasingly tends to focus on government's mistakes. The waste dump not cleaned, the health care not provided, the child not fully educated are often portrayed as further evidence of the government's incompetence.

This dynamic has become more politically potent within the last twenty five years as the American media has grown more cynical, hostile, and suspicious of those in government. Certainly, the experiences of Watergate and Vietnam, in which the press and everyone else was lied to, served to greatly enhance the skepticism the press feels toward anything said by those in government. One of the first discoveries of this dynamic

²⁹This thesis has been challenged by some scholars. For example, some have asserted that the decentralization of service delivery inherent to privatization makes for less accountability, as the presence of many providers complicates the policy delivery system and that the ability to identify who to praise or blame under such a system is severely diminished. See Joel Handler, *Down From Bureaucracy: The Ambiguity of Privatization and Empowerment* (Princeton, N.J.: Princeton University Press, 1996). There is also a significant literature from the political left urging participation that, while antibureaucratic in general, has a distinctly anti-corporate business tone. See, for example, Daniel Hellinger and Dennis Judd, *The Democratic Facade* (Pacific Grove, Calif.: Brooks/Cole Publishing Company, 1991).

³⁰Emphasis added. Bruce L.R. Smith, *New Political Economy*, 40.

in the political science literature was in 1976 when Michael Robinson noted that “the electronic media’s penchant for negativity,” its “predilection for violence and conflict” and its anti-institutionalism greatly increased cynicism among the American electorate.³¹ (Robinson also noted a similar phenomenon regarding other media forms.) As one columnist noted, “In the post-Watergate, post-everything gate [*sic*] culture, no reporter wishes to appear insufficiently prosecutorial.”³²

This attitude is partially responsible for the plethora of scandals that occupy the media daily to the point where, in the words of one scholar, reporters believe “it’s all a scam, everyone is looking out for his own narrow interest and the job of the reporter is to reveal the scam.”³³ *Chicago* magazine gives an annual “Big Onion Award for Greed, Sloth and Exceptional Idiocy by the People Whose Salaries You Pay” while American staple *Readers’ Digest* joked, “You know you’re a bureaucrat if you count pencils, know your retirement date and favor many rules to control employees.”³⁴ In the Progressive Era, “muckrakers” were ruthless in their attacks on the corrupt ways of both the public and private sectors. The media’s appetite for scandal is still voracious, but now only government is caught in the journalistic crosshairs.

Other Societal Forces Contributing to Privatization’s Appeal

Negative media coverage, political infighting and recent historical events such as Watergate all have contributed to a tremendous distrust of politics and politicians. The percentage of respondents who agreed with the strong statement that “quite a few of the people running the government are crooked” rose from 24% in 1958 to 41% in 1998,

³¹Michael J. Robinson, “Public Affairs Television and the Growth of Political Malaise: the Case of Selling for the Pentagon,” *American Political Science Review* 70 (1976): 428.

³²William Glaberson, “The New Press Criticism: News as the Enemy of Hope,” *New York Times*, 9 October 1994, sec. 7, p. 1.

³³*Ibid.*

³⁴Cheryl Simrell King and Camilla Stiers, *Government is Us: Public Administration in an Anti-Government Era* (Thousand Oaks, Calif.: Sage Publications, 1998), 4.

going as high as 52% in 1994,³⁵ the same year that one United States Senate candidate came within a few hundred votes of winning by running on a platform of “a government that does nothing.”³⁶ But it is important to realize that government is certainly not alone in its fall from public grace. On survey after survey from the mid-1960’s to the mid-1970’s, skepticism and cynicism soared regarding one institution after another, and they have yet to recover the public’s trust. Polling expert Daniel Yankelovich observed in 1977, “Within a ten to fifteen-year period, trust in institutions has plunged down and down, from an almost consensual majority, two thirds or more, to minority segments of the American public.”³⁷ In one annual survey done from 1974 to 1999, there was a drop in public confidence over that period in the case of thirteen of sixteen institutions. Two of the other three saw an increase of only two percentage points, the military being the only exception.³⁸

Analysts point squarely at the late 1960’s as the time when American faith in major institutions died,³⁹ and the prevailing view that “none of our national policies work, none of our institutions respond, [and] none of our political organizations succeed”⁴⁰ has not changed. There are many reasons for the new-found anti-institutional mood, but certainly one of the primary reasons is the public’s increased desire since the late 1960’s to be free from constraints imposed by large organizations or authority of any kind. This is encouraged by today’s less hierarchical personnel arrangements and a post-industrial age in which people are less likely to feel part of an organization for a lifetime. The modern job market forces many to move from one organization and even from one

³⁵University of Michigan National Election Studies, table 5A.4.

³⁶Editorial, “Tarred with a Brush Too Broad,” *New York Times*, 23 October 1994, sec. 5, p. 14.

³⁷Daniel Yankelovich, “Emerging Ethical Norms in Public and Private Life” (paper presented at Columbia University, New York City, 20 April 1977), 2-3. Cited in Lipset and Schneider, *Confidence Gap*, 15.

³⁸United States Department of Justice, *Sourcebook of Criminal Justice Statistics: 1998* (Washington, D.C.: U.S. Government Printing Office, 1999), table 2.15.

³⁹Lipset and Schneider, *Confidence Gap*, 3.

⁴⁰Robinson, “Public Affairs Television,” 409.

occupation to another and are thus less likely to feel any sense of loyalty. People are encouraged to see themselves as existing only for themselves and not to benefit any institution.

It is not a surprise that during this time conspiracy theories involving complex plots by government, business, and other major institutions have hit a height. Certainly all media outlets have been a forum for espousing such theories. Three major motion pictures were released during a two month period in the spring of 1997 whose main plot was a massive cover up of criminal activity at the White House.⁴¹ One of television's most popular shows during the 1990's, *The X-Files*, had as its primary aim trying to package large numbers of seemingly unrelated historical events under one broad conspiratorial umbrella. Yet the internet is probably the most common source of conspiracy theories, and often they have no small impact on American politics. David Broder reports that just after the death of White House aide Vincent Foster in 1993, the stock market declined sharply after a rumor spread, largely through the internet, that Foster had been secretly murdered by someone in the White House.⁴²

In addition to these trends, there are many other recent occurrences contributing indirectly to the rise in anti-government attitudes which furthers privatization's popularity. The complaint that political parties and the people in government have become less civil toward each other is probably well founded. One Republican freshman in 1995 who acknowledged that he was helped greatly in his election drive by "the negative view of Congress" also lamented the lack of civility in Congress, saying that he became "involved in some real political scimmages that really don't help the process all that much."⁴³ Certainly, leadership in both political parties as well as in Congress

⁴¹The three movies were *Murder at 1600*, *Absolute Power*, and *The Shadow Conspiracy*. The advertising slogan for the first movie was "The Address That Breaks All The Rules."

⁴²Haynes Johnson and David Broder, *The System: The American Way of Politics at the Breaking Point* (Boston: Little, Brown and Company, 1996), 277.

⁴³David Broder, "Cure for Nation's Cynicism Eludes Its Leaders," *Washington Post*, 4 February 1996, sec. A, p. 20.

became more divided ideologically during the 1990s and the frequently hostile atmosphere only worsened with the Monica Lewinsky scandal and the divisive 2000 presidential election. The “negative campaigning” of recent years is often an effective election strategy, but, in the aggregate, alienates Americans from campaigns, parties, and anything else having to do with government.

One can look outside of Washington D.C. and find plenty of examples of the lack of civility and fair play for which people often fault government. Indeed, it seems clear that our society has become more polarized. Traumatic political experiences of the last twenty-five years such as Vietnam, Watergate, and the Civil Rights movement have instilled a “politics of protest” into our society in which confrontation with political opponents is frequently favored over negotiation and dialogue. As James D. Carroll has noted, “[The national government] has become a microcosm of the conflicts and differences that pervade society...As government becomes coextensive with society in composition and function, it experiences the disorganization...of society itself.”⁴⁴ And not only does government frequently mirror society, but it is often expected to be the mediator of all disparate voices and the solver of the most intractable problems. Its own misdeeds, societal forces beyond its control and its vastly expanded mission have all combined to cripple government’s chances at receiving anything but scorn from a good portion of its citizenry.

Other Political Reasons to Privatize

There is no question that many policymakers would be inclined to privatization even if it was not popular. Sharkansky points out, for example, that one political motivation to privatize is “to reward certain persons for favors rendered in the past by

⁴⁴James D. Carroll, “Putting Government’s House in Order,” *Maxwell News and Notes* (Syracuse University) 13 (1978): 2. Cited in Gordon, *Public Administration*, 509.

giving them a contract.”⁴⁵ Policymakers also may privatize to be able to say they maintained or cut the number of government employees while still enlarging a particular program.⁴⁶ One other political reason to privatize is to combat the influence of certain constituencies that tend to favor a greater role for government. One of these constituencies is public sector unions. The level of union strength seems to be a key factor in whether privatization emerges. Although the political weakness of public sector unions is far from the only factor, it is no coincidence that one of the regions most inclined to privatize has been the Sun Belt, one of the areas in which public sector unions are least popular.⁴⁷

During the last thirty years, the labor movement has witnessed a tremendous decline in popularity. Although data on the subject is not as voluminous as that regarding public opinion toward government, certainly a drop-off in public support can be observed beginning in the mid-1960’s. According to Lipset and Schneider, “approval [of labor unions] declined continually from 71 percent in 1965, to 55 percent in 1981, while the proportion disapproving rose from 19 to 35 percent.”⁴⁸ Although there has been a slight increase since the mid 1990’s in the popularity of unions,⁴⁹ the overall trend in public esteem has been downward. This decline in popularity surely has been reflected in the decrease in union membership which has occurred during the last forty years. In 1954, 34.7 percent of the work force belonged to a union. By 1999, that percentage was down to 13.9.⁵⁰

⁴⁵Ira Sharkansky, *Wither the State?: Politics and Public Enterprise in Three Countries* (Chatham, N.J.: Chatham House Publishers, 1979), 113.

⁴⁶*Ibid.*

⁴⁷John McCormick et al., “Taking the Town Private,” *Newsweek*, 4 March 1991, 52-4.

⁴⁸Lipset and Schneider, *Confidence Gap*, 39.

⁴⁹This is partially the result of renewed efforts by many of the unions to market themselves more aggressively. One example of such efforts is the American Federation of Labor-Congress of Industrial Organizations (AFL-CIO) Union Summer Program to recruit college students for organized labor activities. See Diane Lewis, “Youths Lead Movement,” *Boston Sunday Globe*, 20 May 2001, sec. H, p. 2.

⁵⁰Diane Lewis, “Labor ‘96: Unions Look to the Young,” *Boston Globe*, 2 September 1996, sec. A, p. 1, and United States Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States: 2000* (Washington, D.C.: U.S. Government Printing Office, 2000), 446, table 7.14.

There are many factors involved in the decline of public trust in unions. Media emphasis on any corruption and political intrigue involving unions makes them seem in the minds of many like any other institution, only interested in power. The only other subject in the public eye regarding unions is any conflict occurring between labor and management. Such an emphasis, according to labor expert Diane Schmidt, “promotes a perception of unions as being dominated by aggressive behavior.” This negative impression would tend to be more powerful in this day and age since “fewer people have direct experience” with unions, so “what they see in media sticks.”⁵¹ But it is not just the media that causes a decline in public opinion towards unions. Unions in the public sector suffer the additional burden of being government workers, and thus subject to being viewed as overpaid and underworked. This perception certainly makes many people less than sympathetic to the arguments of those who want to keep jobs in the hands of public sector workers.

Despite their lack of popularity, unions have sometimes been able to fight privatization’s emergence.⁵² Legal challenges have sometimes been effective,⁵³ but more so for the union cause have been some of the arguments unions have made against contracting out. One of the more successful techniques has been to challenge the widely held belief that private companies are more efficient. In Massachusetts and other states, public employee unions have won legislation forbidding privatization unless cost-benefit analysis shows there will be savings.⁵⁴ The use of such analysis could prove to be one of the more effective strategies employed by unions. But despite some successes,

⁵¹Diane E. Schmidt, “Public Opinion and Media Coverage of Labor Unions,” *Journal of Labor Research* 24 (1993): 163.

⁵²Not surprisingly, a review of the American Federation of Government Employees [www.afge.org] and the American Federation of Labor-Congress of Industrial Organizations [www.afcio.org] web sites reveals a much greater emphasis by the first union on preventing privatization, indicating that membership makeup at least partially influences organizational agenda setting.

⁵³Katherine C. Naff, “Labor-Management Relations and Privatization: A Federal Perspective,” *Public Administration Review* 51 (1991): 28.

⁵⁴Don Aucoin, “Cellucci Aims for Labor Peace,” *Boston Globe*, 1 August 1997, sec. B, p. 4.

government employees have lacked the political strength or public standing to stem the general march toward privatization, partially because of a double standard among the issue's followers. Even though many privatization advocates are self-interested in their motives as potential sellers of a given service, only unions have been tagged with the label of arguing their side for their own benefit.

Privatization: An Attempt To Have Big Government on a Small Budget

Murray Edelman wrote extensively on the important function symbols perform in politics, asserting in his 1964 work *The Symbolic Uses of Politics* that “political forms thus come to symbolize what large masses of men need to believe about the state to reassure themselves.”⁵⁵ Whether or not privatization qualifies as a “political form” in Edelman’s language, it is surely used as a reassuring symbol to many, as it stands both for programmatic liberalism and fiscal austerity. It is an understandable response to the public ambivalence about whether big government is desirable. To be sure, the widespread lack of trust towards government leads to calls for budget cutbacks and an end to what many perceive to be an inordinate amount of government waste and inefficiency. But George Gordon has been one of many observers to note “the tendencies of many people to regard government...with hostility at the same time that they want public agencies to satisfy their demands” and “to criticize the growth of bureaucracy...but somehow they always seem to be referring to programs that benefit *others* - never to the programs in which *they* are interested.”⁵⁶

This simultaneous demand for less and more government action is well captured by polling done in 1978 as public disapproval grew of President Carter and the national government in general. Even though citizens felt by a 43% to 14% margin that

⁵⁵Murray Edelman, *The Symbolic Uses of Politics* (Urbana, Ill.: University of Illinois Press, 1964), 2.

⁵⁶Gordon, *Public Administration*, 512.

“government in Washington is getting too powerful,” 23% (the largest number in the survey) described themselves as being strongly in favor of “a government insurance plan which would cover all medical and hospital expenses.”⁵⁷ Just as is true today, citizens had deep reservations about the size of the public sector, yet still expected it to carry a heavy policy load.

The budgetary demands on government have only grown during the last thirty years with the emergence of the “entitlement society.” As we have seen, entitlements are brutal on budgets, since it takes huge amounts of spending (in the case of the United States, now about 54%)⁵⁸ off the negotiating table when it comes time for cutbacks. But the budget only reveals part of government’s challenge. Also significant about today’s demands is the fact that they are, in the minds of many observers, more complex and harder to satisfy than ever. With the quantity, complexity, and uncertainty of policy demands all on the rise, it often makes political (and often practical) sense for those in government to turn the service over to someone else if only to get the problem off their hands as much as possible.

The demands by citizens for greater amounts of public spending in a number of areas clearly clash both with fiscal realities and with people’s general attitudes about big government. Privatization responds to this ideological contradiction by enabling Americans to follow their belief in limited government while still trying to maintain the services on which they have come to depend. Furthering the privatization phenomenon is the undeniable ignorance about the budget which exists among the American people. As we have seen, one problem in reducing the budget deficit lies in the fact that what the public considers to be “untouchable” expenditures consume a very large portion of the budget. But worsening the situation is the fact that the few programs the public favors

⁵⁷University of Michigan National Election Studies, tables 4A.1 and 4A.3.

⁵⁸The figure is 65 percent when interest on the national debt is added. Executive Office of the President of the United States, *A Citizen's Guide to the Federal Budget: FY 2001* (Washington, D.C.: U.S. Government Printing Office, 2000), 10.

cutting take up a much smaller portion of the budget than it realizes. One 1995 poll asked people what percentage of the federal budget is devoted to foreign aid. The median response was 15% when in reality, the figure is 1%.⁵⁹ Such ignorance enables public officials to claim that the savings from attempted cost-cutting measures like privatization will be the panacea that will eliminate the deficit while maintaining services at their present level. The irony of such claims is that when the initiatives fail to meet the unreasonable expectations we have set for them, disappointment sets in, furthering the disillusionment many feel about government.

The Signs Point Toward Privatization, But...

Public admiration of the private sector, the precipitous decline in regard for government, greatly increased calls for accountability, the watchful eye of a suspicious media and a variety of societal trends have all combined to create a political juggernaut that, along with scholarly trends, would seem to propel privatization into the national policy mainstream. That has not happened, and a key reason is that citizens do not want to have to choose among spending priorities. As a general idea, government reduction receives raves from the public, but when put into practice, it receives a much colder reception.

Any privatization beyond the trivial leads to conflicting policy aims, and citizens become reticent to choose one goal over another. The Reagan administration's political salesmanship on the public lands issue was subpar, but the clashing policy goals of their proposal naturally made it a tough sell. The successful legislative effort by President Clinton and the 104th Congress to encourage dialogue about what are government or commercial functions was a positive step, but the devil will be in the details as difficult

⁵⁹Barbara Crossette, "Foreign Aid Budget: Quick, How Much? Wrong," *New York Times*, 27 February 1995, sec. A, p. 6.

choices are made on that question. Regardless of whether that legislation eventually results in commercial functions being identified and privatized, privatization advocates should feel encouraged. The public dialogue has shifted to such a degree that few Democrats, Republicans or independents are willing to defend the public sector in the face of debates about spending reductions that focus not on whether to cut government, but by how much. The growing demand for public services has put a brake to the movement to strip government to the bone. But suspicion of the public sector, skillfully argued in a burst of scholarly writing and widely embraced in political rhetoric, has justified less government with great success.

CHAPTER 4

THE REAGAN YEARS

If it were possible for conservative ideologues to go into a scientific laboratory and create a president who would privatize, it certainly seemed on January 20, 1981, that they could not have found anyone better for the role than Ronald Reagan. “Government is not the solution to our problem. Government is the problem,”¹ the new president declared on his Inauguration Day, and those antigovernment beliefs combined with his resounding election victory to give hope to privatization advocates that real change could take place on the issue. To help his chances further, the country was becoming more suspicious of the public sector, and would thus presumably be more open to having government do less and the private sector more.

Ronald Reagan was the national embodiment of how much more cynical about government the country had become. In 1976, candidate Reagan had proposed investing social security funds in stocks and bonds and was ridiculed for it. Four years later, he was elected on an anti-government platform and, not long after, his idea for social security was seriously discussed by Democrats and Republicans.² Reagan did achieve some privatization during his presidency, the sale of Conrail being the most notable example. But there was clearly a gap between how much privatization conservatives expected would happen during his tenure and how much was actually done. Public lands, the primary policy area in which Reagan tried privatization, stayed largely in governmental hands.

As with almost any political outcome, the reasons for Reagan’s failure on the public lands question are many and complex. His general lack of attention to the issue,

¹Ronald Reagan, *Public Papers of the Presidents: 1982* (Washington, D.C.: U.S. Government Printing Office, 1982), 1.

²Abramovitz, “Privatization,” 260.

Interior Secretary James Watt's gift for alienating people of every political stripe, and the general lack of political acuity among many of Reagan's advisors handling the issue are three of the explanations to be explored in this chapter. Beyond any of the administration's shortcomings, however, the underlying and ever-present cause of trouble for Reagan or any other privatizer is people's deep-seated reluctance to privatize in any way that significantly reduces government.

Good Economics, Bad Politics?

The natural tension between what in some minds is good policy and what is good politics is manifested in the case of public lands. It is a terrific area in which to privatize if one is a conservative economist. One expert on the subject has referred to public lands as "perhaps the most socialized sector of the economy."³ If one is a conservative politician, however, the equation is quite different. So many other policy areas offer more politically astute avenues to privatization. As privatization expert Jeffrey Henig so aptly depicted the situation at the Reagan administration's beginning, "Some, like public housing and the United States Postal Service, had been regarded for many years as dreadful failures...Others - like Conrail, National Airport, and federal utilities - had constituencies that were geographically limited."⁴

Instead of choosing one of those issues, Reagan chose to attempt to privatize public lands, a policy with a well-developed theoretical rationale but one with strong support for the status quo from many policymakers at both the national and state levels as well as from several well organized and determined interest groups. It is often difficult to sell extensive privatization, but public lands seemed like an issue in which this was

³Robert H. Nelson, *Public Lands and Private Rights: The Failure of Scientific Management* (Lanham, Md.: Rowman and Littlefield Publishers Inc., 1995), 183.

⁴Jeffrey Henig, "Privatization in the United States: Theory and Practice," *Political Science Quarterly* 104 (1989): 665.

particularly difficult. Environmentalists tend to be highly motivated to fight for their cause, and western economic groups like ranchers and grazers were unlikely to want to give up their preferential government treatment and have government sell to the highest bidder the public land on which they depended, all for the sake of economic principle. Making the path to public lands privatization even more difficult was the inherent contradiction that stemmed from government officials trying to raise huge amounts of revenue by ridding itself of land that was, by their own admission, less desirable (and therefore less financially valuable) than much of the land remaining in federal hands.

The area in which Reagan chose to focus privatization efforts made his task tough enough, but this chapter will make the case that by failing to appreciate the political consequences of privatization, his administration made success on the issue impossible to achieve. When it came to privatization, Reagan bore an unfortunate resemblance to President Carter, reminding some observers of Carter's elimination of water projects in the name of economic efficiency while being seemingly unaware of the powerful western economic interests and congressmen he would offend.⁵

A Brief History of Public Lands Policy

The public lands question had a long, complex, and controversial history in the United States well before Reagan was even born, and some of that long history worked decidedly against the conservative Californian's privatization agenda. One of the primary doctrines that had guided public lands policy since the country's founding was "preemption," the presumed right of a squatter or long-time occupant of a piece of land to enjoy all the benefits of that property, sometimes even if he is unable to pay for it at fair market value. Preemption rights had not been practiced with any sort of regularity during

⁵This comparison has also been made by C. Brant Short, *Ronald Reagan and the Public Lands: America's Conservation Debate 1979-1984* (College Station, Tex.: Texas A&M University Press, 1989).

the country's early history. But that preemption existed at all suggests that adherence to free market principles was not a consistent component of public lands policy, and that historical reality would present a significant obstacle to Reagan's privatization efforts.

The sale of public lands was considered to be a potentially major source of revenue before the income tax was instituted, but that goal was realized only in fits and starts. To be sure, a balancing act was necessary between obtaining revenue and encouraging expansion. Soon after the Founding, Alexander Hamilton had noted, "In the formation of a plan for the disposition of the vacant lands of the United States, there appear to be two leading objects of consideration: one, the facility of advantageous sales...the other the accommodation of individuals now inhabiting the western frontier."⁶

Hamilton believed "the former...claims primary attention"⁷ and there were periods in American history in which revenue was recognized as the more important goal. In the first seventy-five years of the country's history, in fact, more than 15 million acres of public land were sold to pay Revolutionary War debt, and during the 1830s, land sales represented 26% of federal revenues.⁸ But that number is best seen as an aberration. The general theme in public lands history, rather than being one of the federal government consistently receiving revenue from land sales, is one in which the government often gave land away outright (starting with land grants to Revolutionary War veterans) or allowed a land's settlers to buy it at or below market rate.

The legislative history of public lands policy is one that, according to one expert, frequently "grant[ed] legitimacy to practice that had previously developed as practical responses on the ground--sometimes outside the law--to immediate needs."⁹ Important to realize is that in many cases, those practices were sanctioned by culture as much as or

⁶Benjamin Horace Hibbard, *A History of the Public Land Policies* (Madison, Wis.: University of Wisconsin Press, 1965), 2.

⁷Ibid.

⁸Nelson, *Public Lands*, 7.

⁹Ibid., 6.

more than by law. Many in and out of the federal government had long thought that strictly enforcing market rates upon western settlers would be impractical (given the West's vast expanse and distance from the capital) and unfair (given the hardships many settlers endured.) Perhaps most importantly, charging settlers full price was seen as very much against the spirit behind the westward movement of the nation, an accomplishment in which many Americans took great pride.

This westward expansion, while yielding sizable economic benefits, had significant environmental costs, perhaps the most famous example being the virtual disappearance of the buffalo. As a result, near the turn of the twentieth century the federal government, led by Theodore Roosevelt, moved aggressively with a host of different measures to protect the wildlife and the environment it inhabited. Land for national parks began to be set aside during the 1890s and the same was done for forest reserves two decades later. These steps are aptly summarized in the Bureau of Land Management (BLM) web site as “signal[ing] a shift in policy goals served by the public lands. Instead of using them to promote settlement, Congress recognized that they should be held in public ownership because of their other resource values.”¹⁰ In contrast to the eighteenth and nineteenth centuries, many policymakers sought to make environmental protection a key part of national public lands policy, believing that the national government would use scientific objectivity to manage the lands' development wisely and efficiently.

The Sagebrush Rebellion

The newfound environmental aims, pursued through a centralized management structure, planted seeds of resentment in the West. These seeds would eventually blossom into the powerful and angry “Sagebrush Rebellion,” a movement of the 1970s

¹⁰U.S. Dept. of the Interior, Bureau of Land Management website, www.blm.gov/nap/facts/index.htm.

and 1980s that sought more state control over public lands. Like almost any political movement, the causes of it were many. One author at the time of the rebellion lists eleven separate complaints the West had about federal government treatment at the time, citing everything from “pervasive federal environmental and preservation laws” to “President Carter’s water project ‘hit list’” to “unfavorably skewed east-west rail rates.”¹¹ The theme of all of the complaints was the belief among many in the West that the federal government was increasingly overbearing toward the region and completely out of touch with its political, cultural, economic, and geographic needs.

It seemed to the movement’s backers that federal restrictions on land use were increasing by the day, major legislation pushed by President Carter restricting development in over 100 million Alaskan acres being the latest evidence. Such laws were taken as proof that Washington did not understand the West. To Sagebrush rebels, the fact that over half of western land was owned by the federal government meant that, in the words of Colorado governor Richard Lamm, “We cannot control our own destiny.”¹² The rebels had anecdotes to go with statistics. One story in a popular magazine at the rebellion’s height featured photographs of a Wyoming couple looking with sadness at their own home being gutted by a fire they set themselves, reportedly because it was the only way they could comply with a government order to remove the house from public land.¹³ Interestingly, “Sagebrush Rebellion” was a title first used by the press derisively, then adopted by the movement itself.¹⁴ The decision was a smart one, as the term manages to grab the listener and convey the anger behind the movement, while also communicating the belief that a good lands policy was much more likely to be found out west among the sagebrush plants than with the politicians in Washington.¹⁵

¹¹ Richard Mollison, “Sagebrush Rebellion: Its Causes and Effects,” *Environmental Comment* 11 (1981): 11, 5.

¹² “West Senses Victory in Sagebrush Rebellion,” *US News and World Report*, 1 December 1980, 30.

¹³ *Ibid.*

¹⁴ C. Brant Short, *Ronald Reagan*, 14.

¹⁵ *Ibid.*

Perhaps the single most important catalyst for the rebels was the 1976 Federal Land Policy and Management Act (FLPMA), an act designed “to provide for the management, protection and development of the natural resource lands.”¹⁶ That purpose seemed benevolent enough, but it was more the change the law represented that infuriated many westerners. As one expert noted, the FLPMA “mandated for the first time that federal lands be held publicly in perpetuity for the benefit of the entire nation.”¹⁷ For decades, the BLM had one primary goal: to please the western livestock industry. For the first time, the BLM was required through law to conserve the land for multiple uses as fit the “public interest.” This mandate meant the BLM had to balance many different policy actors, including a rapidly growing environmental movement. Fairly or not, the BLM acquired the reputation of being too prone to favor the environment over development. The BLM’s perceived political clumsiness was the icing on the ideological cake to those who considered the federal government to be ignorant of western needs. After the 1976 FLPMA and its implementation, it seemed as if there were no turning back for the rebellion. All the economic and political forces came together, as the sagebrush movement had the Bureau of Land Management on which to focus their suspicion and enmity.

Sagebrush: The Political Battle

When one considers both the enormous amount of natural resources contained in United States public lands, and the distrust of the federal government that has always been a hallmark of western political culture, it is not surprising that political movements similar to the Sagebrush Rebellion had occurred before. Between 1828 and 1833, Alabama, Illinois, Indiana, Louisiana, and Missouri each made requests to Congress to

¹⁶*National Resource Lands Management Act*, Public Law 94-579, 94th Cong., 2d sess., 21 October 1976.

¹⁷Edward Abrahams, “This Land is Your Land, For a Price: Unreal Estate,” *New Republic*, 3 January 1983, 15.

cede all federal government lands to the states. Such tension had been present throughout the nation's history, but grew in the 1970s. During that decade, legislative and judicial action to support the cause came fast and furious. Nevada got the legislative ball rolling in 1979 by passing a bill claiming ownership of all public lands in the state not already reserved or appropriated. Arizona, New Mexico, Utah, and Wyoming passed similar laws the next year, California and Colorado vowed to study the question, and Hawaii passed a resolution in support of the efforts. The United States Congress followed suit, as members filed no less than sixty bills on the topic, mostly in the 96th Congress.¹⁸

Despite all the activity and furor which surrounded it, it would be difficult to make the case that the Sagebrush Rebellion achieved the aims of its organizers. None of the states passing sagebrush legislation ever really pressed their case, and in fact, some of the bills probably passed only because they were seen as symbolic. No major court decision ever came down in the rebels' favor, and out of the sixty bills introduced in Congress between 1978-1980, none got so much as a hearing or a vote out of committee. In fact, no significant piece of rebellion legislation was ever passed by the United States Congress.¹⁹

Part of the rebels' failure was due to powerful and effective arguments from the other side. There was the belief among many that the loss of federal government control over land could have potentially disastrous consequences. It was feared that a constituency that was particularly strong in a given state would be allowed to run roughshod over the public interest, such as by polluting the environment. There was also a good case to be made that federal government involvement in western land affairs was

¹⁸The most well-known legislation, The Public Land Reform Act of 1981, was from the 97th Congress.

¹⁹Christopher Kryza, *Who Controls Public Lands?* (Chapel Hill, N.C.: University of North Carolina Press, 1996), 94.

not increasing as much as the rebels claimed. The federal share of the total acreage of land in the United States had decreased slightly in the previous forty years, from 36 to 32%.²⁰

Programs such as the Legacy of Parks, started by the federal government in the latter part of the twentieth century, had spanned several decades and presidential administrations and had resulted in the transfer of hundreds of thousands of acres from the federal to state and local government. To some, westerners had no business complaining about how hard the federal government had been on them, since as one commentator stated, "The truth is that eleven western states received *free* from the federal government far more land than many of the eastern states ever had available to sell."²¹ Perhaps the main and most interesting reason for the rebellion's demise was that even some of the political actors from western states were against significant change. Western governors were not fond of the states taking control if it meant new responsibilities along with a loss of federal subsidies. Interest groups did not like the thought of having to form new relationships and understandings with different policymakers in a new venue. Even the constituencies primarily associated with the rebellion, such as ranchers, grazers and other western economic interests, had second thoughts about the movement. Most endorsed a loosening of regulations, but lost their enthusiasm for the cause once they realized it could negatively affect their usage of the land. This cultural inclination toward obtaining help from the federal government in spite of their distrust towards it was reminiscent of the dual emotions governing opinions about privatization. The western rebels detested the federal government, yet depended on it immensely.

²⁰United States Department of the Interior, Bureau of Land Management, *Public Land Statistics* (Washington D.C., U. S. Government Printing Office, 1980), table 7, and U.S. Department of Commerce, *Statistical Abstract of the United States 1944-5* (Washington D.C.: U.S. Government Printing Office, 1945), table 1024.

²¹George Reiger, "Sagebrush Rebellion III," *Field and Stream*, July 1985, 30.

One of the more intriguing arguments made by rebellion opponents, if only for its response, was that states would find that managing the land was beyond their capacity and would begin privatizing them. Important to note is the response of the rebels, who vehemently denied that would ever happen. Both sides feared that privatization would hurt access to the lands by the smaller ranchers, grazers and other interests that had depended on it for decades. This foreshadowed later tension between the privatizers in the Reagan administration and westerners who feared that privatizing the land would shut them out of it.

The rebels feared that the Reagan victory would take the steam out of their rebellion, and that concern proved prophetic. As sometimes occurs with political movements, partial success robbed it of its momentum. Just as had happened with some nuclear freeze advocates after the signing of the IMF Treaty, some sagebrush activists lost interest in the issue after the 1980 election, perhaps incorrectly concluding that the problem as they defined it had dissipated enough to obviate any further need for political action.

Privatizing Public Land: The Idea and Its Detractors

The idea of systematically privatizing public land gained some popularity at the beginning of the twentieth century, partly as a reaction to what some saw as the overreaching of Theodore Roosevelt and the national government in dealing with federal lands. Just as they would argue at the century's end, proponents claimed that privatization would increase the tax base and help to make land use decisions more in touch with the free market. But the idea never really took off, despite the recommendations of the second Hoover Commission (which was much more ideological than its predecessor) and a major political push by ranching and grazing interests in the 1940s. The privatization cause did gain some momentum when the agencies managing

the land endured several instances of bad press. In 1975, the Bureau of Land Management estimated that “83% of its rangeland was in environmentally ‘unsatisfactory’ or worse condition because of overgrazing.”²²

Some in academia used such statistics to argue against keeping land in government hands. With increasing numbers dissatisfied with government control of public lands, many thought along with Charles Schultze that it was time to stop leaving decisions to the “command and control techniques of government bureaucracy” and to “creat[e] incentives so that public goals became private interests.”²³ One public lands authority, Marion Clawson, made the case in the highly regarded journal *Science*, made the case that the country’s national forests were a “great national asset” that was “poorly managed and unproductive,” largely due to the fact that “no charge is made for [their] use.”²⁴

Although Clawson really desired tougher, not less, governmental control of the lands, such facts could only have helped the antigovernment ideology that rose in political importance in the 1970s and 1980s and became an important component of the movement to privatize public lands. One of the key intellectual foundations of this conservative movement was privatization supporter William Tucker’s *Progress and Privilege* in which he portrayed public lands as being grossly mismanaged by well-intentioned but misguided federal bureaucrats.²⁵ Some of government’s actions, these scholars felt, were not even well-intentioned. Why did President Reagan’s privatization of public lands have a hard

²²Frank J. Popper, “The Timely End of the Sagebrush Rebellion,” *Public Interest* 76 (1984): 66-7.

²³Roger Meiners and Bruce Yandle, *Regulation and the Reagan Era* (New York: Holmes and Meier, 1989), 140.

²⁴Marion Clawson, “The National Forests,” *Science*, 20 February 1976, 762, 767.

²⁵William Tucker, *Progress and Privilege: America in the Age of Environmentalism* (Garden City, NY: Anchor Press, 1982).

time getting started? Because bureaucrats, some said, hoard government assets in a selfish attempt to retain their power over them. It was the belief of these scholars that only privatization would cure this “cancer from within.”²⁶

Nowhere did the antigovernment feeling manifest itself more than in the Grace Commission, a body appointed by President Reagan with the stated mission of reducing government waste. The commission’s report can be seen as the dogmatic embodiment of the Reagan administration and the public choice movement which inspired it. Its primary arguments were rooted in an intense, deep suspicion of government that would be a hallmark of the Reagan years.

It was the commission’s view that there was not nearly enough competition in the provision of government services to keep the public sector efficient. In fact, inefficient management was often rewarded, as it frequently led to increased staff levels and more money for an agency.²⁷ Part of the reason the report gave for agencies not being punished for their mistakes was that they could always depend on intense political support from interest groups that supported them. A large part of the answer for the commission was, not surprisingly, to privatize. If the private sector produced more goods and services, finally producers would be in place who would experience the rigors of competition and thus be forced to be efficient or relinquish the rights of production. Just as many scholars favoring privatization argue, the commission’s report made a distinction between providing a service and producing it, asserting that while it was government’s job to make sure that selected goods and services are provided, there was no reason why the public sector should be presumed to be the appropriate producer. As with most presidential commissions, not many of the report’s recommendations were implemented. The commission’s importance lies not in its tangible effects on policy, however, but in its

²⁶Steve Hanke, “The Privatization Debate: An Insider’s View,” *Cato Journal* 2 (1982): 660-1.

²⁷President’s Private Sector Survey on Cost Control, *Report on Privatization* (Washington D.C.: U.S. Government Printing Office, 1983), vii.

contribution to and symbolism of the anti-government ideology of the day, a belief system that led to Ronald Reagan's conviction that public lands should not be turned over to the states, but rather privatized.

In addition to the ideological arguments surrounding the issue, there were multiple debates about the policy effects of public lands privatization. The administration tried to draw attention to the large financial gains that would be achieved through privatization, at one point boasting that \$4 billion annually could be raised through the sale of public lands.²⁸ The administration also asserted that neither the amount nor the quality of the land being proposed for privatization was nearly as significant as environmentalists feared. According to the administration, national parks and wilderness areas were off-limits and, at first, only 5% of federal property would be sold.²⁹

Proponents also claimed that the supposed negative effect on people's enjoyment and use of any land that was privatized was vastly overrated. Buyers were not necessarily developers and, in fact, often were very interested in preserving the land and sometimes were more capable of doing so than government. And what good was the land anyway if people became so concerned with protecting it that they could not even use it for their enjoyment and prosperity? In choosing between protecting the land and developing it, candidate Reagan had made his priority clear in his speech accepting the Republican presidential nomination, as he stated that efforts to use more natural resources for energy development "must not be thwarted by a tiny minority opposed to economic growth which often finds friendly ears in regulatory agencies for its obstructionist campaigns." Reagan felt it was necessary "to reaffirm that the economic prosperity of our people is a fundamental part of our environment."³⁰

²⁸Abrahams, "This Land," 13.

²⁹Philip Shabecoff, "Watt Removes Agency's Land From Sale Plan," *New York Times*, 28 July 1983, sec. A, p. 1.

³⁰"Reagan: 'Time to Recapture Our Destiny,'" *Congressional Quarterly Weekly Report* 38 (1980): 2063-6.

The opposition to the proposed privatization was predictable in some respects, but very surprising in others. One of the opponents' stronger arguments was their admonition that even if the most rosy financial forecast of \$4 billion a year from public land sales was achieved, it was a drop in the fiscal bucket when it came to reducing the national debt. In any case, the Congressional Budget Office said that expecting even half that amount was optimistic. Opponents also pointed out that the administration was expecting that kind of payback for what (by their own admission) was second-rate land. Some worried that this was a recipe for creating an unacceptable decline in property prices, especially given the recession occurring at the time.

As is typical of most sets of arguments against privatization, the quantitative assertions made by opponents were less vital to their case than the more intangible points. A large part of the argument the policy's detractors made was simply that some things in life are more important than economic efficiency. Is more efficiency worth ranchers being kicked off the land their family had occupied for generations just so it can be sold to the highest bidder? Is it worth it to have public lands exploited for their natural resources? Privatization supporters claimed that neither of those unfavorable outcomes would occur, and one can only assume they did not want them to happen. But opponents feared that once the selling started, the government would be unable to stop the private sector from undermining the public good for private gain.

In the end, the arguments of its opponents and the political ineptitude of its proponents scuttled the public lands privatization movement. But before the battle was over, the Reagan administration would anger not only its traditional adversaries, but many supporters, including the Sagebrush rebels who had so enthusiastically supported his candidacy.

Reagan Disappoints the Rebels

At first glance, one would think that the Sagebrush Rebels and our fortieth president would be a match made in heaven. Reagan did nothing before the election to dissuade anyone from this notion. At a campaign stop in Idaho Falls, Idaho, that fall, Reagan had proclaimed, “We can turn the Sagebrush Rebellion into the Sagebrush Solution.”³¹ Shortly after the election, President Reagan again enthusiastically supported the rebels, saying that his administration would work to “insure that the states have an equitable share of public lands and their natural resources.”³² But after the euphoria of November 1980, strains in the union began to show. Almost immediately after the election, rebels noticed that not only did the President-elect stop referring to the rebellion, members of the new administration began to speak in glowing terms of a “Good Neighbor” policy, in which the federal government would merely ease restrictions on land usage, but still control it. The rebels’ euphoric post-election hopes were deflated, and the rebels and Reagan were never on very good terms again.

The reason Reagan chose turning public lands over to the private sector instead of the states is that few people in his administration who were heavily involved in the issue favored the rebellion. Incoming Secretary of the Interior James Watt made it clear at his confirmation hearing that he was no fan of the rebellion when he was asked if he supported large land transfers from the federal government to the states. “I do not think that is needed,” he said. “That is not the first order of priority, certainly. What we must do is defuse the Sagebrush Rebellion.”³³ One of the primary authorities on the issue, Council of Economic Advisers member Steve Hanke, strongly favored privatization as

³¹“West Senses Victory,” 30.

³²Judy Gibbs, “Reagan Sends Message of Support to Sagebrush Rebels,” *Associated Press Wire*, November 1980.

³³Nelson, *Public Lands*, 177.

well. One speech given by Hanke in 1981 to the Public Lands Council, a key group supporting the rebellion, made clear his preference: "It makes no difference whether there is federal or state control over public lands...The only way to improve the productivity and efficiency of public lands is to privatize them."³⁴ With those two key advisors more fond of privatization than state government control, the rebels never had a chance.

The Privatization Push

With the question now decided within the administration, it was full steam ahead on the privatization of public lands. 1981 had been spent deciding to pursue the policy, and 1982 was seen as the time to get it done. In fact, a flurry of proposals for privatizing other areas also took place, including proposals to turn Amtrak, Conrail, National Weather Service satellites and a wide range of governmental assets over to the private sector. As for public lands, the President formally endorsed the goal of privatizing them in February 1982 in his Budget Message for FY 1983:

The administration proposes to undertake a concerted program to dispose of unneeded federal property. Properties to be identified for disposal include assets excess to the needs of federal agencies holding them, property of significantly higher value in private rather than in public use, public lands that cannot be efficiently managed due to the small size and location of the parcels, public lands in urban or suburban areas that hinder local economic development and lands acquired during the development of water resource facilities but no longer necessary to the day to day operation of those facilities.³⁵

In April, Reagan proposed opening new tracts of public land to resource development, saying that it would go a long way toward lessening America's dependence on foreign oil. That same month, Reagan invoked the Federal Real Property and

³⁴Abrahams, "This Land," 18.

³⁵Executive Office of the President, Office of Management and Budget, *Major Themes and Additional Budget Details: FY 1983* (Washington, D.C.: U.S. Government Printing Office, 1983), 258-9.

Administrative Services Act of 1949 to establish a Property Review Board as part of the Executive Office of the President. Reagan directed the Board to perform a central role in ensuring that “real property holdings no longer essential to [government’s] activities and responsibilities are promptly identified and released for appropriate disposition.”³⁶ The board became the formal body for handling the primary public lands program in the Reagan administration, often called the Asset Management Program.

Public Lands Privatization Under Attack

Some conservative thinkers, many of the same ideological ilk as Reagan, began to favor the privatization policy, one of them saying that the new stance was partly because “we’ve had to face the fact that the federal government was not going to give one-third of America to the states for nothing.”³⁷ But not everyone was pleased. Some of the groups were predictable in their opposition to the proposed policy. Terry Sopher, public lands specialist for the environmentalist Wilderness Society, summarized the feelings of environmentalists well: “It is time for the privatization scheme to be revealed for what it is: a land grab to provide immense profit to a few at the expense of present and future generations.”³⁸ Some in Congress were also not pleased with the privatization program, adding the additional concern that the statutory basis for it, the Federal Real Property and Administrative Services Act of 1949, “did not apply to lands in the public domain.”³⁹

More damaging to the administration’s efforts was that many ideological conservatives from the West who would normally favor privatization became unhappy with the Asset Management Program when it started to involve privatizing lands in their

³⁶Ronald Reagan, Executive Order 12348, 25 February 1982, in *Public Papers of the Presidents: 1982*, 220.

³⁷Meiners and Yandle, *Regulation*, 144.

³⁸Senate Committee on Energy and Natural Resources, *Inventory, Management and Disposal of Federal Real Property*, 97th Cong., 2d sess., 18 May 1982, 121.

³⁹Joseph A. Davis, “Congress Decidedly Cool to Reagan Land Sale Plan,” *Congressional Quarterly Weekly Report*, 40 (1982): 1688.

state. Some of the sources of opposition were striking, including Reagan stalwart Nevada Senator Paul Laxalt (R-NV), who suggested that ranchers be given an opportunity to buy the land first before it went for general sale, and conservative columnist George Will, as avid a Reagan supporter as there was in journalism, who called the program “economically improvident” and “environmentally rash.”⁴⁰

Out of all the opponents of the privatization of public lands policy, surely one group that could have been brought on board as supporters were the members of the Departments of Interior and Agriculture. A look at the members of the Property Review Board as listed in the Executive Order reveals one possible reason for their opposition:

The Counselor to the President; Director, Office of Management and Budget; Chairman, Council of Economic Advisers; Assistant to the President for Policy Development; Chief of Staff and Assistant to the President; Assistant to the President for National Security Affairs; and such other officers or employees of the Executive Branch as the President may from time to time designate.⁴¹

Striking about that list is that *no* board members came from the Departments of Agriculture and Interior, a very questionable decision since those two departments would have a great deal of responsibility for implementing the policy. There is probably no greater manifestation of the Reaganites’ failure to appreciate their policy’s political consequences than their expecting agencies who had little or no part in developing these major policy changes to implement them faithfully.

Perhaps none of this opposition would have been enough if there had been even one major interest group motivated to argue on privatization’s behalf, but save for a small group of conservative academics, there was not. As a result of this and the Reagan administration’s unwillingness and inability to lobby effectively for the policy change, the political challenges of the new policy began to discourage administration officials even

⁴⁰George Will, “Protecting the Land,” *Bloomington Pantagraph*, 19 August 1982, sec. A, p. 2.

⁴¹Ronald Reagan, Executive Order 12348.

before the year was out. At one meeting of the Public Lands Advisory Council, the Assistant Secretary of the Interior for Land and Water said he “abhorred the word privatization and asked that the council members never use it.”⁴²

Watt Was He Thinking?

The administration’s public lands program was getting attacked from almost every corner, and Reagan’s choice to head the department that would have primary responsibility for implementing the privatization program proved to be a political liability to a degree seldom seen in national politics. Beyond all the analysis of interbranch tension, interest group and western resistance, and the rest of the Reagan team’s missteps that contributed to the proposal’s downfall, some of the President’s political troubles on the privatization issue could be attributed to Interior Secretary James Watt. Watt was a public relations disaster, with a genuine gift for offending political friend and foe alike.

To be fair to Watt, the privatization of public lands was a tough product to se, as we have seen that it attracted opposition from many sides. Ironically, Watt himself was not as fond of privatization as some other members of the Reagan administration because he feared the loss of revenue and control over oil and gas leasing resulting from the lands’ sale.⁴³ Fairly or not, he became the person primarily associated in the public mind with the Reagan land policy, and when opposition to it crystallized, Watt’s image suffered. But it was not really Watt’s policy views that made him so unpopular. It was his language. He was never shy about letting everyone know where his political preferences lay. Less than two months into Reagan’s term, Watt made it clear that the administration would put increased emphasis on “recovery of strategic and critical minerals” and on “access to the public lands by the private sector.” Watt also made clear his

⁴²Hanke, “Privatization Debate,” 661.

⁴³Robert Durant, *The Administrative Presidency Revisited* (Albany, N.Y.: State University of New York Press, 1992), 52.

antienvironmental leanings, saying, “I will err on the side of public use against preservation.”⁴⁴ He even failed to list conservation as one of the four cornerstones of his conservation policy, listing instead “a sound economy, orderly energy development now to prevent development later in a crisis atmosphere, making resources available to the people for their enjoyment and use and giving states and the private sector a larger role in resource management.”⁴⁵

Ever belligerent and bellicose, Watt put his foot in his mouth constantly during his time in the Reagan administration, saving his most venomous rhetoric for environmentalists, several times comparing them to Nazis. He also asserted that they were only out to weaken America and to institute “centralized planning and control of society” and that they were “the greatest threat to the ecology of the West.”⁴⁶ This was only a small sample of the plethora of instances in which Watt described his political opponents in language that most people deemed too divisive.

The environmental movement must have been grateful in a sense for Watt’s indiscreet behavior. He was certainly one of the single greatest uniters of the environmental movement during the 1980s, providing it with a powerful adversary on which to focus its energies. Since he was the person primarily associated with the privatization effort, his verbal gaffes were surely a major factor in killing the new public lands policy they abhorred.

Watt tried to keep a lower profile in 1983, but when he did speak publicly, his comments were as controversial as ever. The final rhetorical straw, in the fall of that year, was a statement ridiculing Affirmative Action programs in which Watt joked that an Interior Department Advisory Committee had every sort of “mix you can have. I have a

⁴⁴Kathy Koch, “Reagan Shifts US Policies on Public Land Management,” *Congressional Quarterly Weekly Report* 39 (1981): 1899.

⁴⁵*Ibid.*, 1902.

⁴⁶Short, *Ronald Reagan*, 52, 70

black, I have a woman, two Jews, and a cripple. And we have talent.”⁴⁷ After that remark, eight of the eighteen Republican senators from the West either demanded his resignation or refused to express their support for him.⁴⁸ He stepped down amid a political furor on October 10, 1983. After Watt’s resignation, the controversy around him died. But the Reagan administration never regained its political footing on the privatization of public lands, and one wonders if Reagan would have had more success with the issue had Watt not been in the picture.

The Idea Begins to Fade

By 1983, the privatization of public lands proposal was in dire political straits. One political assessment at the beginning of that year intoned:

The administration’s plan has alienated state and local government officials, cattlemen, sheep raisers, and the millions of people who use the public lands for recreation, not to mention the environmentalists who recoil when Watt boasts that federal land sales will turn sheep pastures into industrial sites and deserts into resorts.⁴⁹

In the summer of 1983, the administration acknowledged as much, with an aide to Interior Secretary Watt calling the Asset Management Program “a political mistake and liability to President Reagan.”⁵⁰ Perhaps this was why Watt started to back away from calling the AMP “privatization.”⁵¹

The political adjustments made by Watt and the administration were not enough to save the policy, and in the summer of 1983 the administration took steps to end its push for the privatization of public lands. On July 15, Watt announced that an agreement

⁴⁷Ibid., 78.

⁴⁸Ibid.

⁴⁹Abrahams, “This Land,” 18.

⁵⁰Shabecoff, “Watt Removes Agency’s Land.”

⁵¹Short, *Ronald Reagan*, 69-70.

had been reached to remove privatization decisions from the jurisdiction of the Property Review Board. Three days later, without specifying exactly what the mistakes were, Watt wrote western governors, "The mistakes of 1982 are not being, and will not, be repeated."⁵² Later that month, Watt quietly removed Interior Department lands from consideration for privatization, striking a death blow to any significant change in policy. The administration had pledged to raise \$9 billion through the sale of Interior Department property, but fell \$8.6 billion short before giving up on the idea entirely. In the end, very little public land under any department was privatized under Reagan. In fact, more public land was privatized during any of the single years from 1950 to 1968 than in the entire period from 1974 to 1983.⁵³

Too Little, Too Late

As the budget deficit grew in the mid-1980s, the Reagan administration was hopeful that the flowing red ink under which the federal government was operating would compel Congress to give fresh consideration to ideas to cut government, including privatization.⁵⁴ Thomas Gale Moore, head of the last White House task force on privatization, surmised, "I'm optimistic we can succeed now, if we get our strategy thought out. In the past, they've been able to thumb their nose at threats to cut subsidized operations, but under Gramm-Rudman their subsidies may actually be cut, and they're now willing to take a new look at it."⁵⁵ The administration also began to listen to some scholars such as Stuart Butler who thought that the reason privatization did not win people's hearts was that few had a financial stake in privatizing. With that in mind, in

⁵²Nelson, *Public Lands*, 197.

⁵³*Ibid.*, 193.

⁵⁴There is some speculation even from some of Reagan's closest aides that Reagan constructed such a fiscal scenario in an effort to increase public sentiment for government cutbacks. See David Stockman, *The Triumph of Politics: How the Reagan Revolution Failed* (New York: Harper and Row, 1986), 149.

⁵⁵Michael Wines, "A Federal Garage Sale: Means to a Private End," *Record*, 6 February 1986, sec. A, p. 26.

1986 the Office of Personnel Management attempted a Federal Employee Direct Corporate Ownership Plan, in which federal employees from agencies in which some privatization had occurred would have an opportunity to purchase ownership stock in the companies performing their privatized functions.

Reagan also issued an Executive Order in 1987 cutting department budgets with the expectation that agencies would achieve savings through privatization.⁵⁶ His budget for Fiscal Year 1987 called for substantial privatization, including the sale of the Naval Petroleum Reserve in California, the Federal Housing Administration, and the Power Marketing Administration, a government-owned corporation that sells electricity generated by federally owned dams.⁵⁷ The accompanying budget message named privatization as one of the centerpieces of a far reaching government reduction program, saying “the government should not compete with the private sector to perform ‘commercial type operations.’”⁵⁸ But without an active presidential push, the issue was never gripping enough to excite people. Reagan’s support was never more than half hearted, as his involvement in the issue was almost always in the form of limited administrative steps. Towards the end of the privatization battle, Reagan did what many presidents do when they want to give the appearance of taking action while not expending energy or capital. He appointed commission after committee after study group--six of them by 1987--to tackle the privatization issue.⁵⁹

Reagan never came close to going out on a political limb for privatization, and not surprisingly, conservatives were disappointed with his efforts on the issue. Well into Reagan’s second term, one leading publication wrote, “Uppermost in the thoughts of policymakers must be the politics of privatization. The Reagan administration appears to

⁵⁶Ronald Reagan, Executive Order 12615, 19 November 1987, in *Private Papers of the Presidents: 1982*, 1356-7.

⁵⁷John A. Barnes, “The Failure of Privatization,” *National Review* 38 (1986): 38.

⁵⁸Executive Office of the President, Office of Management and Budget, *Budget of the United States Government: FY 1987* (Washington D.C.: U. S. Government Printing Office, 1987), M6.

⁵⁹“The Making of a Privatization Boondoggle,” *Newsweek*, 21 September 1987, 57.

be heading down the path that led to a dead end four years ago.”⁶⁰ *Newsweek* writer John McCormick asserted two years after the end of Reagan’s presidency, “Privatization’s greatest disappointment may have been Ronald Reagan.”⁶¹ Four years earlier, *Newsweek* had mocked Reagan’s six tries at creating a governmental entity that would promote privatization successfully. The article cited the millions of dollars spent by the panels, quoted former Reagan political ally Stuart Butler as saying they have accomplished nothing, and then ended the article with the sarcastic query, “Still wondering why the government needs the private sector’s help?”⁶² Perhaps such cynicism about government would be pleasing to this anti-government president. But if Reagan wanted to leave the impression that the government became leaner and more efficient under his leadership, it is plain from such quotations that his effort was largely unsuccessful.

Reagan’s Record Debated

A number of facts can be cited in President Reagan’s defense. Certainly, any president can only do so much without congressional approval, and in stark contrast to the Clinton years, Congress was generally not supportive of privatization during the 1980s. Many statutes were in fact written to discourage privatization, and sometimes in fact, to prohibit it.⁶³ Nevertheless, Reagan did record two notable privatization successes with Conrail and the National Consumer Cooperative Bank. As for public lands, Reagan’s defenders would note that the administration was hindered by the 1982 recession’s effect on land prices and by the realization that while some of the land was extremely resource rich, much of it was not and thus was decidedly unattractive to many buyers.⁶⁴ The

⁶⁰Barnes, “Failure,” 61.

⁶¹John McCormick et al., “Taking the Town Private,” *Newsweek*, 4 March 1991, 54.

⁶²“The Making of a Privatization Boondoggle,” 57.

⁶³William Schmidt, “West Upset by Reagan Plan to Sell Some Federal Lands,” *New York Times*, 17 April 1982, sec. A, p. 1.

⁶⁴Popper, “Timely End,” 71.

Reagan team might even point out that complaints about how little land was sold (or proposed for sale) is vindicating, as it suggests a balance in their policy for which they are not often given credit.

One could understand why conservatives were frustrated with how little privatization happened on his watch. Some of the statistics are not kind to Reagan. Perhaps none of them better symbolizes the dashed hopes of conservatives than the bitter recitation in a 1987 Heritage Foundation report that fewer than 6000 civilian agency positions had been reviewed by Reagan as potential candidates for privatization after the conservative Grace Commission report had recommended that over 500,000 could be contracted out.⁶⁵ Indeed, Ronald Reagan's second Office of Management and Budget Director, James Miller, acknowledged, "Despite the best efforts of those in charge, between 1981 and 1986, the Reagan administration assessed privatization possibilities in government programs and activities affecting only some seventy thousand government positions."⁶⁶

Looking beyond the numbers, Reagan unquestionably changed the basic debate in American politics as to how much government should do. Despite his failings on the privatization front in the eyes of many conservatives, even those critics would still credit Reagan for placing the concept of government reduction high on the national agenda. In this sense, the Reagan years were a signpost for what lay ahead--serious discussions by both Democrats and Republicans not about whether, but about by how much, government should be reduced. Not many would claim that Reagan is entirely responsible for the increased receptiveness to privatization and government reduction that has occurred over the last twenty years, but his contribution to the dialogue is undeniable.

⁶⁵Stephen Moore and Stuart Butler, eds., *Privatization: A Strategy for Taming the Federal Budget* (Washington D.C.: Heritage Foundation, 1987), 65.

⁶⁶James C. Miller III, "Privatization: Challenge and Opportunity," *National Forum* 60, no. 2 (1990): 38.

How It Went Wrong

In his autobiography, former House Speaker Thomas “Tip” O’Neill wrote about Reagan’s predecessor, Jimmy Carter: “Ultimately, a president is judged by the legislation he initiates, and this is where Carter’s political problems come home to roost...The President just didn’t understand how to motivate Congress.”⁶⁷ Few said that about Carter’s successor, as the Reagan administration earned a reputation of being politically astute in its dealings with the legislative branch. Most of Reagan’s staffers who worked on the privatization issue, however, were academics who, while they possessed strong and sincere conservative beliefs, seemed to have a much greater sense of sound economics than smart politics.

The Reagan administration’s shortcomings were not just another case of a policymaker failing to realize the ideological consequences of a decision to privatize. Sometimes Reagan’s team fell into that trap, as when Office of Management and Budget Director James Miller termed privatization “nonideological...whether your state or local officials are deep-eyed liberals or rock-ribbed conservatives.”⁶⁸ More often, however, the Reagan administration took tough ideological stances and pursued the project with an almost religious zeal. Its problems with privatization often stemmed from a failure to realize the importance of dealing with the political consequences of those choices. It often did not even try to assuage the concerns of environmentalists, ranchers, western governors and all others with reservations about the new policy, and at times seemed almost determined to anger them. Apparently Reagan’s people believed the ideology behind the policy would sell itself, as they frequently focused on the economics of the public lands debate rather than its politics.

⁶⁷Tip O’Neill and William Novak, *Man of the House: The Life and Political Memoirs of Speaker Tip O’Neill* (New York: Random House, 1987), 318, 320.

⁶⁸Miller, “Privatization,” 39.

This attitude proved to be a crucial miscalculation. Reagan's team would have done well to heed the words of Madsen Pirie, President of the Adam Smith Institute, a prime mover behind the British privatization movement that was so admired by Reagan and his staff. Pirie, though a tried-and-true conservative ideologue, still recognized the importance of political considerations, saying "The first thing you have to remember is that privatization is primarily a *political* rather than an *economic* issue."⁶⁹ Unfortunately for their hopes, the Reagan administration's movers and shakers on the privatization question failed to appreciate the issue's political subtleties, seeing it only in budgetary, economic, and ideological terms.

As the Reagan years went on, many of the conservative academics who had been in the administration in the early 1980s resigned, partly out of disillusionment with what they felt to be Reagan's lack of attention to the issue. Steve Hanke, the strongest privatization supporter in Reagan's administration, turned out to be one of the President's sharpest critics, penning scathing criticisms of Reagan's privatization effort.⁷⁰ The disenchantment felt by conservatives fed on itself, as their departure left the administration without its most ardent privatization backers. However, partly as a result of Hanke and some others leaving Reagan's team, the privatization advocates who remained in the administration near the end of Reagan's term had a greater sense of political awareness. Although this development was too little and too late to make a real difference, it is interesting to note the great difference in tone between the first presidential commission that dealt with the privatization issue, the aforementioned Grace Commission, and the last, the Linowes Commission.

Perhaps the most common complaint about the early Grace Commission was that it was an angry bull in a china shop, as hostile to government as it was clueless of

⁶⁹Barnes, "Failure," 38.

⁷⁰For example, see Steve Hanke, "Would the Real Mr. Reagan Please Stand Up?" *Christian Science Monitor*, 23 March 1983, 23.

political realities. Many correctly predicted that “the Grace Commission proposals will fail because of their politically unacceptable consequences.”⁷¹ Contrasting that report with the Linowes one is quite instructive. The anti-government assumptions of the Grace Commission were still there with the Linowes report, as it spoke in public choice language: “Self-interested government workers will seek to maximize their pay [and] reduce their workload.”⁷² But fiery rhetoric aside, the methods suggested by the Linowes Commission for implementing policies to reduce government are markedly gradual, centrist, and conciliatory. The report’s introduction sets the tone by saying, “We opt for incremental approaches...We recognize that the American people are not likely to embrace initiatives that depart too widely from their traditional experiences.”⁷³ For the Linowes Commission, efficiency concerns did not get in the way of what is good politics, as it recommended “any staff reduction resulting from the implementation of commission recommendations should be handled through attrition.”⁷⁴ Whether or not attrition is the most sound management tool for job reduction, its recommendation, like much else in the Linowes report, was in stark contrast to the Grace Commission’s approach in that it represented an attempt to put political expediency on at least as high a plane as economic principle.

The Implications of the Reagan Privatization Experience

By the time the Reagan administration learned the hard way how politically dangerous privatization can be, most of the political momentum Reagan enjoyed in the early 1980s was gone, and the moment to privatize had passed. One can fault Reagan’s

⁷¹Walter Baber, “Privatizing Public Management: the Grace Commission and Its Critics,” *Proceedings of the Academy of Political Science* 136 (1987): 159.

⁷²President’s Commission on Privatization, *Privatization: Toward More Effective Government* (Washington D.C.: United States Government Printing Office, 1988), 243.

⁷³*Ibid.*, xi.

⁷⁴*Ibid.*, xv.

team on several fronts for its handling of the issue. Many members of Reagan's team were not politically savvy when it came to privatization, and the policy area they chose to make the focal point for the effort was a political minefield. But the reality of privatization is that, ultimately, significant amounts of it are very difficult to sell to voters at the national government level. As explored in chapter one, a tendency among the populace is to want Hamiltonian government on a Jeffersonian budget. As shown in the public lands debate, many people like the idea of small government, but not the loss of benefits or privileges that may accompany it. This presents a political problem for privatization supporters because, loathe as they are to admit it, privatization frequently results in cutbacks or, at the very least, changes in a program's services or benefits.

President Reagan's failure with public lands policy stemmed in part from the way he framed the issue of privatization. Unlike President Clinton, who later emphasized a dialogue about what should properly be considered a public or private sector function, Reagan tried to win public support by urging the wisdom of a conscious effort to reduce government.⁷⁵ Convincing people that particular policy direction is wise is undeniably a great political challenge, one that Reagan's team was not up to meeting. The overzealousness of his administration's approach when it came to privatization discouraged dialogue, even though debate about government's proper role is the only way substantial privatization can occur. Some might use Reagan's lack of success privatizing as evidence of the dangers of ideological stridency. It is more accurate to see his failure to privatize extensively as a good illustration of the paramount importance of compromise and respectful dialogue with one's opponents, and of the central reality that being a strong ideologue does not preclude such necessary steps.

⁷⁵Privatization was described in the FY 1988 budget as "a national counterpart to other administration initiatives--such as federalism, deregulation, and an improved tax system--that seek to return the federal government to its proper role." Executive Office of the President, *Budget of the United States Government: FY 1988* (Washington D.C.: U.S. Government Printing Office, 1988), 2-44.

CHAPTER 5

THE CLINTON YEARS

If one were to ask even the most astute observer of American politics which administration was being described by the conservative Heritage Foundation when it proclaimed, "The combination of a new commitment to privatization among Members of Congress and the endorsement and support of the President for many privatization projects has dramatically altered the political environment and contributed to unprecedented success,"¹ most would guess the Reagan administration, and they would be wrong. Bill Clinton was a more successful privatizer than Ronald Reagan or any other twentieth century president, and it is important to ask why.

Three primary reasons can be offered. First, the Clinton administration stood in contrast to Reagan's in its ability to have a dialogue with political opponents and in its willingness to compromise. The privatization of the United States Enrichment Corporation, charged with dealing with spent nuclear fuel, was attempted in the Reagan administration and met with heavy resistance. It happened under Clinton, largely through what the Heritage Foundation called "a study in how to win through accommodation."² Second, the Clinton team picked less controversial subjects for privatization than did Reagan's. In contrast to Reagan's attention to volatile issues like public lands, Clinton generally stayed away from privatizing in politically divisive policy areas. The third main factor was contextual - the substantial consensus that existed among Republicans and Democrats over the wisdom of privatization. While Reagan did not privatize a lot himself, one could make a strong case that he changed the dialogue about how much government should do. "It is not government's obligation to provide services," said one

¹Ronald D. Utt, "Transferring Functions to the Private Sector," in *Mandate for Leadership IV: Turning Ideas into Actions* (Washington D.C.: Heritage Foundation, 1997), 144.

²*Ibid.*, 143.

leading politician during the Reagan era, “but to see that they are provided.”³ It would surprise many to know that the politician in question was liberal icon and New York Governor Mario Cuomo. Support for privatization had by this time clearly crossed ideological and partisan boundaries.

One appropriate case study to illustrate the tactical approach of the Clinton administration as well as the political climate in which it existed is the history of the Federal Activities Inventory Reform Act [FAIR Act] of 1998. This legislation was designed to minimize (and in its earlier versions to eliminate) government competition with the private sector in providing goods and services. This had been an issue of varying intensity for much of the twentieth century, but the election of a Republican Congress in 1994, energized by what many political observers felt to be a conservative mandate, pushed the issue to the fore.

Many newly elected members, as well as the Speaker who led them, felt the private sector to be more efficient and effective than government in almost every instance, and thus early versions of the FAIR bill were given the more aggressive title, “The Freedom from Government Competition Act” [FGCA]. The act mandated that all functions not “inherently governmental” (a phrase laden with ambiguity) would be automatically privatized, even if a cost-benefit analysis showed that a government agency could do the job more efficiently. This provision, striking in its belligerence toward government and its faith in the private sector, would eventually die under political attack from Clinton and other Democrats as well as from public sector unions. But the revised legislation then took only two years from introduction to enactment, a reasonably quick resolution, given the cumbersome nature of the country’s law making process. Just as importantly, each side in the end got some of what it wanted. The story of the FAIR Act’s passage suggests that privatization initiatives, though fraught with much more

³Martin Tolchin, “More Cities Paying Industry to Provide Public Services,” *New York Times*, 28 May 1985, sec. D, p. 17.

political danger than most realize, are more likely to become law if the particular issue is not an emotional, divisive one, if both sides are willing to have a dialogue and to compromise, and if the political climate at the time is at least somewhat open to the privatization idea.

The FAIR Act's Roots

Most people would not be surprised that the issue of whether "commercial" functions should be carried out by the public sector had been discussed during the Reagan years. What is striking is the degree of importance with which the issue was viewed by many elements of the small business community. One prominent business publication listed government competition with the private sector as one of the two "best present prospect[s] for a big-gain issue" to help the small business community (and thus the chances of whichever party took up the cause) heading into the 1984 election.⁴

Senator Warren Rudman (R-NH), a moderate Republican, not markedly partisan or ideological, was the primary voice behind the Freedom from Government Competition Act of 1983. Although the bill never got past the committee hearing stage, it was the catalyst for debates which would surround the legislation a decade later. Rudman tried to tackle what would prove to be by far the most vexing of these issues, what could be considered a legitimate function of government, by asking three questions:

Does a legitimate national defense requirement exist for the production or provision of the good or service? Is production or provision of the good or service necessary to the legitimate managerial or fiduciary functions of government? Are competitive private sources available to supply the good or service?⁵

⁴Milton D. Stewart, "An Open Letter to the National Party Chairman: Your Small Business Advisory Group Could Make 1984 a Memorable Year for Legislative Issues," *Inc.* 5 (1983): 213.

⁵Warren Rudman, "Putting the Government Out of Business," *Inc.* 5 (1983): 16.

Rudman's cause failed during his time in the Senate and such legislation would not be introduced again in Congress until 1995. Once Reagan was out of office, an administration came to power less friendly to the notion of eliminating government competition or to almost any other privatization initiative. George Bush, who had spent many years in federal government service, for a time heading a government agency, was more supportive of federal government employees than his predecessor, calling them early in his administration, "the men and women whom I regard as some of America's finest."⁶ Bush gutted the federal privatization office and undertook no major initiatives in the area.⁷ This combined with the limited results of the Reagan privatization policies to cause great frustration among believers in small government. One member of the libertarian Cato Institute bemoaned, "There's no more privatization under Reagan and Bush than there has been under Gorbachev."⁸

A president not committed to privatization along with a Democratic congress stifled any chance that a significantly greater number of duties would be taken on by the private sector. In fact, much of the Bush years was spent with both the president and Congress studying whether the private sector was doing *too much* relative to government. As one scholar at the time observed, "Clearly the climate on Capitol Hill and in the administration is shifting from an ideological commitment to contracting out to its use as a tool only when it is undoubtedly in the best interests of the agency and taxpayers."⁹ President Clinton took a similarly practical approach to the issue, never privatizing with the ideological zeal that Reagan did. But he turned to privatization more as his administration progressed, and achieved greater success with the issue than had occurred during the Reagan era.

⁶George H.W. Bush, "Commentary: 'To Serve the American People,'" *PA Times* 12, no. 3 (1989): 2.

⁷A Search of *Public Papers of the Presidents* did not reveal any mention of privatization during the Bush presidency.

⁸McCormick et al., "Taking the Town Private," 54.

⁹Naff, "Labor-Management," 27.

New President, Still Little Privatization

The Bush administration's policy shift away from privatization was still present early in the Clinton administration. An Office of Management and Budget press release less than two months after Clinton's inauguration raised the possibility that perhaps government "does too much contracting out." OMB Director Leon Panetta asked agency heads to review their privatization policies in order to get a "fresh look" at contracting." Three questions were raised by Panetta:

- 1) Are existing contracts "accomplishing what was intended?"
- 2) Are there adequate procedures to monitor contracted services?
- 3) Are any of the contracted services inherently governmental and therefore inappropriate for contracting outside of government?¹⁰

One probably could have counted on one hand the number of people who would have asked such questions during the Reagan administration.

While the political atmosphere of the early 1990s was less hostile to government and its bureaucracy than during the Reagan years, there was still a great amount of distrust toward government, and such feelings among politicians and the populace are an enduring component in the American political psyche. Important to realize, however, is that President Clinton's response to the distrust was at first different from Reagan's. Rather than putting his focus on reducing government, the Bill Clinton of 1993 was intent on making it work better.

The 42nd President's Inaugural Address reveals a telling contrast with the Reagan years. Americans were not being told, as they were by President Reagan, that government was the problem. Instead, government was to be reformed and reworked in order to "make our government a place for what Franklin Roosevelt called bold, persistent

¹⁰Press release, Executive Office of the President of the United States, Office of Management and Budget, 16 March 1993.

experimentation.”¹¹ Consequently, the new president’s response to people’s discontent with bureaucracy was titled “Reinventing Government” [REGO] in which the primary focus was not on reduction but on reform. In fact, a key inspiration for the REGO initiative, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector* by David Osborne and Ted Gaebler, was explicit in asserting that the challenge was to stay away from debates focusing on more or less government. “Our fundamental problem today,” they wrote, “is not too much government or too little government. We have debated that issue endlessly...and it has not solved our problems...We do not need more government or less government, we need *better* government.”¹²

Opinion polls from the first two years of the Clinton administration revealed that the president’s efforts to portray himself as a genuine and effective reformer of government did not win him points with the American public.¹³ Few gave the president much credit for his reform efforts and, according to one report, the proportion of Americans who said government was too intrusive nearly doubled, from less than half in 1992 to more than three quarters in 1994.”¹⁴ This rejection of the president and the bureaucracy he led was confirmed in elections that year, as Republicans walloped Democrats at every governmental level, including taking control of both houses of the United States Congress.

It did not take long for the administration to react to the conservative tidal wave. The failure of Clinton’s 1993 health care bill had already started the idea percolating among Al Gore and others within the administration that perhaps reduction and not mere reform was the proper course. The election debacle gave their argument the political

¹¹ William Clinton, *Public Papers of the Presidents of the United States: 1993* (Washington D.C.: U.S. Government Printing Office, 1994), 2.

¹² Osborne and Gaebler, *Reinventing Government*, 23-4.

¹³ There is also no evidence that Vice President Gore drew much strength as a presidential candidate from his deep personal involvement as leader of the administration’s “reinventing government” efforts.

¹⁴ National Public Radio, 26 December 1994, transcript no. 1708-9.

momentum it needed within the White House. Two weeks after the Republican victory, Vice President Gore sent a memo to each department ordering it to justify each program under its jurisdiction or risk its being terminated, privatized or given over to state or local government.¹⁵ "There's a more serious intent," said one Department of Transportation official at the time, "at looking not just at how (agency) business is done but what business is done."¹⁶ When in the month after the election, Vice President Gore and OMB Director Alice Rivlin negotiated cuts totaling \$19.5 billion in the departments of Energy, Transportation, and Housing and Urban Development, it signaled the second phase of the Reinventing Government effort.

The Case for the Freedom from Government Competition Act

A Republican Congress and an administration newly committed to cutting government spending inspired renewed discussion and activity regarding the Freedom from Government Competition Act. Representative John Duncan (R-TN) introduced a bill in 1995 which was similar to Rudman's 1980s legislation. It quickly died in committee, but another legislative effort was made the following year. Perhaps the primary argument made for the FGCA was that the proportion of commercial jobs being done by the public sector was increasing, and many believed it would continue to do so. In an argument that could be taken right from public choice theory, proponents claimed that the procedure government used to determine the efficiency of the public sector relative to the private in performing a given job was biased toward government in order to ensure that its employees get to keep their jobs and government its power.

¹⁵Michael Kelly, "Rip It Up," *New Yorker*, 23 January 1995, 33.

¹⁶Stephen Barr, "Shaving the Fat, Sparing the Meat: Agencies Grapple with Reinvention Phase II," *Washington Post*, 30 January 1995, sec. A, p. 13.

One of the act's proponents claimed that "not one single agency uses A-76 competitions outside of the DOD"¹⁷ and that one reason for this was the pressure employees were under not to initiate the process of pursuing privatization. Proponents wondered if the act's opponents were so concerned with the fate of government workers whose duties get privatized (a danger the bill's supporters said was overblown), why they were also not concerned with employees "willing to risk their careers, jeopardizing potential career paths and future promotions"¹⁸ by initiating a public/private efficiency comparison.

Even when analysis was done regarding the efficiency of an agency versus the private sector in performing a given task, proponents argued, the document on which the process was based, OMB Circular A-76, was so full of loopholes as to be rendered nearly useless. Under A-76, one of the primary defenses agencies had against privatizing a given function was to claim that it was "inherently governmental." Senator Craig Thomas [R-WY] noted with disdain: "The U.S. Environmental Protection Agency claims that all 18,000 of its employees are doing inherently governmental work. However, the commercial activities EPA provides for itself include environmental laboratory testing, engineering, and mapping services."¹⁹ FGCA supporters angrily cited examples such as the 1997 ICEMAN [Integrated Computing Environmental Frame and Networking] incident in which the Agriculture Department won a sizable contract from the Federal Aviation Administration over the private sector powerhouse Electronic Data Systems to perform a number of major computer projects. The size of the contract irked some, as did the fact that it was awarded to a department whose jurisdiction was not computer work over several bidders who would seem more suited to the task. The FGCA was, in the

¹⁷"Weakened Government Competition Bill Clears Senate, House Holds Hearings," *Environmental Laboratory Washington Report* 9, no. 15 (1998).

¹⁸"Senate Hearing Builds Case for Opening Up Government Work," *Environmental Laboratory Washington Report* 8, no. 13 (1997).

¹⁹House Subcommittee on Government Management, Information and Technology, Committee on Government Management, *Hearings on HR716*, 105th Cong., 1st sess., 29 September 1997, 27.

view of its proponents, an effective way for government agencies to meet the dual goals of responding to demands on agencies to eliminate jobs while still remaining true to their core objectives.

The language in support of the FGCA was often strident. Warren Rudman's passionate defense of the FGCA contained the startling declaration that to accept the argument of the act's opponents "represents an acceptance of socialism, a theory that advocates governmental ownership and administration of the means of production and distribution of goods and services."²⁰ Another supporter spoke of "the cancer of government competition."²¹ The most intriguing aspect about such outspoken rhetoric is the somewhat ironic motivation behind it. Most of the act's supporters had such an enormous faith in the efficiency and efficacy of the private sector that they were willing to eschew competition if the competition led to the public sector performing activities they considered to be outside government's bounds. Supporters went so far as to say that even if a cost-benefit analysis showed that government could do the job more cheaply, it should still be turned over to the private sector because, so the act's supporters proclaimed, "Numerous studies confirm what we should all know intuitively: private companies can produce the commercial goods and services...more cheaply than government itself can."²² If a given function is available in the private sector and not part of the government's core functions, many FGCA supporters felt it is by definition the business world's to perform.

The steadfast faith in competition, so much a part of the ideology of many FGCA supporters, withered away when a government agency would follow the advice of

²⁰Rudman, "Putting Government Out of Business," 15.

²¹Milton D. Stewart, "An Open Letter to the National Party Chairman: Your Small Business Advisory Group Could Make 1984 a Memorable Year for Legislative Issues," *Inc.* 5 (1983): 213.

²²Rudman, "Putting Government Out of Business," 15.

Osborne and Gaebler for the public sector to become more “entrepreneurial.” In fact the term “entrepreneurial government” became taboo in the minds of government’s harshest critics:

Under the Clinton administration’s ‘reinventing’ government initiatives, agencies not only engage in commercial activities for their own use...but have become entrepreneurial and are marketing their services to other government agencies and the commercial marketplace.”²³

The reasoning that dictated “there ought to be competition, but the competition ought to exist within the private sector”²⁴ went against the reinventing government movement,²⁵ and thus it was not a surprise that Ted Gaebler was a vocal opponent of early versions of the FGCA. Even well-known privatizers had their doubts about the legislation.

Republican Stephen Goldsmith, admired by many as a pioneer in privatizing city services when he was mayor of Indianapolis, was cautious about supporting the FGCA, explaining that “mandated head-to-head competition between the public and private sector”²⁶ was at the heart of his privatization policy because in his view, that was the only method for determining what should be privatized.

The roots of this controversy lay partly in the 1994 Government Management Reform Act,²⁷ intended to utilize the Osborne-Gaebler thesis that the power of the market promotes governmental efficiency. A fund was established that would pay for more centralized administrative support services for a number of different agencies. Those agencies were thus encouraged through the law to compete with each other to provide

²³House Subcommittee, *Hearings on HR716*, 25.

²⁴“New Privatization Bill Hits the Senate Floor,” *Environmental Laboratory Washington Report* 7, no. 10 (1996).

²⁵Two of the primary works from the reinventing government movement are Osborne and Gaebler, *Reinventing Government*, and National Performance Review, *From Red Tape to Results: Creating a Government that Works Better and Costs Less* (New York: Times Books, Random House, 1993).

²⁶House Subcommittee, *Hearings on HR716*, 40.

²⁷*Government Management Reform Act*, Public Law 103-356, 103rd Cong., 2d sess., 13 October 1994.

services to other agencies and then receive payments from the fund. The business world was of course largely composed of believers in the forces of the market, and they were naturally inclined to support the bill, but only if they could share in its benefits by being able to win the contracts themselves. Interest groups formed to support such an idea, and they got a pronounced political boost when the award of the ICEMAN contract to the Department of Agriculture produced an uproar. The Government Management Reform Act, designed to appease pro-market forces, set events in motion which angered them more than ever.

Ironically, then, some of the groups that often criticized unions for being selfish in opposing privatization now seemed motivated themselves by self-interest in opposing government competition with the private sector. Furthering the irony, FGCA supporters used some of the same arguments unions had used against privatization for years, one supporter arguing "everyone...knows that procurement based on the lowest cost is not the best way to do it."²⁸ While this was a fair point, it was precisely the type of argument for which unions had been criticized as being interested only in protecting their own jobs. Taking note of a political group's self-interested motives should not be grounds to dismiss its arguments, for often honestly held beliefs are behind them. While it would be unfair to assume that this was not true in the case of FGCA supporters, one has to look no further than this legislation to confirm that boosters of privatization's cause as well as its opponents are motivated by more than just their sense of the public interest. While motivation cannot be proven, economic self-interest, which can be objectively demonstrated, does seem to be a marker for self-interestedness in many cases.

²⁸"ACIL Supports Bill, Says Commercial-Type Work Best Done By Private Sector," *Environmental Laboratory Washington Report* 9, no. 8 (1998).

The Case Against the Freedom from Government Competition Act

The forces opposed to the FGCA (a group which included the administration and for some time the General Accounting Office) argued that the USDA ICEMAN deal with FAA, far from being evidence for their adversaries' position, was just the opposite. The Agriculture Department had won the competition fairly by showing it could do the job more cheaply, and to deny the outcome was to deny the power of the market, thus betraying the ideological foundation of the act's supporters. FGCA opponents suspected that rather than being motivated by efficiency, supporters were driven by an irrational hatred toward government and its workers. Opponents of FGCA were concerned by the fact that the bill would result in downsized government workers trying to find work with other agencies at a time when the budgets of agencies around them were also being reduced.

As further evidence of their argument that supporters were putting ideology ahead of efficiency, opponents asserted that there were certain situations in which privatizing all elements of a program made no practical sense. A 1996 GAO report commenting on the act offered examples of those circumstances. They included situations when

services below a minimum value threshold where contracting would be cumbersome or inappropriate, a situation where flexibility is essential to the performance of a function, making it difficult to specify contract requirements in output form, and when some modicum of government capability would help provide government employees technical expertise to judge private sector performance.²⁹

But the biggest factor encouraging inefficiency, some said, was the very system which would be created by the FGCA, in which functions would be defined as either inherently

²⁹Senate Governmental Affairs Committee, *Federal Contracting: Comments on S1724, The Freedom from Government Competition Act*, 104th Cong., 2d sess., 24 September 1996, 4-5.

governmental or commercial and, if the latter, privatized automatically. Opponents claimed the law would lead to perpetual delays, as unions, interest groups, citizens, and many others haggled endlessly over what qualifies as “inherently governmental.”

There was evidence to believe that on this point at least, FGCA opponents were right. Bill advocates proclaimed a simple rule, “If it’s commercial in nature, it should be done by the private sector.”³⁰ There had always had been a belief that, in Warren Rudman’s words, the decision for or against governmental jurisdiction merely involves establishing a “simple and direct” standard by which to judge.”³¹ Since agencies had not used the Circular A-76 guidelines much anyway, the question had not been much of a distraction before. But when the issue had arisen, terms like “inherently governmental” proved difficult to define, and a law in place that mandated the privatization of any function not in that category would surely lead to the issue coming to the fore.

Circular A-76 had been updated constantly since its inception in 1966. When the first FGCA was proposed in the early 1980s, OMB through A-76 had offered only two criteria for what constituted a commercial function: the activity could not be inherently governmental and it had to be available at comparable quality from the private sector.³² In 1992, the Office of Federal Procurement Policy, under the jurisdiction of OMB, deemed a function “inherently governmental” as being one “that is so intimately related to the public interest as to mandate performance by government employees. These functions include those activities that require either the exercise of discretion in applying government authority or the making of value judgments in making decisions for the government.”³³

³⁰“New Privatization Bill Hits the Senate Floor,” *Environmental Laboratory Washington Report* 7, no. 10 (1996).

³¹Milton D. Stewart, “An Open Letter to the National Party Chairmen: Your Small Business Advisory Group Could Make 1984 a Memorable Year for Legislative Issues,” *Inc.* 5 (1983): 214.

³²Michael Laurie Tingle, “Privatization and the Reagan Administration: Ideology and Application,” *Yale Law and Policy Review* 6 (1988): 234.

³³Executive Office of the President of the United States, Office of Federal Procurement Policy, “Inherently Governmental Functions,” Letter 92-123, September 1992.

Not surprisingly, the standard for what is “inherently governmental” under the original Freedom from Government Competition Act was higher, allowing for fewer instances in which an agency could make a claim that a function was part of the government’s core responsibilities. The legislation was explicit in not including as inherently governmental:

1) gathering information for or providing advice, opinions, recommendations, or ideas to government officials 2) any function that is primarily ministerial or internal in nature (such as building security, mail operations, operation of cafeterias, housekeeping facilities operation and maintenance, warehouse operations, motor vehicle fleet management and operations, or other routine electrical or mechanical services.³⁴

The General Accounting Office was correct in concluding, “Activities exempt from the contracting requirement are likely to be substantially reduced from current practice,”³⁵ and the act’s creators deserved credit for at least attempting to demystify this difficult question. But honest attempts to define it aside, common sense dictated that opponents were probably correct in saying that experience, adjudication, and consequent adjustment would be the primary paths to achieving understanding on the issue.

There were, of course, lines that almost everyone agreed should not be crossed when privatizing. One obvious example frequently given is high-level international diplomacy. While no one suggested privatizing that, some proposals were offered and rejected because the activity was considered too integral to government’s functions. Proposals to contract out the Internal Revenue Service, for instance, received much criticism, even from right wing camps. The conservative Ludwig Von Mises Institute was a strong opponent of the plan, arguing:

³⁴*Freedom from Government Competition Act*, S1724, 2 May 1996.

³⁵L. Nye Stevens, United States General Accounting Office. Senate Committee, *Federal Contracting: Comments on S. 1724, The Freedom from Government Competition Act*, 2.

Are we not supposed to favor privatization over public provision? Generally, yes, but this is not the case. The authority to collect an internal tax is among the most dangerous powers of the central government. Contracting out to private providers only compounds the problem. A Congress working at the behest of the American people would restrain taxes, not make their collection more successful. No policy gimmick--and privatization certainly qualifies as that--can substitute for authoritative change in the role of government itself.”³⁶

The Von Mises Institute did not represent the thinking of the entire right wing. One can take as evidence of that the fact that the bill was proposed at all. But most agreed with the institute and thought privatizing the IRS was beyond the pale of what was wise or appropriate. Many of these questions, however, were not as easy to resolve. No definitive proclamations will be made for either side. But it can be said with certainty that the line between inherently governmental and not is rarely the straightforward, purely managerial standard some make it out to be. It is instead a line that people of good faith draw in different places, frequently reflecting dominant attitudes rather than logical deduction.

The Search For a Consensus:1995-1998, from FGCA to FAIR

The 104th Congress commenced in 1995 with leaders of the Republican majority believing they had a resounding message from the public to reduce government in any way possible, and privatization policies were natural outgrowths of this perceived mandate. True to its nature and due to the strong partisan leadership of Speaker Gingrich, the House of Representatives quickly became a hub of frenetic conservative policymaking.

Much time, energy, and debate was expended on the privatization cause during 1995, and fourteen separate bills were circulating in the House in September of that year. Representative Scott Klug (R-WI) was appointed head of the House task force to

³⁶Llewellyn Rockwell Jr., “Privatize Tax Collections?” *Washington Times*, 1 October 1995, sec. B, p. 1.

coordinate the effort, and, just as Republican icon Ronald Reagan had done, Klug began working on a plan to slash agency budgets in anticipation of savings they would achieve from contracting out.³⁷ Other members tried to build momentum for privatization by turning over the barber shop and many smaller congressional operations to the private sector.

The 1996 version of the FGCA was introduced on May 2 and its rigidity, mandating that *all* functions not inherently governmental be privatized, drew the ire of the Clinton administration. Such a provision, testified one key Clinton administration official, would only “limit competition...and government’s flexibility to seek the most efficient and cost-effective method of work performance...and thus may result in increased costs to the taxpayer.”³⁸ One set of voices noticeably muted in criticizing the act was that of the public sector unions. An explanation for their silence was offered by one writer at the time, “Privatization initiatives are seen as plausible alternatives to layoffs.”³⁹ Unions felt backed into a corner and feared that any attempt to oppose the political phenomenon of privatization and government reduction would be seen as being motivated purely by self-interest.

With the 1997 FGCA, a noticeable attempt took place to lessen the hostility toward the national government that had been an integral part of the 1996 version. A section was inserted into the new bill making “fairness for federal employees”⁴⁰ one of the objectives. Gone was a provision requiring that if a function had to be performed by government, a state or local entity had to do it if possible. Most significantly, rather than a definite privatization schedule being created which an agency was required to follow, a cost-benefit analysis procedure was introduced that would help determine in what sector a

³⁷Tom Shoop, “Shrinking Government,” *Government Executive* 27 (1995): 7.

³⁸Stevens, Senate Committee, *Federal Contracting: Comments on S1724, The Freedom from Government Competition Act*, 14.

³⁹Lisa Corbin, “Going Commercial,” *Government Executive* 26 (1996): 5.

⁴⁰*Freedom from Government Competition Act of 1997*, S314, 12 February 1997, section 4, part A, subsection 2, part B.

function was best performed. The new bill still mandated that agencies write regulations which would “emphasize preference for the provision of goods and services by private sector sources.”⁴¹

Despite the attempts at assuagement, the signals regarding how much an agency was required to privatize were mixed, confusing, and therefore still threatening to the act’s opponents. The 1997 bill, after all, was still called the Freedom from Government Competition Act, still had as its primary stated purpose “to require that the federal government procure from the private sector the goods and services necessary for the operations and management of certain government agencies” and still mandated in one part that “each agency shall procure from sources in the private sector all goods and services that are necessary for or beneficial to the accomplishment of authorized functions of the agency” and that “no agency may begin or carry out any activity to provide any products or services that can be provided by the private sector.”⁴²

The contradictory messages of the 1997 version of the FGCA yielded incongruous descriptions of the legislation’s true intent. The contradictions would in fact sometimes occur within the same set of comments. Testimony by one official from the General Accounting Office during a congressional hearing about the bill acknowledged that “S314 prohibits agencies from beginning or carrying out any activity to provide any products or services that can be provided by the private sector,” but two pages later claimed, “S314 neither encourages nor prohibits public-private competitions.”⁴³

The softer language of the bill was part of an attempt at conciliation, and that effort met with some success. A meeting that spring between the bill’s Senate champion, Senator Craig Thomas [R-WY], and representatives of the American Federation of Government Employees helped make amends. One of Thomas’s aides termed the

⁴¹Ibid., section 4, part A, subsection 2, part A.

⁴²Ibid., Introduction, section 3A and section 3B.

⁴³L. Nye Stevens, Senate Committee on Governmental Affairs, *S314: Freedom from Government Competition Act*, 105th Cong., 1st sess., 18 June 1997, 75, 86.

gathering “very amiable” and said that the union “expressed appreciation for improvements in the bill,” one of them being “the fact that it would permit agencies to compete for work against private sector companies.”⁴⁴ The act received a further boost that summer when it was endorsed by the General Accounting Office, citing as one of its reasons its belief that Circular A-76 was not being enforced by the OMB.⁴⁵ Despite these gains, the bill’s contradictory messages undermined its chances. FGCA supporters did not adequately address concerns caused by the mixed messages. Senator Craig Thomas, for instance, seemed at a loss to explain why the bill would emphasize competition while still being called the “Freedom from Government Competition Act,” saying when asked about the matter only that “bringing in competition perfects last year’s bill.”⁴⁶

The 1998 version of the FGCA was certainly tamer than its predecessors. Renamed with the less objectionable titles “The Fair Competition Act” in the Senate and the “Competition in Commercial Activities Act” in the House, the new legislation stated that the public sector had at least a right to compete with the private. But there was still a definite number (20%) of jobs that agencies were required to turn over to the private sector, and Senator Thomas still was intent on “remove[ing] the competition of the federal government in those things that could as well, or indeed, better be done in the private sector.”⁴⁷

The act’s emphasis, then, was at least partly on mandatory privatization, and still attracted the ire of unions as well as the OMB. A key hearing was held on March 24, 1998, in which G. Edward Deseve, Acting Deputy Director for Management in the OMB, testified that “the administration policy is to promote competition...not simply to

⁴⁴“More Business Groups Rally Behind Thomas-Duncan Legislation,” *Environmental Laboratory Washington Report* 8, no. 6 (1997).

⁴⁵Paymen Pejman, “Proposed Bill Sets Guidelines for Agencies Selling Software,” *Government Computer News* 16 (1997): 53.

⁴⁶“More Business Groups Rally Behind Thomas-Duncan Legislation.”

⁴⁷Thomas Hargrove, “Union Battles Federal Privatization,” *Cleveland Plain Dealer*, 15 July 1998, sec. A, p. 8.

outsource” and that “current guidance to promote competition is in place (through Circular A-76).” Despite supporters’ attempts to soften the edges of the previous bill, to the OMB the new act did not recognize that “the complexities of public-public and public-private competitions must be reflected in any legislation.” In the final analysis, the administration’s primary objection was what it had been from the beginning for most every opponent: “Legislation must not require the head of each agency to undertake competition in accordance with a schedule mandated in law.”⁴⁸ Some previous objectors did respond more favorably to the new act. A former aide to Indianapolis Mayor Stephen Goldsmith, who previously deemed a mandate to contract out as being against the spirit of competition, saw enough of a change in the new bill to support it. But without the administration’s support, passage still seemed elusive.

It became doubtful by the middle of 1998 that a bill mandating privatization would ever survive the legislative process. The response of FGCA backers was, naturally enough, to compromise on the legislation. Compromise is something for which politicians are frequently reviled, but it is almost always necessary given the nature of the American legislative process. Lyndon Johnson once defended such dealmaking by proclaiming, “Half a loaf is better than one.” In the case of the FGCA, the bill’s supporters seemed resigned to having to accept somewhere between a quarter loaf and a single slice. The most familiar element in the 1998 version was the bill number, S314, but other than that, almost everything was changed.

Gone was the hostile description of purpose: “To require that the federal government procure from the private sector the goods and services necessary for the operations and management of certain government agencies.”⁴⁹ The new legislation was given the innocuous title “The Federal Activities Inventory Reform Act” and had as its

⁴⁸Senate, *Federal Activities Inventory Reform Act of 1998: Report of the Committee on Governmental Affairs*, 105th Cong., 2d sess., 1998, S. Rept. 105-269, section 3.

⁴⁹*Freedom from Government Competition Act*, S1724, 104th Cong., 2d sess., 2 May 1996, Section 1.

stated purpose “to provide a process for identifying the functions of the federal government that are not inherently governmental functions.”⁵⁰ Also eventually eliminated was any notion mandating that agencies not inherently governmental be privatized. In contrast to the procedure under Circular A-76, agencies would now be required to publish within a reasonable time a list of jobs which were not “inherently governmental” (and thus acceptable to privatize) and have such lists open to debate by the general public. Agencies also had to use “a competitive process to select the source” using “realistic and fair cost comparisons.”⁵¹ But the fact that agencies had the final say on what was deemed inherently governmental or commercial left the FAIR Act with arguably as many loopholes as had been found in the procedure it was intended to improve.

The Passage of The Federal Activities Inventory Reform Act of 1998

With the legislation revised almost beyond recognition, it began to acquire more support and quickly made it through the Senate by the end of July 1998. The government employee union lobby, both emboldened by the original bill’s demise and fearful that legislation encouraging more competition would eventually pass, became more strident in its opposition. A more aggressive stance was to be adopted by unions in early 1998. Being “crossed” by the administration on this bill, the AFGE president claimed, would be “grounds for divorce.”⁵² In addition to the standard arguments about privatization being unfair for government employees and inequitable for recipients of government services, very assertive statements were made based on financial prudence. In the spring of 1998, for instance, the AFGE claimed that contractors were so wasteful that government, if

⁵⁰*Federal Activities Inventory Reform Act*, Public Law 105-270, 105th Cong., 2d sess., 19 October 1998, section 1.

⁵¹*Ibid.*, section 3, subsection D.

⁵²Hargrove, “Union Battles.”

given back jobs already privatized, could cut expenditures \$50 billion over five years without hurting service, an argument notable for its mirror image of frequent critiques of government.⁵³

Although public sector unions were undoubtedly pleased at the demise of legislation that mandated privatization of all commercial functions, they did not get their wish to stop privatization's encouragement through law completely. The newly titled and completely redesigned act took an enormous step toward passage in August 1998 at the final set of House hearings on the matter, when the OMB supported the FAIR act for the first time. After that hurdle was crossed, it was only a matter of time before the FAIR act was made law. It passed the Senate by unanimous consent on July 30, 1998, the House by voice vote and was signed by the president just 11 days later. The AFGE attempted to save political face by arguing to their members: "In 1998, the AFGE defeated the contractor-backed Freedom from Government Competition Act and replaced it with the FAIR Act, which codified existing government regulations."⁵⁴

The Implementation Struggle

About one year after the act's passage, agencies for the first time published lists of commercial jobs that they considered appropriate for outsourcing. Many long-time champions of the legislation were disappointed and angered by the lists, arguing that the released documents had no standard format or central location at which they were available, and were intentionally opaque in hopes that any potential objector to the lists would not be able to decipher them, much less react to them, within the required 30 days. Representative Pete Sessions (R-TX), who had been a key sponsor of the legislation,

⁵³"AFGE Rails Against Privatization, Mobilizes Federal Workforce to Fight Bill," *Environmental Laboratory Washington Report* 9, no. 8 (1998).

⁵⁴American Federation of Government Employees, AFL-CIO, "Join the Fight to Clean Up the SWAMP," *Government Standard* 15 (1997): 1.

complained in a letter to the OMB: "In trying to get the list of activities available for each of the [agencies], my staff ran into wrong numbers, obstinate staff, and even agencies that said they were not prepared to release their lists yet."⁵⁵ In November 1999, 300,000 jobs had been listed by agencies as possible objects of privatization. But even an agency that released a lengthy list of commercial jobs was not immune from withering criticism, as some charged that those agencies' lists were long only so they could take the heat off themselves by giving the appearance that they supported privatization.

The Office of Management and Budget, for its part, argued that those who were complaining should at least be grateful that lists are being published at all, which in the administration's view was a significant first step. It was not OMB's responsibility, the administration argued, to create a standard format or central document gathering location, as the agencies were by law the creators and ultimate decisionmakers regarding the lists. Regardless of who had the better argument, what was clear was that once again privatization, a reform with a reputation of being an objective exercise in good management, had turned into a highly contentious, politically charged affair with each side's ideological inclination evident.

Clinton Pleases the Privatizers

While supporters of the Freedom from Government Competition Act were in the end dissatisfied with a bill they had hoped would be a major catalyst for outsourcing, conservative scholars viewed the privatization efforts of the Clinton administration with some degree of favor. As many of the act's supporters were battling the president for his lack of support for the legislation and the Republican agenda in general, the Heritage Foundation called Clinton's 1996 budget "the boldest privatization agenda put forth by

⁵⁵Christopher Dorobek, "Agencies' Outsourcing Lists Draw Stiff Criticism," *Government Computer News*, 11 October 1999, 6.

any American president to date.”⁵⁶ While some legislators were faulting the administration for its handling of the FAIR Act, the Reason Foundation, one of the strongest privatization advocate groups, called the legislation “the highlight of the year for privatization.”⁵⁷ We return then to the question posed at the chapter’s beginning: why would Ronald Reagan, arguably the most conservative president of the 20th century, be such a disappointment to privatization advocates while Bill Clinton, a president usually excoriated by those on the Right, have a respectable record of success on the issue? Four factors may have operated to foster Clinton’s privatization success. These are: (1) bipartisan congressional support for privatization, (2) the Democratic Party having virtual immunity from any political charge of being heartless towards the needy, (3) careful choices by Clinton of relatively noncontroversial areas to privatize and of pragmatic language supporting the policy and (4) a willingness by Clinton to engage in dialogue and to compromise with his opponents.

Some of Clinton’s success can be attributed to having the good fortune to take office when Congress was largely behind privatization efforts. He assumed the presidency at a time when there was agreement among many that government was fat and wasteful and needed to be reduced. By contrast, while Reagan was successful at constructing majorities supporting his policies, a significant liberal Democratic voice was still unabashedly defending government during his time in office. One congressman who was no fan of President Clinton, Scott Klug (R-WI), acknowledged that in the 1990s both the executive and legislative branches agreed on the need for privatization.

Clinton was also helped by being a Democrat. Just as it took a Republican conservative like Reagan to reduce nuclear arms, only a Democrat could reduce government. Democrats since the early 1970s had been tagged as being softer on defense

⁵⁶Utt, “Domestic Policy Issues,” 147.

⁵⁷*Privatization 2000: The Fourteenth Annual Report on Privatization* (Los Angeles: Reason Public Policy Institute, 2000), 7.

than Republicans, and thus would only encourage that label by supporting arms reduction. Similarly, Republicans had been labeled for just as long as heartless slashers of government programs that help people and thus had to be careful to be seen as compassionate as well as fiscally prudent. This was especially true in Reagan's case, a man who had a reputation going into office, deserved or not, of being a radical conservative intent on destroying the social safety net. This may have led Reagan to fear that extensive privatization would only further that perception.

While Clinton did enjoy some fortunate timing that helped his privatization efforts, it is clear that our 42nd President also made some of his own luck. Due to his beliefs as much as political expediency, he shied away from picking areas for privatization that would cause divisive, ideological battles, and was successful at turning privatization into a practical, management oriented discussion.⁵⁸ By contrast, Reagan's support for privatizing public lands was a policy position made for division, as it seemed to call into question a value many Americans held dear, environmental protection, and was an issue with a number of long established, well organized interest groups ready to challenge him.

It may be said, then, that Clinton was often more discerning than Reagan about what the general public considered to be a core government function. But in addition to being more politically astute on this issue than Reagan, he was also more willing to have a dialogue and to compromise with political adversaries. Once the FAIR Act dropped its mandatory privatization provision, the administration was willing to support the legislation. Although a far cry from what the FGCA was originally, it was nevertheless a

⁵⁸David R. Morgan and Robert E. England have said that is why more privatization takes place at the local level, where the issues addressed tend to be more practical ones. See Morgan and England, "The Two Faces of Privatization," 979-87.

concession by the administration to require government agencies, many of them containing a high proportion of Clinton backers who expected his support on the issue, to spend the time and effort composing and defending job lists.

The FAIR Act's Importance

The FAIR Act's story, embodying these four factors, is a useful example of the success the Clinton administration had in employing a delicate and effective balancing act between toughness and compromise in negotiations about the legislation. But also helpful to Clinton was that he advocated a small to moderate amount of privatization and, related to this, succeeded in presenting the issue in very practical terms. Not all privatization supporters view the issue in this way. Many advocates of a more extensive privatization policy, like Warren Rudman in 1983 and Craig Thomas in 1993, see the issue in ideological terms, believing that there are only a few functions government should perform, and nothing else, even if it can do the job more efficiently. One reason for Clinton's success relative to Reagan's in privatizing is that he and other privatization advocates learned that they were more successful when they presented the issue in managerial rather than political terms, just as good government gurus Osborne and Gaebler had in *Reinventing Government*. Even with the mandate of the Contract with America, only after privatization advocates toned down their rhetoric and the knee-jerk nature of their positions did they achieve results.

Viewing privatization as an objective and practical question is extremely common among advocates of the policy. Harvard Professor Steven Kelman, a privatization authority, represented this thinking at a major hearing on the subject:

Professor Kelman testified about the importance of looking at outsourcing as an issue of good management and not as an ideological issue. In addition, he suggested that good management practice in a government agency or private business is to focus on the core competency as an organization.⁵⁹

Not only is such an understanding of the question widely accepted, it is also smart politics. In fact, failure to present the issue in this way leads to defeat at the hands of the majority who are not that comfortable with major reductions in government spending. But this observation should in no way imply that such political success leads to good policy. In fact, one could make a strong case that ignoring the politics of privatization has frequent costs during implementation.

Having a provision in the FAIR Act that had agencies compile lists of jobs that could be outsourced, for example, came right out of the Osborne-Gaebler philosophy of decentralization in the decisionmaking process.⁶⁰ While this provision resonates with believers in Total Quality Management and other reforms that stress teamwork between management and employees, and while it was helpful in getting the FAIR Act passed, giving agencies the final say completely ignores the practical political realities that come with privatization. One could strongly question whether it is realistic to expect agencies, given their obvious stake in the decision, to be fair in their assessment of what should be privatized. Indeed, the early stages of implementation predictably showed agencies being uncooperative in providing an honest listing of jobs of a commercial nature. Political infighting, anger and suspicion on both sides was the result.

It is true that the Reagan administration did not make much of an effort to convince people that deep and far-reaching privatization was sound policy, and the statements the administration did make on the subject were often politically awkward and at times even embarrassingly belligerent. But the Reagan team's failings on the issue

⁵⁹Senate Report, *Federal Activities Inventory Reform Act of 1998*, 105-269.

⁶⁰Osborne and Gaebler, *Reinventing Government*, 250-79.

aside, advocates of extensive privatization are undeniably caught in a “political Catch-22.” Attempts to be honest about their desire to reduce government substantially are politically disastrous once the given objects of privatization become clear. Many in and out of government talk a good Jeffersonian small-government game, but become Hamiltonian quickly, pulling back from major cuts in almost any government program. On the other hand, talking around the issue by portraying privatization as being something designed only to make the government run better is resented by those who see it (often correctly) as a strategy to reduce government. Perhaps more importantly, such a strategy often ends up yielding very little actual privatization, as politics and people’s basic reluctance to cut government interfere during the implementation process.

The experience of the FAIR Act indicates that the path to extensive privatization at the federal government level is twofold. Policymakers must define as much as possible what is not a legitimate government function, and, in doing that, persuade those in and out of public life that reducing government substantially is sound policy, *even if it results in cuts in programs on which people depend*. President Clinton and the 105th Congress made a start toward the first task with the FAIR Act. Clinton was never inclined to be a champion of deep government cuts, but we can look to President Reagan’s experience and see that people’s squeamishness about government spending cuts poses a considerable political challenge for any president wanting to achieve significant government reductions.

Privatization advocates and their opponents should never stop searching for common ground regarding government’s legitimate duties, even though it may well be that debates about what constitutes “inherently governmental functions” can never be fully settled. In a similar vein, it is tempting to indict the General Accounting Office or the Office of Federal Procurement Policy for not specifying more precisely what qualifies

as a situation “where contracting would be cumbersome or inappropriate”⁶¹ or what duties are so “intimately related to the public interest as to mandate performance of government employees.”⁶² Important to remember, however, is that there is inherent value in the meaningful dialogue that can result from responsible attempts to interpret these passages.

It is impossible to develop neat and tidy rules that proclaim with certainty the instances “when flexibility is *essential* to the performance of a function.”⁶³ Attempts such as those found in the original Freedom of Government Competition Act to specify in great detail what government should and should not do come across as overreaching. Listing so many conditions under which a duty is not “inherently governmental” does not settle the issue, as functions will fall through language’s inevitable cracks, but still invites political conflict over the functions that are listed. By contrast, the elaboration offered in the 1992 Office of Federal Procurement Policy document, while not too detailed, still gives enough meaning to “inherently governmental” to provide a basis for dialogue. Privatization observers from both sides of the debate should hope for such an outcome, because only through the grand and perpetual debate about government size can the privatization question be meaningfully addressed. Just as the framers envisioned, it is only through careful, consistent and persuasive dialogue that change can occur.

⁶¹ Senate Committee, *Federal Contracting: Comments on S1724, The Freedom from Government Competition Act*, 4.

⁶² Executive Office of the President, Letter 92-123.

⁶³ Emphasis added. Senate Committee, *Federal Contracting: Comments on S1724, The Freedom from Government Competition Act*, 4.

CHAPTER SIX

THE MANAGEMENT/POLITICS NEXUS

When tracing the scholarly history of the privatization debate, Peter Drucker, Charles Schultze, and E.S. Savas are correctly noted as primary advocates. Drucker was one of the first to utter the word “privatization.”¹ A decade later, Schultze became one of the primary contributors in pushing public choice theory into the mainstream.² During the Reagan era, E.S. Savas established himself as the privatization guru of the academy.³

There is no doubt that Drucker, Schultze and Savas were pivotal figures in privatization scholarship. Another academic contributor in this area, just as key but less appreciated, is Bruce L.R. Smith, whose 1975 volume, *The New Political Economy*, may offer the single best early chronicle of the spread of third party government. Smith opened his book by writing:

The sharing of authority with private and quasi-private institutions is a central feature of modern government. Novel administrative arrangements have emerged which present intricate new problems for the public and private sectors. Indeed, the intermingling of functions, the relationships of financial dependence on the government, and the interpretation of highly skilled manpower cadres have obliterated many of the traditional ‘public-private’ distinctions. A new type of public sector has emerged, drawing heavily on the energies of society outside of the formal government.⁴

This was the first of many prescient observations in the book. Twenty-five years later, Smith’s vision (and that of some other scholars)⁵ that the public use of the private sector would increase significantly has been borne out. Although until recently a state

¹Drucker, *Age of Discontinuity*.

²Charles Schultze, *The Public Use of Private Interest* (Washington D.C.: Brookings Institute, 1977).

³Savas, *Privatizing the Public Sector*.

⁴Bruce L.R. Smith, *New Political Economy*, 1.

⁵For example, see Murray Weidenbaum, *Modern Public Sector: New Ways of Doing the Government’s Business* (New York: Basic Books, 1969) and Drucker, *Age of Discontinuity*.

and local phenomenon, privatization is being used with more frequency by the federal government. 1996 was the most active year to date for privatization at that level, as the Naval Petroleum Reserve, the Alaska Power Administration, the nation's helium program and the United States Enrichment Corporation were all privatized.⁶

Privatization: Here to Stay?

Privatization has been on the rise, especially at the state and local level, yet one of the more interesting and less examined questions of this phenomenon is whether it will last. The answer would seem to be only a qualified "yes." While privatization has yielded policy success in areas such as trash pickup and road work, in which efficient service delivery is widely seen as the only policy goal, it is less certain that the private sector will be seen as being an acceptable solution to ambiguous and vexing policy challenges in areas like health care, the environment and education.

It is a perpetually arduous challenge for government to define its goals precisely in those areas, never mind assure that they are accomplished, especially when dealing with a private sector motivated almost entirely by profit. While anecdotal evidence can always be cited of public sector officials having unscrupulous motives, the mission of government in its proper role is the welfare of its citizenry. The private sector, by contrast, is motivated primarily by self interest, as profitmaking is legitimately a main concern of business corporations. While it is certainly possible for self interest and public service to coincide, in some cases they do not, and it is perhaps those instances that call for government production.

Despite its potential dangers, it is clear that there has occurred a remarkable rejection of governmental provision of services, products, and regulation. The

⁶Utt, "Transferring Functions," 130.

governmental bureaucracy so praised by scholars like John Rohr and Charles Goodsell⁷ is rejected as inefficient and unnecessary. The market has now been elevated in the minds of many to the status of most responsible provider of public services and the true embodiment of American regime values, and market competition has replaced the public interest as the mantra of American government in daily action. Against this political backdrop, it is difficult to make the case that the practice of privatization is simply a policymaking fad.

The Movement Toward Efficiency and Small Government

Privatization would fade away only if there were a substantial rebirth of faith in government as a legitimate and positive force in people's lives. While citizens often condone government's involvement whenever market forces prove insufficient, they frequently do so reluctantly and with suspicion. As mentioned in chapter one, part of the reason for this is cultural, which would seem to underscore the unlikelihood that such cynicism would change significantly. Additionally, we have seen in chapter two that in contrast to the arguments of its opponents, the anti-government message is a neat and tidy gospel.⁸ It is easy to comprehend and thus is a good fit for a public dialogue that is increasingly soundbite driven and thus not conducive to more subtle, complex arguments.

Although in its effect the privatization movement is a very conservative one, its message gives the appearance of being nonpartisan and even nonideological, concerned only with science-based efficiency. The ability of privatization advocates to present their arguments in those terms has given them an extremely powerful advantage, since during the twentieth century, efficiency has risen to the top of the list of priorities for policymakers in almost every issue area. Efficiency had, of course, always been a prime

⁷See John Rohr, *To Run a Constitution: The Legitimacy of the Administrative State* (Lawrence, Kans.: University of Kansas Press, 1986), and Goodsell, *Case for Bureaucracy*, 1994.

⁸Robert B. Reich, "Toward a New Public Philosophy," *Atlantic Monthly* 255 (1985): 68-79.

concern of policymakers and public administration scholars.⁹ But much unlike during the progressive era, the concern for efficiency at the twentieth century's end was explicitly arguing against the notion that government would be a good source for effective service delivery. The public choice movement had in fact argued just the opposite - that government services thrive on inefficiency. Public choice theory held that when not using their resources well, government workers received what they were after in the first place - more money and personnel. Such a cycle created an intolerable incentive for the public sector to waste whatever it was given without concern for the public interest.

Part of the reason why a small government argument has received increasing support in the last thirty-five years is the ability of its supporters to offer a clear, mostly unified vision for governing. Easy to forget, however, is that the anti-government movement is not entirely composed of conservative political forces. Government's traditional supporters have in fact been sharply divided since the 1960's in their feelings toward the public sector, as some groups that had previously been among government's most ardent defenders became some of its harshest critics. E.J. Dionne notes that some of the themes of 1960's liberalism were used to great political effect by conservatives:

The notion that small is beautiful, which grew out of the New Left's fascination with small communities, was used by conservatives to defend entrepreneurship and the creativity of small business. Decentralization of power, long a conservative theme, was lent new legitimacy when cast in the language of the left. The New Left's attack on bureaucracy was conveniently used to attack 'big government.'...Thus did the New Left wage war against the paternalistic liberal state. The [R]ight picked up the pieces.¹⁰

This caused a decline in faith among the public sector's traditional champions that government bureaucracy could be an effective voice for the disenfranchised and the

⁹A good exploration of this is Dwight Waldo, *The Administrative State: A Study of the Political Theory of American Public Administration*, 2d ed. (New York: Holmes and Meier Publishers, 1984).

¹⁰Dionne, *Why Americans Hate Politics*, 53-4.

public interest in general. This disillusionment with government has now become so great that statements alleging government incompetence and corruption are as common coming from the Left as from the Right.¹¹ With no one remaining to defend government, it is only natural that the business world is increasingly seen as the source for honest, efficient public administration.

Privatization's Political Nature

Most people feel that the private sector has the greater ability to implement policy in an objective, efficient manner. But frequently a private sector producer must grapple with the reality that administering a program often involves questions that are more complex and divisive than simply how to deliver a given service most efficiently. Privatization can also be hard on the given government entity, nowhere more so than at the national level. Any national government policymaker wishing to privatize has to work his proposal, often involving divisive issues with ideological overtones, through a complex policy structure, often with multiple, well-organized interests and diverse constituencies involved. It is therefore imperative that, whether they be public or private sector participants, those pursuing such a policy recognize that almost any substantial amount of privatization is not a mere exercise in objective management, but is rather full of political and ideological decisions rich in policy consequences.

Recognition of this most crucial of facts often yields a willingness to have a respectful dialogue with those who hold a contrary position. Of course, one does not always lead to the other. There were instances when Reagan's team recognized the ideological nature of what they were proposing and still did not take opponents' concerns

¹¹ One example of a conspiracy theory offered by the political left is that Clinton administration Commerce Secretary Ron Brown was murdered by the United States government, and that the government then led us to believe he was killed in a plane crash. See Mark Hosenball and Gregory L. Vistica, "The Life and Times of a Rumor: The Unlikely Alliance Behind a Ron Brown Conspiracy Theory," *Newsweek*, 19 January 1998, 31.

into account. Clearly, though, failure to recognize the politics of privatization almost always hinders its achievement because few privatizing policies can be implemented without antagonizing some major political interest group.

Not being attuned to privatization's potential political pitfalls both reduces the amount of privatization and its quality. President Clinton and the 105th Congress succeeded in getting the Federal Activities Inventory Reform Act passed, but apparently failed to recognize the conflict of interest inherent in agencies deciding what in their bureau should be privatized, a misjudgment that could prove devastating to the law's impact. This connection between political awareness and implementation success is not recognized by most privatization scholars, as most "how to" guides in the field portray accountability as an exercise in having one objective government overseer ensure that the producer of the service is faithful to the contract's terms.¹² In reality, there usually exists a complicated evaluation and oversight process, involving multiple political actors, monitoring a third party who is frequently forced to deal with divisive and difficult policy choices left to it by government. Ironically, this means that despite the anti-government ideology that generally underlies it, privatization depends on a competent, honest administrative machine to administer it. Although privatization promises less government, as scholars have warned eloquently, it requires special governmental competence to oversee such devolution. There is a danger, therefore, one that even its friends may recognize, that privatization may gain efficiency at the price of accountability. If governmental agencies are somehow weakened or not aware of the potential pitfalls of implementation, the possibility increases that privatized public administration will be inadequately controlled by public purposes.

¹²For example, see Donald Kettl, *Sharing Power: Public Governance and Private Markets* (Washington D.C.: Brookings Institute, 1993).

Politics-Not Just Necessary but Healthy

It is tempting to bemoan the necessity of recognizing the “politics” of any privatization policy. Why can people not judge a policy simply on its merits rather than through a self-interested, subjective, or ideological lens? This question is certainly one coming from every political corner. “Politics as usual” as decried by politicians across the ideological spectrum translates into letting one’s political beliefs get in the way of sound judgments about policy. Even liberals, who in many policy areas desire a bigger government, in fact inspire cynicism about it, implying that if politicians were not so self-interested, problems would get solved. What public official from either of the two major parties has never vowed to be “above politics” when addressing a particular issue?

Traditional public administration theory would also call for the privatization question to be decided purely on its merits. The politics/administration dichotomy, though it was seldom as simplistic as modern critics tend to characterize it, was the foundation of the public administration discipline before World War II.¹³ Although post World War II political science taught that public administrators share in making important policy,¹⁴ the notion that a strict separation should exist between political questions and administrative ones still has a hold on many in and out of academia, sometimes in rather crude form. But in spite of decades of effort by people of every political stripe, no one has yet found a way to have the “best” policy choice made in a given situation with any degree of consistency.

¹³Some of the primary proponents of this view were Frank Goodnow, Leonard D. White and Luther Gulick. A good exploration of this school of thought is Alan Altshuler, “The Study of Public Administration,” in Nicholas Henry, ed., *Public Administration and Public Affairs* (Englewood Cliffs, N.J.: Prentice-Hall, 1989).

¹⁴Some of the important scholarly figures for this movement include Norton Long, Paul Appleby and Herbert Simon. A good resource for these thinkers’ main ideas is James W. Fesler, “Public Administration and the Social Sciences: 1946 to 1960,” in Frederick C. Mosher, ed., *American Public Administration: Past and Present* (Tuscaloosa, Ala.: University of Alabama Press, 1975).

Part of the reason for the failure of this effort lies in the complex nature of most issues, as there is rarely a single clear answer to policy questions. Discussion of the best corn subsidy policy is not a debate that leaves most people bubbling with emotion, and yet it can involve complicated problems that are not easily solved. An additional factor in the mix is human nature. Often those working on an issue care about it a great deal and thus are far from being psychologically detached from it. The fact is that people almost always decide an issue, at least in part, on the basis of ideological bias, no matter what a knowledgeable or objective observer (if it is possible to find one) believes is the correct course. Vital to any sophisticated understanding of politics is a recognition that one's ideology leads to honest and well-intentioned differences of opinion which are inherent to policymaking. The reason why people will forever have political disagreements is that, despite efforts to objectify and quantify policy choices, human beings will always weigh differently what are often elusive and conflicting policy goals.

Self-interest is also an undeniable part of the policymaking equation. As one small example of this, even good government gurus David Osborne and Ted Gaebler, who often in their volume *Reinventing Government* seem unaware of the political realities of management reform, grudgingly acknowledge that if public employees' job security is at stake, they will oppose competition efforts.¹⁵ And lest one think government employees are the only ones who allow self-interest to get in the way of good decisions, a major conference on scientific research in the year 2000 concluded that increased privatization during the preceding decade had resulted in a failure on the part of private sector researchers "to protect both patients and scientific integrity." A major contention of the gathering was that the "financial stake in the outcome" of the given inquiry frequently hindered the researcher's objectivity.¹⁶

¹⁵Osborne and Gaebler, *Reinventing Government*, 84.

¹⁶Alice Dembner, "Research Integrity Declines," *Boston Globe*, 22 August 2000, sec. E, pp. 1-2.

These observations may seem obvious, but they are frequently muffled by those who seem to consider efficiency the only test of good policy. In and out of the academy the cry has gone out to run government "like a business," the implications being that businesses are by nature efficient and that efficient production is the only aim for the public sector. This concern with efficiency left many with an intolerance for the subtleties and complexities of modern problems. By the end of the 1990's, Ross Perot had faded from the political landscape. But surviving and thriving after him was his impatient desire to "get under the hood and fix" whatever policy challenge arose, ignoring the intricacies of the given problem.

As willing as so many have been to give the policymaker only the charge of efficiency, many have realized the need to add other goals into the mix. In one of the definitive histories of American public administration, Frederic C. Mosher makes a convincing case that while a concern with efficiency is a large part of public administration scholarship, other goals like political democracy were almost always held in at least as high regard.¹⁷ Even Woodrow Wilson, who is often cited as a prime example of a scholar who believed that administration was to be purely scientific and objective, was in reality keenly aware that the work of both the politician and the administrator involved more than just efficiency.¹⁸ That belief stayed the predominant one in twentieth century public administration scholarship. The contributions of Paul Appleby, Dwight Waldo and many others throughout the century recognized efficiency's merits, "but only within a framework of consciously held values."¹⁹ The problem with only concerning oneself with efficiency, as they saw it, was that such an approach

¹⁷Frederic C. Mosher, *Democracy and the Public Service* (New York: Oxford University Press, 1982).

¹⁸Daniel W. Martin, "The Fading Legacy of Woodrow Wilson," *Public Administration Review* 48 (1988): 633.

¹⁹Dwight Waldo, *The Administrative State: A Study of the Political Theory of American Public Administration* (New York: Ronald Press Co., 1948), 203.

eschewed normative questions involving other values like equity and fairness, questions that are inevitable for the public administrator exercising the discretion inherent to governance.²⁰

The problems inherent in having efficiency be one's sole policymaking guide is shown in *Reinventing Government*. In the book, Osborne and Gaebler heartily endorsed privatization, asserting, "We have also found that once public employees find themselves in competition - if their job security is not at stake - they enjoy it."²¹ One cannot help but wonder how genuine competition could possibly exist in an atmosphere in which there is no danger of job loss. Given the right circumstances, competition between providers could well be a sound fiscal notion. But the current providers of that service will be unhappy if asked to compete, creating a political problem. The reason it would be a problem is because in the mind of government employees, that would constitute unfair treatment. Whether or not their viewpoint would be correct, their belief at the very least indicates that policymakers have to choose between efficiency and other values all the time. Making efficiency the only goal is unrealistic.

One can go back another century and discover a fact surprising to some: efficiency was far down on the list of the framers' policy aims. While an effective national public administration was important to them as necessary for securing public attachment to the government, their constitutional design intentionally yielded a convoluted political system with multiple policy roadblocks. This sent a powerful signal that far from placing a premium on efficiency, the framers recognized that many different goals and interests would have to be balanced to yield acceptable policy. The presence of many different centers of power encouraged by the constitution necessitated political dialogue and compromise, especially with those with whom a policymaker disagreed. Such

²⁰One of the hallmark explanations of this view is Paul Appleby, *Policy and Administration* (Tuscaloosa, Ala.: University of Alabama Press, 1949).

²¹Appleby, *Policy and Administration*, 84.

disagreement and debate inevitably slowed down the process, but was considered by the framers not only to be natural, but healthy, as it made it more likely that no interest would be cast aside.²²

The Consequences of Not Recognizing the Politics of Privatization

The realization that privatization is a political act should not be seen as unfortunate by either side of the debate. The framers liked politics because at its best it gives people an opportunity to debate fundamental questions of governance. The privatization debate should be seen in that light, as a chance to have a dialogue about the policy areas in which the country wants the public sector to be active. The Clinton administration's efforts through the Federal Activities Inventory Reform Act to establish lists of inherently governmental function was a step in that direction. By contrast, President Reagan's perpetual, scathing attacks on the public sector brought the issue of government size to the table, but not in a manner that revealed the willingness to compromise and respect for opponents that are necessary ingredients to substantive discussion.

If policymakers see privatization as a purely managerial decision with no political or policy consequences, or as one so obvious that no debate is necessary, the dialogue about government size and function will not occur, ensuring no resolution of questions regarding how big the public sector should be and what duties it should perform. Citizens and public officials will then continue to rely on privatization and other such managerial decisions as some sort of magic pill that will eliminate for us all the difficult questions about government's role. Such thinking has a cost, as the private sector is often no more able than government to make the more vexing policy problems go away. It is not

²²The best source for the framers' thinking on this subject is *The Federalist Papers*. See in particular Clinton Rossiter, ed., *The Federalist Papers* (New York: New American Library, 1961).

reasonable to expect, for example, that the multifaceted and deeply rooted causes of the rise in health care costs are going to disappear if that industry is privatized further. On the contrary, unless the population stops aging, we allow the poor to suffer and die unaided, industry technological advances cease, and unworthy medical malpractice suits disappear, there will be forces pushing costs up.

Attempts to deny public policy's complexities invite disappointment down the road, and thus more cynicism when a private sector producer fails to meet the unreasonable expectations we have set for it. This cycle of high expectations being followed by disillusionment has been dubbed "The Panacea Phenomenon" by James Finckenauer,²³ but Bruce L.R. Smith saw such a phenomenon in *The New Political Economy*, as he speculated that privatization was simply another way of "financing public services in hidden and disguised ways, often creating arrangements which erode public confidence in government over the long run."²⁴ Later in the work, Smith wonders prophetically if the anti-institutional mood, which at the time was just beginning to grip the polity, will make all service delivery arrangements, including privatization, suspect. Smith feared that this would lead to a decreasing governmental capacity and eventually to instability.²⁵

Smith is, of course, not the first to worry about such matters. One can again think of the framers, who thought there was a direct link between attachment to a government and its ability to administer the laws. There are those who dislike the public sector enough to say that anything that reduces the government's capacity is positive. But those subscribing to that belief should consider the response of Reagan Environmental Protection Agency Administrator William Ruckelshaus to constant attacks by environmental groups during his tenure:

²³James Finckenauer and Patricia W. Gavin, *Scared Straight: The Panacea Phenomenon Revisited* (Prospect Heights, Ill.: Waveland Press, 1999).

²⁴Bruce L.R. Smith, *New Political Economy*, 41.

²⁵*Ibid.*, 42.

[T]he cumulative effect of [the attacks] is to cause the essential trust of the society to be so eroded--it [the agency] can't function...When you don't distinguish between individuals with whom you disagree, or policies with which you disagree, and the agencies themselves...you risk destroying the very institutions whose success is necessary for your essential goals to be achieved."²⁶

Surely such a quote from an official in the twentieth century's most anti-government administration should tell us something. One does not have to like government to realize that *even government's ability to reduce itself* is undercut whenever there is a loss of the citizenry's faith in it. Unless the public sector manages to escape from the black cloud of suspicion which hangs over almost every policy move it makes, any decision to increase, change, start, decrease, eliminate or privatize a government program will be viewed with cynicism. Little meaningful dialogue about government's proper role can occur in such an atmosphere. Without such dialogue, simplistic managerial answers to complex policy questions will continue to abound, and Americans will feel disenchanting with the results.

²⁶"Environmentalists Warned to Ease Attacks on EPA," *Bloomington Pantagraph*, 9 December 1984, sec. A, p. 7. Cited in Gordon, *Public Administration*, 530.

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