Government Ownership and Privatization

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Ec 10

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- Fifty years ago, economists, politicians, and the public believed that important industries should be owned by the government.

- Reasons included concern with monopoly power and a lack of regard for social objectives.

- In many developing but also developed countries (not to mention communist states), "key sectors" such as banking, energy, transportation, steel became government owned.

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

It is associated with:

- Excessive Employment
- High Wages
- Low Quality Products
- Low Innovation
- Huge economics losses

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

As a consequence, many countries privatized.

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

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

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

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

Overall, over 100 countries had privatization programs.

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

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

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

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

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

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

Privatization Raises Many Questions:

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

Take an example close to home:
Greenhouse Café in the Science Center

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

Harvard is a bit like the government…

The Greenhouse is like a state enterprise…

So let us do some empirical work with….

TUNA SANDWICHES


DASH
CLASSIC
$6.40
Tuna Salad & Cucumber
w/ Fresh Dil on Multi Grain Bread
13064
Keep Refrigerated
BEST BY: 03/11/13
NET WT: 6.0 oz (170g)


Ingredients: TUNA SALAD: Yellowfin and/or Tongol Tuna, Mayonnaise (Canola Oil, Whole Eggs and Egg Yolks, Distilled Vinegar, Water, Salt, Sugar, Lemon Juice, (from Concentrate), Natural Flavors), Celery, Breading (Unbleached Wheat Flour, Natural Cane Sugar Yeast, Sea Salt), Water, Sorbic Acid, Sea Salt, Black Pepper, Garlic Salt, Xanthan Gum and Citric Acid
MULTIGRAIN BREAD: Enriched Flour (Wheat Flour, Malted Barley Flour, Niacin, Iron(Ferrous Sulfate, Reduced Iron), Thiamine Mononitrate, Riboflavin, Folic Acid), Water, Soybean Oil, Vinegar, Flaxseeds, Wheat Flour, Wheat Gluten, Sugar, Salt, Yeast, Sunflower Seeds, Rye Flour, Corn Grits, Rye Meal, Cracked Buckwheat, Sesame Seeds, Barley Flakes, Ammonium Chloride, Rolled Oats, Wheat Bran, Mono- & Diglycerides, Soy Bran, Millet, Rye Malt, Buckwheat Groats, CalciumPropionate (to Retard Mold Growth), Caramel Color, Calcium Sulfate, Rice Flour, Triticale, Malted Barley Flour, Spices, Organic Corn Grits, L-Cysteine.
CUCUMBER: Fresh Cucumber
DILL: Fresh Dill
Keep Refrigerated
Contains: Egg, Fish(Tuna), Milk, Soy, Wheat
RACHAEL'S FOOD CORP.
CHICOPEE, MA 01013
Nutrition
Serving Size
Amount Per Serving
Calories
Total Fat
Saturated Fat
Trans Fat
Cholesterol
Sodium
Total Carb
Dietary Fiber
Sugar
Protein
Vitamin A 4%
Calcium 6%

Meanwhile, at Dado Tea,

a private enterprise…

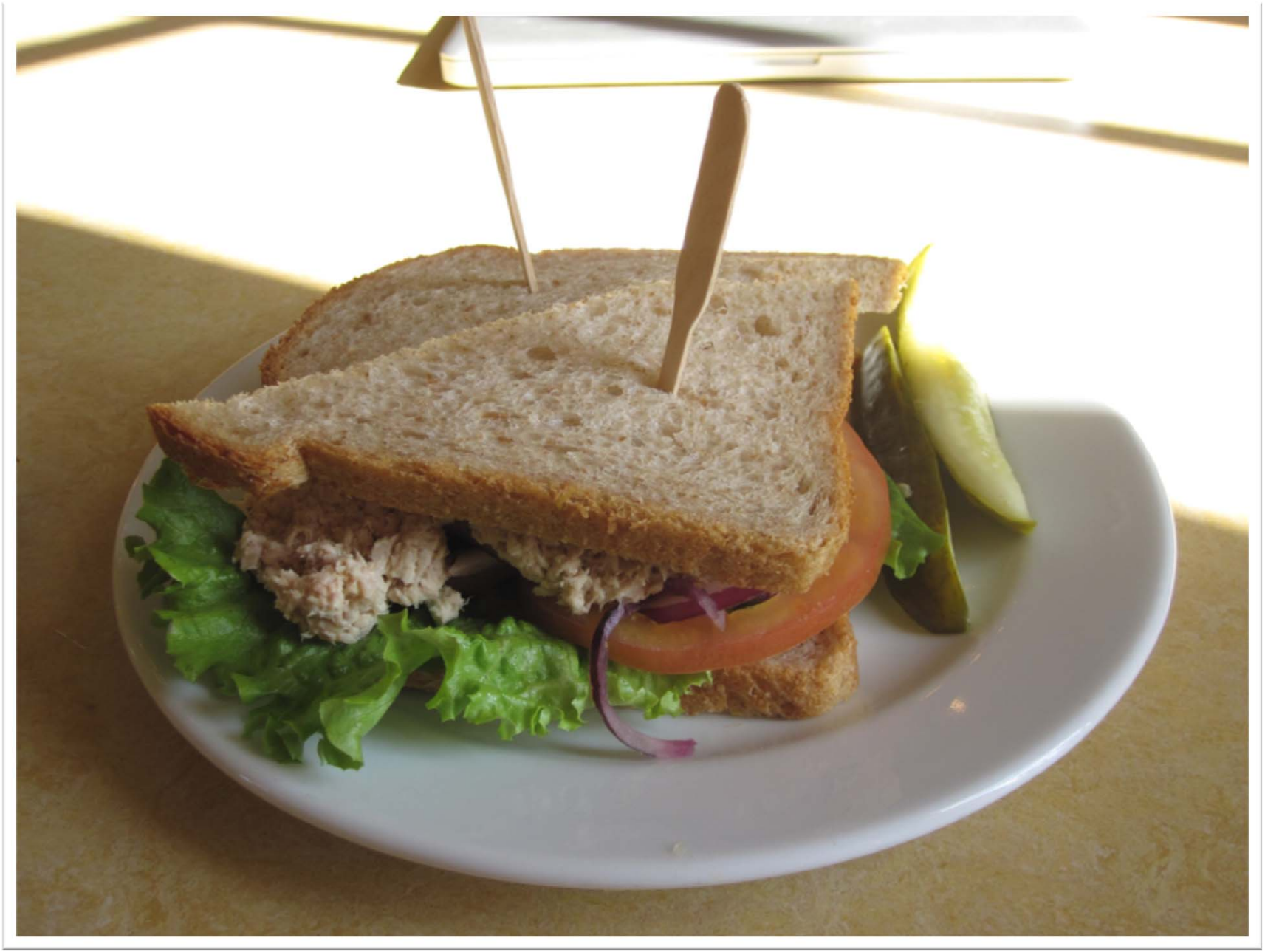

DADO TEA
TistiK
STOP

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


Snacks

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


DINING HALL
Recycle These Items!



So maybe the Greenhouse Tuna Sandwich is much cheaper?

Actually, prices are as follows:

- Greenhouse Café: $6.40, premade, no pickle, no chips
- Dado Tea: $5.50, freshly made, choice of bread, toppings, at least twice as much tuna
- HBS: $5.95, freshly made, choice of bread, toppings, pickles, chips
- Law School: $5.25, freshly made, choice of bread, toppings, pickle

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

More about Greenhouse sandwich

- Bought from Rachael's Food Corporation
- Costs at most $3.40
- Suggested retail price $5.49
- Greenhouse sells for more! Markup of at least $3
- Why such poor quality and high prices?

rachael's
FOOD CORPORATION

749 MEADOW ST. CHICOPEE, MA 01013
EMAIL: ORDERRACHAELS@JPOLEP.COM
PHONE: 413-592-4141 EXT: 202
FAX: 413-592-0166

WEDGE SANDWICHES

UNIT COST:$3.40 SRP:$5.49 GM: 38%

875336 HAM & SWISS
Ham, Swiss Cheese, Lettuce and Tomato on Wheat
875286 TUNA & CUCUMBER
Rachael's Tuna Salad, Cucumber and Dill on Multi Grain
875294 ROAST BEEF & CHEDDAR
Roast Beef, White Cheddar Cheese, Lettuce, Tomato an
Red Onion on Marble Rye
875310 ITALIAN & PROVOLONE
Zesty Italian Ham, Hot Ham, Salami, Pepperon
Provolone Cheese, Lettuce and Tomato on White

WELCOME FRESHMEN AND FAMILIES

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

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

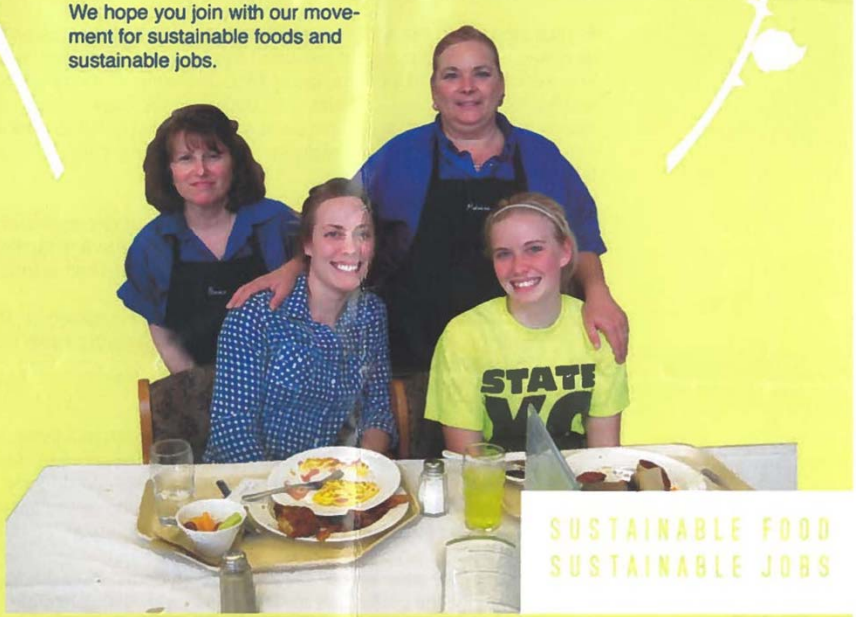
Food for the Harvard Community should be produced in house in a healthy, sustainable manner.

Harvard should honor the social compact with us.

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

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

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



SUSTAINABLE FOOD
SUSTAINABLE JOBS

Wages

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

* Employees in higher or equivalent classifications may not bump into the Truck Driver classification under Article 16.
** When bumping is permitted under Article 16, these classifications may bump into the similar or lower classifications. Examples: Barista to Checker, Fine Dining Cook to General Cook.

Wages

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

Other Reasons

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

Why is The Greenhouse Café inside Harvard Food Services?

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

General evidence on what happens after privatization from thousands of firms

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

More general issues

What are the limits of privatization/contracting?

Examples: Air Force 1
Nuclear Weapons
Prisons?

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

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