

European thematic network “Improvement of economic policy co-ordination for full employment and social cohesion in Europe”

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The privatisation of public goods – The impact on governance and on the co-ordination of economic policy.

(Short English version of a longer paper in german: Was passiert, wenn öffentliche Güter privatisiert werden?)

1

Since the advancement of neoliberalism to a hegemonic paradigm public goods and public services to a vast extent have been privatised in many countries in all regions of the world. Originally, public goods have been created and established in order to provide people with the necessary means of human and socio-economic security in a substantial (not only formal) and therefore social democracy. Therefore the question comes immediately up, whether privatisation of public goods is beneficial or detrimental to human security (i.e. to food, water, health security, environmental security, public security, etc.)

2

The concept of public goods, although it is widely used, is not as clear as it should be. It is not difficult to distinguish public goods from private goods, i.e. from commodities. The production of commodities, however, always (and necessarily) is joint production of that what has been called "discommodities" (Coddington). The latter are conceptualised as social costs, i.e. public bads. Moreover there are goods of a positional character, i.e. the material quality and therefore the use value of those goods is dependent on the quantity provided and the quantity consumed, respectively. Some goods transform into “positional”, oligarchical or

plutocratic goods, when they are provided in an unlimited supply for everybody - i.e. in so far as they are "democratised".. The quality and the use value of those goods can only be maintained in so far as there are restrictions to their provision and consumption.

It seems to be a suitable approach to define public goods with regard to the demand side (consumption) and supply side (production/provision). On the consumption side public goods are only those goods which are non rivalrous and non exclusive. Moreover they are expected to create positive external effects. On the supply side (production/provision) public goods are created by nature or are an outcome of the cultural heritage. They also might be produced materially as a commonly disposable infrastructure, from highways and railways to telecommunication and the "spatial fix" of schools, hospitals etc. But there is a fourth category of public goods. These are the rules and institutions regulating social life or economic processes and political decision making. These rules and institutions can be differentiated with regard to their reach, from local to global. Whereas the material construction of infrastructural public goods under regular conditions is rather expensive, the provision of rules and institutions can be rather cheap. Naturally provided public goods and the cultural heritage on their part are public goods to be conserved against over consumption and detrimental negative external effects (social costs, public bads).

The definition of public goods however must also include an understanding of the publicness of public goods. In so far as decision making over public goods is concerned publicness as public deliberation is part of a democratic process. Thus the provision of public goods is a necessary element of a democratic society.

3

Although the definition of public goods seems to be unequivocal a second glance at the concept uncovers a couple of dilemmata. Some of them are well known and broadly discussed in economic (and ecological and social) literature, for instance the "tragedy of the commons". Individual rationality and public provision of commons are in conflict with a tendency of destroying the commons by following a strategy of individual maximisation of its benefits. Therefore methods of rationing of public goods seem to be necessary in order to protect the commons for transforming into a positional good. Liberals of course prefer a rationing via privatisation of commons and the regulation of provision and consumption by means of the

price mechanism on free markets. Social democrats and socialists however prefer some societal mechanism of distribution of scarce commons to those who need them and their services.

A second dilemma comes up, when the privatisation of public goods is used as a strategy of exclusion. In the course of this process public goods are no more available for the public, but only for those who dispose on the necessary monetary purchasing power or for those who are eligible. Exclusion of access to public goods can also be performed by military power or by the power of concentrated medias, e.g. the availability of public information can be restricted by monopolisation of the information itself or of the access to this information.

A third dilemma is that public goods for the ones can be public bads for others. One example is the public good of financial stability. It is well known in economics that open financial markets and stable exchange rates are only achievable by waiving macro-economic policy options, for instance employment policy. Financial stability, if possible in a capitalist economy, has a trade off: unemployment.

The fourth dilemma is linked to the third one. The creation of goods, public and private respectively, includes negative external effects i.e. social costs or social bads.

And lastly: public goods can change into positional goods, when the provided public good is only sufficient for a restricted number of consumers. This case is very much related to the first case of the tragedy of the commons.

4

The tendency of privatisation of public goods since the seventies of the last century is dominant. Firstly, it is technically ever more convenient to privatise formally public goods. Secondly, market strategies of transnational corporations have discovered potential markets which do not exist up to now, because the product supplied is a public good, such as drinking water. But the potential water market triggers the greed of transnational corporations which then exert economic and political pressure on political institutions with the objective to privatise water provision. Lastly, the tendency of privatisation is a political project under the auspices of globalisation. Globalisation is the other side of de-regulation and de-regulation means that public institutions withdraw from the provision of public goods (also in the sense

of rules and institutions) in order to open the space for private providers and the working of the market mechanism which is considered to be much more efficient than public provision of public goods. Technical possibilities, market strategies combined with financial power and the political project together strengthen strategies of privatisation of public goods all across the world.

5

It is not possible in a short paper to discuss the different efforts of privatisation in different parts of the world. The technical aspects have widely been discussed in respective publications of the World Bank or of other international institutions. With regard to public goods we can distinguish first the provision of public goods by public or private suppliers and we can evaluate whether the provision of certain public goods by public institutions or private providers is better and more efficient with regard to the satisfaction of needs of the public. There are many examples of an improvement of the provision of public goods by private firms (especially in the telecommunication sector in countries with high purchasing power), but there are also many negative examples of the privatisation of the provision of public goods, from the British railway system to the drinking water supply in Latin-American and African cities.

Secondly, the access to public goods might be privatised: the access to highways or to Italian cities or to educational institutions etc. Privatisation of access is always selective and therefore excluding all those who do not dispose on the necessary purchasing power or certificates.

A third form of privatisation shall be mentioned: the feminisation of responsibilities for the provision of public goods. The withdrawal of the public sector from public services results very often in more work for women, e.g. in child care or caretaking for elderly persons. Thus privatisation of public goods has a distributional and a gender aspect.

6

The process of privatisation in nearly all cases is linked to corruption. Corruptive practices are endemic during the transformation of public goods into private ones. Corruption happens mostly at the interface between public and private actors. This interface is the focus of most corruption studies. Following that approach one can be distinguished between petty and grand

corruption and state capture. Corruption may be active or passive, although this distinction is not as clear as it promises to be. Many people expect a considerable decrease of corruption after the privatisation of public goods and services. Literature on "white collar crime", on "crime in business" etc. however raises some doubts about this benevolent assumption. Corruption takes also place at the interface between private actors and it is often linked to subsequent criminal deeds such as money laundering and bankruptcy. Business criminality is a booming branch and it happens everywhere, not only in "crony capitalism" but also in those countries which claim to be civilised such as the G 7 countries. The shareholder value orientation is the economic justification for the "enrichissez vous" in our times. On international market, it does not matter which methods helped the shareholder value to be maximised. Therefore transnational corporations have been and are involved in illegal and even criminal activities. These activities include the (cross border) corruption of private and very often also of political actors (e.g. the case of Enron).

The social costs of corruption are extremely high and they also include moral costs, they affect negatively the society.

7

The consequences for economic policy co-ordination are obvious: the privatisation of public goods in some cases not automatically improves social and human security of people. Deregulation and privatisation diminish the economic intervention capacity of the institutions of a state apparatus. In case of privatisation strategies therefore the relation between the economic, the social and the political is subject to a restructuring in favour of the private sector. The consequences in many cases (e.g. Argentina) are extremely negative and harmful to the people. Moreover, the privatisation of public goods mostly exerts a regressive effect on the distribution of income and the wealth effects stemming from the access to public goods. Last not least the effects on gender relations have to be considered because women very often are more affected than men by the privatisation of certain public goods.