

ECONOMIC DIRECTIONS

A Publication of Saint Vincent College's Alex G. McKenna Economic Education Series

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Privatization: A Worldwide Movement



"We are living through an historic period. We are witnessing the death throes of socialism and have seen the triumph of democratic values."

(The following is a transcript of a lecture delivered by Dr. Emanuel S. Savas, chairperson and professor, Department of Management, School of Business and Public Administration, City University of New York, at Saint Vincent College, Latrobe, Pennsylvania, on March 20, 1991. The lecture was the fourth and final presentation in the 1990-1991 Alex G. McKenna Economic Education Series of lectures on privatization and government deregulation.

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We are living through an historic period. We are witnessing the death throes of socialism and have seen the triumph of democratic values. Those values are individual freedom, private ownership, and free markets. These three elements go together and reinforce each other.

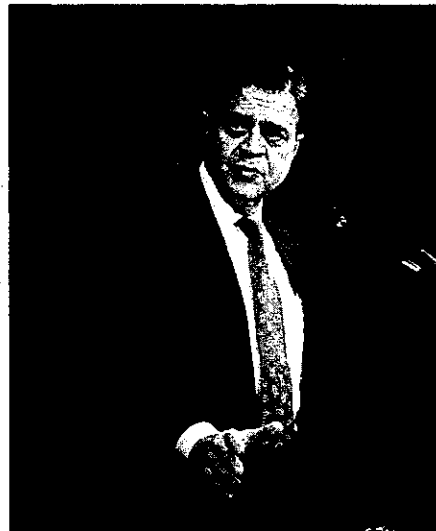
An important part of this historical transformation is the worldwide movement toward privatization. It is going on in what used to be called the East and the West; it is going on in the North and the South, i.e., the developed countries and the developing countries. It is going on in democracies and dictatorships, and in capitalist, socialist, post-socialist, communist, and post-communist countries.

Let me define privatization. Privatization means reducing the role of government or increasing the role of the private institutions of society in satisfying people's needs. What are these private institutions of society? They include the marketplace and business firms that operate in the marketplace, of course. But private institutions of society also include all the various voluntary groups and associations that free citizens form, including the church, neighborhood organizations, civic organizations, charities of various kinds, and so on. And the private institutions of society also include the family. After all, the family is the original Department of Education; it is the original Department of Health, Housing, Welfare, and Human Services.

There is a growing recognition that government is really not very good at certain tasks even though it may squander a great deal of money pretending that it is. I am thinking of some very controversial and troublesome areas. I would argue that government is not very good at preventing teen-age pregnancy, for example, no matter how many free condoms are distributed; government is not very good at curing drug addiction, and government really is not very good at helping the homeless. I do not have to tell you here at Saint Vincent College that the private sector is much better at dealing with these kinds of issues. Family, church, and the community are much better at addressing these kinds of tormenting social problems than any number of government agencies.

Let me cite one particular example — one that is both sad and at the same time outrageous. It concerns a Catholic church in Brooklyn, Our Lady of the Little Flower. Several years ago, *The New York Times* reported that the church was terminating its ten-year-old program for sheltering homeless men. Why?

First let me describe the program. It was a small program; only two or three men at a time were in it. When they were brought into the program, the men would have to stop using drugs and alcohol, clean themselves up, take the clothing the church volunteers provided for them, and take jobs found for them by church members. The program worked well, but it was being shut down after ten years. Why? New York had not run out of homeless men. But the church did lose its clientele, so to speak. The reason was that the City of New York opened up a men's shelter just two blocks away from the church. The men chose to go to the city shelter rather than use the shelter at the Catholic church. The explanation was depressingly simple; men who were interviewed said, "At the city shelter, they don't ask us any questions. When we go there, we get food and a bed, and they don't hassle us. At the church, they make us change our behavior."



This is what you might call Gresham's Law of Social Services. Just as Gresham's Law in economics means that bad money drives out the good, bad social programs drive out the good ones. There is no question which was the better program. It was the one that resulted in change of behavior by the unfortunate individuals involved, rather than the city program where food and shelter is available to anyone with no questions asked and no changes in behavior are required.

"There is a growing recognition that government is really not very good at certain tasks, even though it may squander a great deal of money pretending that it is."

Forms of Privatization

This depressing little story reminds us that privatization encompasses several different forms. Contracting out or delegation, in the broad sense, represents a common form of privatization, but it is only one form. Another form is divestment, where government sells off state enterprises like Conrail or British Telecommunications. But there is a third form of privatization as well, and that is displacement - where the private sector emerges and displaces government in performing those functions that government does poorly. Displacement means getting government out of the way to allow better private institutions to emerge to perform that role; the church example illustrates this last form.

Deregulation is an important mechanism for displacement, allowing the private sector to undertake certain functions while they withdraw away at the state level. Indeed, we have the example of Hungary where the black market, or what used to be the black market, represents a significant part of gross national product; in China also, technically illegal black-market entrepreneurs sprang forth. After Tiananmen Square, many were put out of business; some were even jailed for free economic activity. In the Soviet Union today, there is again a repressive crackdown on black marketeers who are somehow blamed for stealing from the people and for causing economic chaos. In fact they are probably the Soviet Union's last hope for salvation. Government deregulation is an

important tool for privatization. After all, it is government price controls that are causing the following apparently unrelated phenomena: the shortage of soap and shoes in the Soviet Union and the shortage of food and thus famines in Africa. Even the housing shortage in New York City is a phenomenon caused by government and government regulatory activity.

Divestment, the sale of state enterprises, is a major phenomenon and has been since 1979, when Margaret Thatcher became Prime Minister of Britain. My latest figures indicate that in 1989 twenty-four different countries had sold off major industrial enterprises with total sale value of \$25 billion dollars - and the activities continue. I mentioned Conrail in the United States; the United States does not have too many state enterprises. Britain had many, and now has relatively few; Argentina recently sold off what is arguably one of the worst telephone systems in the world.

The National Telephone Company of Argentina actually took seventeen years on average to install a telephone; seventeen years was the average time required to get a telephone installed in Buenos Aires. If you go to downtown Buenos Aires and look up, you see a great many wires strung between office buildings. They are illegally installed private telephone lines connecting various offices. The city looks as if it is infested with giant spiders because, if businesses are to survive, they have to install illegal telephone lines between offices. In response, the National Telephone Company hired extra workers. But the workers were not hired to install more telephones; they were hired to cut the illegal lines. Of course, businesses bribed the workers not to cut the lines! (In my next incarnation, I want to come back as an employee of the telephone company of Argentina, to be paid to cut the wires and also to be paid not to cut the wires.) The sale of the company is an example of divestment.

With delegation, government retains responsibility for a service and yet utilizes the private sector to perform the work. We have "contracting out" in the United States, and more than two hundred different municipal, state and local government services are contracted out to private firms under competitive bidding. With a fiscal crisis affecting so many American cities

and states, and loud citizen demands for greater efficiency in government, privatization is a very important tool which can be used effectively to continue to provide services and yet to cut taxes.

Privatization and Productivity

The standard political approach in a budget crunch is either to raise taxes or to cut services. There is a third approach, however, and that is to increase productivity. A tested approach for improving productivity in government is to introduce competition. The problem of government is not that people in government are somehow inferior to people in the private sector; they are not. The issue is not public versus private; it is monopoly versus competition. Most government services are monopolies. Monopolies are bad for the consumer whether they are public or private monopolies. And the antidote for monopolies is competition. Contracting out, franchising, vouchers - these are all techniques for privatization which give greater choice, introduce competition, and result in improved services at remarkably lower costs.

This is not a matter of rhetoric. A number of major studies have been conducted by academics and by government agencies in the United States and in foreign countries (including Canada, Switzerland, Japan, Germany, and England), comparing contracted services versus services produced in-house by government agencies, at the same level and quality of service. The findings are unanimous; average savings are about twenty-five percent.

When political leaders complain that taxes must be raised or services must be cut, they should be reminded that there is a third alternative, namely, increased productivity. The single best way to increase productivity is not through management training programs, but rather through competition. I have learned through my experience with the city government in New York and in Washington, when I served as an Assistant Secretary in the Reagan Administration, that the best way to get agencies to apply well-known management techniques is to introduce competition, and then everybody starts copying those techniques.



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EXHIBIT VISITORS - Carol Pollock (center), director of Saint Vincent College's Kennedy Gallery gives a tour of an exhibit, Perspectives on the Middle East, to Attorney Jay Ober of Greensburg (left) and Dr. Emanuel Savas of City University of New York. The exhibit included prayer rugs, ceremonial cloths, camel bags, children's clothes and other hand-woven objects used in village life in Turkey and Afghanistan from the collection of Patricia A. Forbes of Pittsburgh.



Distinguished Alumnus Dr. Charles J. Flavin, P'47, C'51, H'87, senior vice president at Shearson Lehman Hutton, and his wife, Mary Lou, were among those who attended Dr. Savas' presentation.

The Rocky Road from Socialism

I would like to focus on the topic of the first lecture of the series (October 17, 1990, "Western Experiences with Privatization: Are there Lessons for Eastern Europe?") when Professor Ryan C. Amacher spoke about privatization in Eastern Europe.

I have spent quite a bit of time in Eastern Europe, the Soviet Union and China in the last two or three years. It is indeed a rocky road back from socialism. The transformation of socialist economies is a daunting task and it is interesting to see how privatization fits in here. The ultimate objective of economic reform is to achieve a market-based economy. But this cannot be achieved by simply deregulating prices in post-socialist countries, because goods and services there are produced by government monopolies, and have been throughout the entire period of socialist control. Eliminating price controls for monopolies will result in the expected effect: higher prices. Price controls should not be deregulated unless there is competition. But there is no competition without multiple producers, and in order to have multiple producers, there must be private producers.

In turn, private producers cannot exist without what I call the "soft infrastructure" of privatization. This means there must be laws allowing private ownership of the means of production. There must be contract law and a mechanism for enforcing it so that participants in the marketplace who arrive at an agreement can have that agreement legally enforced. There must be laws to establish the rights and privileges of corporations. There must be bankruptcy law in order to allow failing organizations to go out of business in a controlled process. Another necessary element is anti-monopoly law. And there must be tax law.

In China, for example, they did not have adequate tax laws. After Tiananmen Square, the government clamped down on entrepreneurs, claiming that entrepreneurs were tax evaders. Just before Tiananmen, there were estimated to be twenty-one million private businesses in China, mostly one-man operations. In about six months, about one-third of them were shut down by the police on the grounds of criminal



Mr. James L. Murdy, (left) senior vice president / finance and chief financial officer at Allegheny Ludlum Corporation and a member of the Saint Vincent College Corporation Board of Directors, and Dr. Gary Quinlivan (right), associate professor of economics at Saint Vincent, pose with Dr. Savas.

tax evasion, even though there really were no clear tax laws in effect.

Together, these elements constitute the "soft infrastructure" needed to advance toward a market economy. We who have grown up in the United States or any other market economy really cannot appreciate these elements because we take them as second-nature, part of the natural environment. Yet, in a country that does not have those elements, it is an extraordinarily difficult process to introduce them, and one encounters a serious attitudinal problem.

Let me share some of my experiences in the Soviet Union. Several years ago, I addressed a meeting of about 100 to 120 people from the Budget Bureau of the City of Moscow. These were all college educated men and women, ranging in age from 20 to 50. In the course of my talk, I mentioned that a friend of mine in New York had recently started a plastics business; he had opened a factory which used polyethylene pellets to make plastic bags for new shirts. I mentioned this merely in passing, but then the questions started.

"What do you mean he started a business; where did he get the factory?" I replied that he looked in the newspapers and found factory space of the appropriate size and shape available for rental.

"How was it possible that there was an empty factory?" "There was a vacant factory," I replied. "Was it in the five year plan?" "No," I said, "We do not have a five year plan."

"Where did he get his workers?" I said, "He put ads in the papers. He needed only about 20 to 25 workers with rather modest skills, and he hired them."

"Where did he find the workers and how were they assigned to him by the planning agency?" "We do not have a planning agency," I said, "You just advertise in a newspaper. If people like the job, they apply and you interview them and if you like them and they like you, you hire them."

"Where did he get his raw materials from?" "A chemical company sells the polyethylene pellets to his company," I said.



Saint Vincent College economics students Linda Wirfel, C'92, Virginia I. Robson, C'92, and Michael J. Kozy, Jr., C'92, show Dr. Savas a copy of the *Economics Directions* newsletter.

"Well, how did he get that included in the plan?" "No, no, we do not have a plan," I said again.

"Where did he sell these bags that he was making?" "He went to shirt manufacturers and sold the bags; if they were better or cheaper, or if he gave faster service, he got a customer," I explained.

"How did he arrange to get this included in the plan?" "No, no, we do not have a plan," I explained one more time.

Then came the payoff question. "How many years did it take to do all this?" And I said that it took about six to eight months. At this point the audience, which had been very nice up to this point, made all sorts of loud sneering sounds — Capitalist propaganda! He is lying!

It seemed obvious to them, with their experiences, that what I was describing could not possibly have been done in six or eight months; this would be a multi-year undertaking in the Soviet Union. Here were college educated people who could not comprehend the functioning of a market for this kind of simple industrial activity. Even though there are free markets in Moscow where you can buy fruits and vegetables from farmers, these educated people could not extend that concept to the manufacture of plastic bags. This illustrates the kind of barrier that is faced in those countries in changing to a market economy.

In a more recent example, just a few months ago, our university had a training program for groups of Soviet plant managers who came for two weeks of special executive education. These were plant managers running large enterprises of 10,000 to 15,000 employees; they were from the upper levels of the industrial administrative hierarchy. In one conversation, after I had spoken about owning shares of an enterprise, somebody in the class asked what I meant by "ownership;" how does a person show that he owns something? Another lengthy question and answer session followed, including a very simplified explanation of the workings of the stock exchange. Again, these are the very simple things that we take for granted, but they are intellectual breakthroughs for many people whose only experience is in socialist economics.

In the very same class, I recall another ques-

tion. It was from an older plant manager. He stated that he did not see how privatization could make any improvement in his factory. He explained that he was already working twelve hours a day; if the factory were privately owned, he could not possibly work any more than twelve hours a day, and therefore it could not be any better. Think about this man's observation — private ownership implies to him that there is a slave master with a whip forcing people to work harder. The man could not comprehend that private ownership creates mechanisms for decision making and incentives for people to work more effectively and more efficiently without enormous amounts of bureaucratic red tape.

There is another problem in the Soviet Union. In the last seventy years there has been instilled in the people, by constant propaganda, the notion of absolute egalitarianism. A friend of mine in the Soviet Union remarked that the Russian people would rather be equally poor than to have some people richer than others — even if all were better off than they are today. That is a damning indictment of the system that has produced this line of thought.

Privatization in China

In China on the other hand, you do not have blind egalitarianism. In fact, in China I found very significant opposition to what is called the "iron rice bowl." (The iron rice bowl is a metaphor for a perpetually full bowl of food available to everyone whether he is working or not, whether he works hard or not, whether he even shows up at work or not.) When I was there before Tiananmen, I found substantial revulsion at that notion and acceptance of the idea that someone who does not want to work should starve to death.

There is a striking contrast between the Soviet Union and China when it comes to privatization and economic reform. Privatization in China started in 1978 with the privatization of farming, which was perhaps Deng Xiaoping's greatest contribution. They still retained the fig leaf of socialism however; technically the farms are still owned by the state, but the farmer for all practical purposes has all the property rights to the farm. He has a fifty-year lease, can pass on the farm to his children, and can even lease the farm to someone else right now and receive rent. The net result of this privatization of farming was a tremendous explosion of food production, to the point where even in northern Chinese cities like Beijing and Shanghai, in the middle of winter, there are ample supplies of fresh food and vegetables. By way of contrast, in northern cities in the Soviet Union, like Leningrad and Moscow, even in the spring and summer there are only scanty supplies of half rotted fruits and vegetables. Another effect of privatization of farming is that everyone in China benefited because there was an ample supply of food. Instead of famines that had characterized the "Great Leap Forward" and the other programs under Mao Zedong, there was prosperity and ample food for everyone.

This prosperity meant that the farmers became the richest people in China. When I was in Shanghai, I went to a department store with some of my Chinese colleagues. One of them pointed to a person buying a color television set. He said that the man was a farmer because of the way he was dressed, and only farmers could afford to buy color television sets.

A further consequence of the relative prosperity in the countryside was that all sorts of cottage industries developed in the countryside. I was being shown the countryside in southern China, after Tiananmen, where in small hamlets among the rice paddies there were industrial smoke stacks. In one little hamlet, I counted 18 industrial smoke stacks among the rice paddies. There were kilns for dried brick and chimneys for the exhaust gases for boilers used for dyeing textiles. Further remarkable consequences of this industrialization were evident near large cities in the special economic zones (areas where privatization was allowed and essentially capitalist forces were allowed relatively free play). The rice paddies near the large cities were fallow. When I asked about it, I was told that the workers had been drawn off into the city to work for the industrial operations, leaving too few to work in the rice paddies.

I was lecturing on privatization, after Tiananmen, to a group of government officials in Fujian province. One of the officials, the mayor of a large city, took me to visit some of the new factories in that town. With great pride, he introduced me to a local millionaire. This man really was a millionaire by American standards; he owned a factory with 700 employees and he made clothing for export. He also owned a BMW and a Mercedes Benz! Because he did not have enough workers (can you imagine . . . a labor shortage in China!) he had just finished constructing a dormitory and had imported 200 more workers from the interior of China because of the labor shortage in this booming industrial town.

Since Tiananmen, the national government has tried to clamp down on this kind of economic initiative and economic reform because they invariably lead to demands for more democracy. As I said before, private ownership, free markets, democracy, and individual freedom go hand in hand. Economic reforms were proceeding much too rapidly for the Communist party to handle. Therefore, they clamped down, willing to forego economic reform rather than to allow the democratic reforms, which are concomitant with the Soviet Union market reforms, to take place.

One can speculate about the difference between economic reform in China and in the Soviet Union; there has been progress in China but little in the Soviet Union.

Greater public disclosure, the ability to speak freely — these have certainly taken place in the USSR. But Perestroika — economic reform — is virtually non-existent. I attribute the difference between China and the Soviet Union to three factors: One, the Soviet Union has had its economic system for seventy years — almost three generations. In China, between 1948 and 1978, there was little more than one generation. In other words, the Chinese still had a vestigial memory of the way markets worked while in the Soviet Union that memory has been bred out of existence. The second factor is that, even during this thirty year period, the Chinese had effective contact with overseas Chinese in Taiwan, Hong Kong, Singapore, North America, and England, whereas the Russians essentially have had no contact with the emigrants who left the Soviet Union during the last seventy years and elected not to go back. The third reason is simply the different historical roles: The Chinese were always the merchants of Southeast Asia, plying their trade

in Indochina, Malaysia, Thailand, the Philippines, and Indonesia. The Russians did not have that kind of merchant tradition. (In fact, the Black Sea commercial activity was, to a significant extent, dominated by Greek traders.)

As for the Soviet Union today, I was there just two months ago, and I came away partly depressed and partly elated. Elated because I saw that there are many people who understand the need for economic reform and know how to do it. The 500-Day Plan by Shatalin and Yavlinsky is very good. I had a chance to study it thoroughly and to meet one of the authors.

Economic and democratic reformers are clustered around Boris Yeltsin, who is the symbol of reform today. To put it plainly, Gorbachev is now the enemy of reform. Reformers in the Soviet Union do not understand the Western infatuation with Gorbachev; they sneer at the notion of Gorbachev's being *Time Magazine's* "Man of the Decade," and are bewildered by the West's economic support of the Gorbachev government.

The good news is that there are some impressive people in Russia who understand the need for reform and know how to effect it. The bad news is that they are in the minority. As someone put it to me, Gorbachev has the tanks, and there is a feeling of despondency, even despair, among the reformers — the sense that people are going to get killed. But there is also the belief that the genie is out of the bottle and cannot be put back in. Inexorably, reform will come, but with it comes the fear that there is going to be a significant stage of repression. Boris Yeltsin has suffered some near accidents, and acquaintances have told me that if Yeltsin is assassinated, there would probably be civil war in the Soviet Union. This possibility — civil war in a country that has thousands of nuclear war heads — is very ominous.

One problem today, of course, is that the Soviet Union is passing one set of laws while the republics are passing different laws. Therefore, the Russian Republic, whose president is Yeltsin, is the spearhead of reform, but there is confusion caused by conflicting laws and the growing question of who has the authority to do what.

The Market in Burned-Out Light Bulbs

I must present an observation, from the Soviet Union, to show the ultimate disaster of a socialist economy. In Kiev, the capital city of the Ukraine Republic, the price of a new light bulb is 35 or 40 kopecks. (There are 100 kopecks to a ruble.) Yet a market has emerged in Kiev for burned-out light bulbs, and people pay as much as two rubles for a burned-out light bulb. I doubt that any American could figure out why burned-out light bulbs would be selling for five or six times the price of a new light bulb; only a native of the Soviet Union could understand that.

The explanation is simple. The price of a new light bulb is indeed only 35 or 40 kopecks, but the average person cannot find, let alone buy, them. There is a shortage of light bulbs, as well as a shortage of everything else. So people buy burned-out light bulbs, take them to their place of employment, and when no one is looking,

"When political leaders complain that taxes must be raised or services must be cut, they should be reminded that there is a third alternative, namely, increased productivity."

they unscrew the functioning light bulb, replace it with a burned-out light bulb, and take the new one home. (One cannot just steal a light bulb, it would be obvious that a bulb is missing, and the police would investigate. This tactic makes things look right.)

While this is the ultimate disaster of a socialist economy, look at the wonderful ingenuity and intuitive market forces at work to produce



markets in burned-out light bulbs! (Obviously, it is not a long-term market; the business majors among you should not begin exporting burned-out light bulbs to the Soviet Union because sooner or later a steady state will be reached between functioning and burned-out bulbs.) The meat stores I visited also showed "socialist shortages." There were nicely refrigerated meat-display cases, but in the cases there was nothing but several jars of tomato juice.

I had an interesting conversation with Moscow's Mayor Popov. He is one of the reformers and



Dr. Savas addresses a full house in the Saint Vincent College Science Center Amphitheatre.

a Yeltsin supporter who has publicly resigned from the Communist Party, as has Mayor Sobchak of Leningrad. We were in a magnificent room in the city hall, and I mentioned to him that I had been in that very same room eighteen years earlier with one of his predecessors, who had complained to me that he only had 1.4 million municipal employees — a shortage of 200,000 because he really needed 1.6 million employees. (If that number seems gargantuan, it is because city government in Moscow performs not only the conventional municipal functions of American cities, but it also runs bakeries and breweries, ice cream carts and department stores, watch repair stores, laundries, and factories. All are city enterprises owned and operated by the city government.

Mayor Popov laughed and said that Moscow now had two million employees and he wanted to privatize. Within the next two years, he wanted only one million employees. Imagine the political obstacles of doing that! Consider New York City laying off half its employees. Mayor Popov explained to me that he first wanted to sell all the stores that are city-owned and operated, either to the current managers or by auction. The biggest obstacle, however, was the store managers who do not want to own the stores. At present, he explained, only five percent of the goods coming into the store are actually sold at official prices. The other 95 percent "go out the back door to the black market". In other words, the store managers make a lot of money by selling these goods on the black market, and they do not want to become entrepreneurs in any other sense than they are right now. Thus, they are the biggest obstacle to privatization of city-owned shops.

East-Central Europe

The situation in Hungary, Poland and Czechoslovakia is much more hopeful than in the Soviet Union, but they, too, have unique problems. The number of enterprises is very

large; in Hungary there are 2,600 state-owned industrial enterprises; in Poland — 8,500, in the Soviet Union — 46,000. Consider how long it would take to privatize these state enterprises by the conventional techniques that have been used in the West, namely, public sale of shares or by auction after valuation. In England, a country with a well-developed capital market whose people are used to buying and selling shares, even with a very aggressive program of privatization Prime Minister Thatcher was able to privatize, on the average, only one enterprise per month during her eleven years in office. Suppose that Eastern Europe, through some miraculous means, could privatize one enterprise a week through these methods. That means that it would take Hungary more than fifty years to privatize their enterprises. It would take Poland more than 170 years, and the Soviet Union almost 1000 years to privatize their enterprises. This is obviously not the solution.

About the Series

The Alex G. McKenna Economic Education Series is presented by the Saint Vincent College Departments of Economics and Business Administration under the auspices of the Center for Economic Policy Education at Saint Vincent College. These periodic lectures are open to the general public and their purpose is to explore the role of free markets in solving many of the social problems confronting the United States and the world today. Dr. Gary M. Quinlivan, associate professor of economics at Saint Vincent, directs the series.

The Alex G. McKenna Economic Education Series is made possible by a grant from the Philip M. McKenna Foundation Inc. of Latrobe.

There is another problem as well — who owns the enterprise? There are very ambiguous questions of ownership now in Eastern Europe. Is it the original owners who were forced to give up the enterprise when it was nationalized in the late 1940s? Is it the workers who have been working there for many years? Or does the state, the city, or the Communist party own it? The situation is ambiguous.

Also, what is the value of these enterprises? There is no useful accounting in a socialist enterprise. If an American accounting firm tried to establish a value for the enterprise, it would be a very long and expensive undertaking.

Next, who is going to buy it? The ordinary people in Hungary, Romania, Czechoslovakia, Poland, and Bulgaria have little money. If there were an auction or a sale, the concern is that Communist Party members who have money would be the buyers. Of course, they are the last ones who should be allowed to own anything in a free-market economy.

The Poles summarize the situation with a wonderfully witty saying: Privatization means selling enterprises that no one owns and whose value no one knows, to people who have no money. This definition captures the basic problem of privatization in these post-socialist countries.

What is now being proposed is giving away shares in enterprises to the public at large through a rather complex scheme. People would be issued vouchers which can be used to obtain shares of state enterprises. Once these



Dr. Savas (left) is greeted by Dr. Gabriel S. Pellathy, associate professor of political science at Saint Vincent College, who introduced the lecture.

shares are in the hands of the public, a market will develop, values will gradually be attributed to the enterprises and the remaining shares can subsequently be sold in the marketplace. The initial distribution of shares would involve mutual funds in order to achieve some concentration of ownership instead of having every one of the 40 million Poles owning one share of the steel company, for example, thereby precluding effective management.

Examples of these problems are unending, but I have gone on long enough. I would like to close with one professorial observation. The origin of the word "govern" comes from a Greek word which means "to steer." In other words, the job of government is to steer — not to row the boat. But I argue that collecting garbage, running ambulances, operating buses, and a myriad of other such tasks are nothing but rowing. The private sector is better at rowing. Thus privatization, when done properly, allows government to go back to its fundamental role of governing, while taking advantage of the private sector to do what it does best.

Privatization, properly applied, sorts out and allows government and the private sector to do that which each does best and to work together for the benefit of all.

Center For Economic Policy Education Announced

Saint Vincent College has recently announced the establishment of a Center for Economic Policy Education. The Center will be under the direction of Dr. Gary M. Quinlivan, associate professor of economics.

The purpose of the Center is to explore major public policy issues within the context of free market processes and to provide enhanced educational opportunities and policy analysis for students, faculty, the general public and selected professional segments of the public. Activities of the Center will include lectures, seminars, workshops, conferences, publications, and research.

The key program of the Center is the Alex G. McKenna Economic Education Series which brings prominent academic economists to Saint Vincent College. Their lectures are subsequently published in the *Economic Directions* newsletter and are distributed nationwide.

Another program under the auspices of the Center is the Saint Vincent College Economic Education for the Clergy Conference. The purpose of the conference is to provide an opportunity for clergy of all faiths to learn the fundamentals of analyzing and interpreting economic issues. The first Saint Vincent College EEC conference will be held on July 29.

On Our Mailing List?

If you would like your name to be added to the mailing list for either the Alex G. McKenna Economic Education Series Lecture or the *Economic Directions* newsletter, please indicate your preference and send your name and address to:

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