

# Privatization of Government Programs

EXAMPLE STUDENT



# What is Privatization?

Privatization is the process of transferring ownership of a business, enterprise, agency, public service, or public property to the private sector from the public sector/government.





# Advantages of Privatization

1. **Improved Efficiency:** Unlike government, private companies have a financial incentive to increase efficiency. Government-run industries do not see a sharing of profits amongst those employed and so do not encourage behavior that would be conducive to increasing efficiency.
2. **Lack of Political Interference:** Motivated by political pressures and concerns, governments make poor economic managers. Decisions are made with political priorities first and sound economic sense second. A state owned enterprise, for example, may have a surplus of employees, but to improve efficiency and let go the excess workers could bring negative political repercussions, causing the system to remain as is.
3. **Increased Competition:** The government, by virtue of being a government offering a single public service, does not often have to improve based on competition. With privatization will come competition of numerous companies, which typically results in better services and more options, a good thing for American people.
4. **Increased Revenue for Government:** Not only would privatization serve as a cost-cutting measure whereby the government would no longer have expenditure for public programs, but successful privatization would lead to increased tax revenue for the government.



## Disadvantages of Privatization

1. **Natural Monopoly:** If there is only one company that is considered the most efficient, a natural monopoly will be the result. Services that have fixed costs can result in little competition, and that company which holds a natural monopoly may eventually begin to exploit their position, harming Americans.
2. **Public Interest:** Certain public services should not be motivated primarily by profit, but that is the primary motivation of any private enterprise.
3. **Government loses out on Potential Dividends:** Profitable private companies, while earning revenue the government can tax, pay their dividends to shareholders, unlike in a government-owned enterprise where the state itself would profit directly.
4. **Struggles of Regulation of Private Monopolies:** When private monopolies form, such as in the cases of oil or telecommunications, regulation is required and the government must step in to limit the power of the monopolies. This negates many of the positives of moving to privatization instead of state-ownership. Also, regulation of monopolies is difficult in and of itself; take telecommunications for example, where the breakup of the Bell Corporation has only resulted in several even more powerful telecommunications companies forming who now operate under very similar, near-monopolistic behaviors.

# Do Federal Programs need to be Privatized?

In many cases, the Federal government fails to be efficient and sees bloated programs that hemorrhage taxpayer money. However, many rely on the vital public services the government provides. Privatization can fix many of the issues present with Federal Programs, but it is not necessary so long as the Federal Government can implement reforms that improve services to the point that privatization offers negligible benefits.

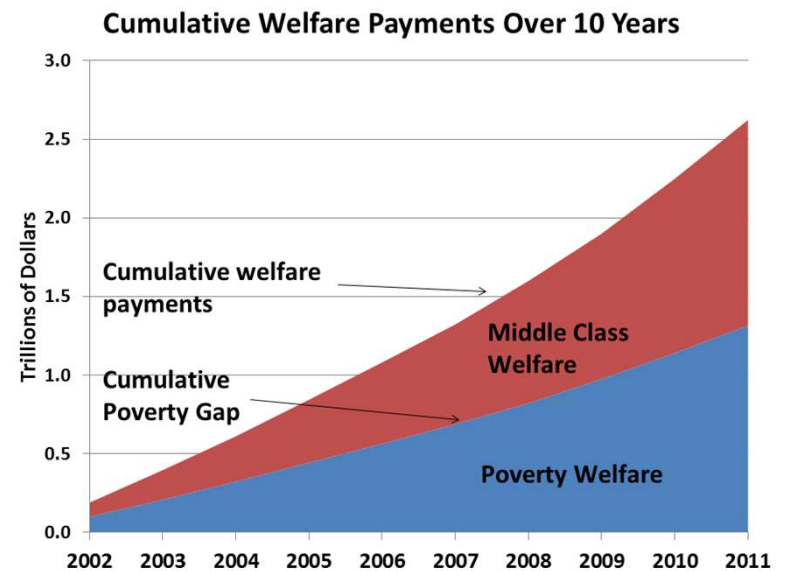




# Welfare in the 21st Century

The United States has had Welfare programs in place in some form since the Great Depression. These Welfare programs continue to provide important financial aid to impoverished Americans, enabling them to afford food, shelter, and education.

Issues pervade the system, such as fraud (reduced over the years), its cost, and reduced effectiveness as a safety net.





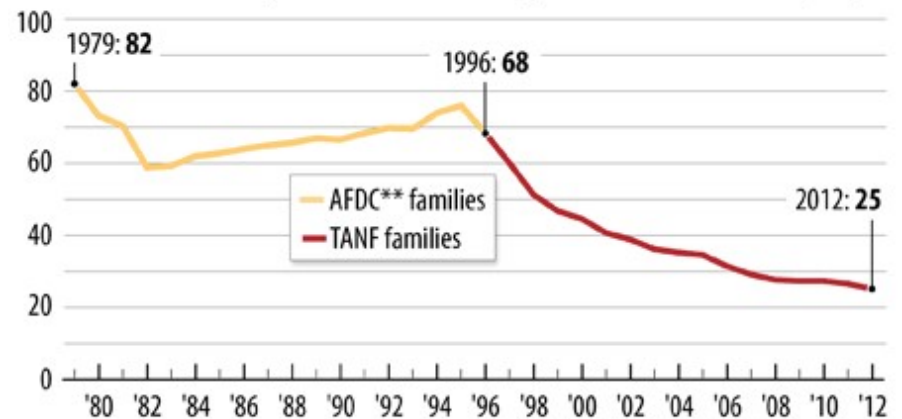
## Welfare: Opinion

The role of many U.S. Welfare programs has declined over time. TANF, the program most associated with welfare besides Food Stamps, has seen a significant decrease in the number of families receiving benefits.

Solutions are needed to the issue of poverty and a reduction in spending on Welfare services. 61% of Americans favor jobs over Welfare.

### TANF's\* Role as a Safety Net Has Declined Sharply Over Time

Number of families receiving AFDC/TANF benefits for every 100 families with children in poverty



\*Temporary Assistance for Needy Families

\*\*Aid to Families with Dependent Children

Source: CBPP analysis of poverty data from the Current Population Survey and AFDC/TANF caseload data from Health and Human Services and (since 2006) caseload data collected by CBPP from state agencies.

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# Pros and Cons of Privatizing Welfare or Portions of Welfare

## Pros

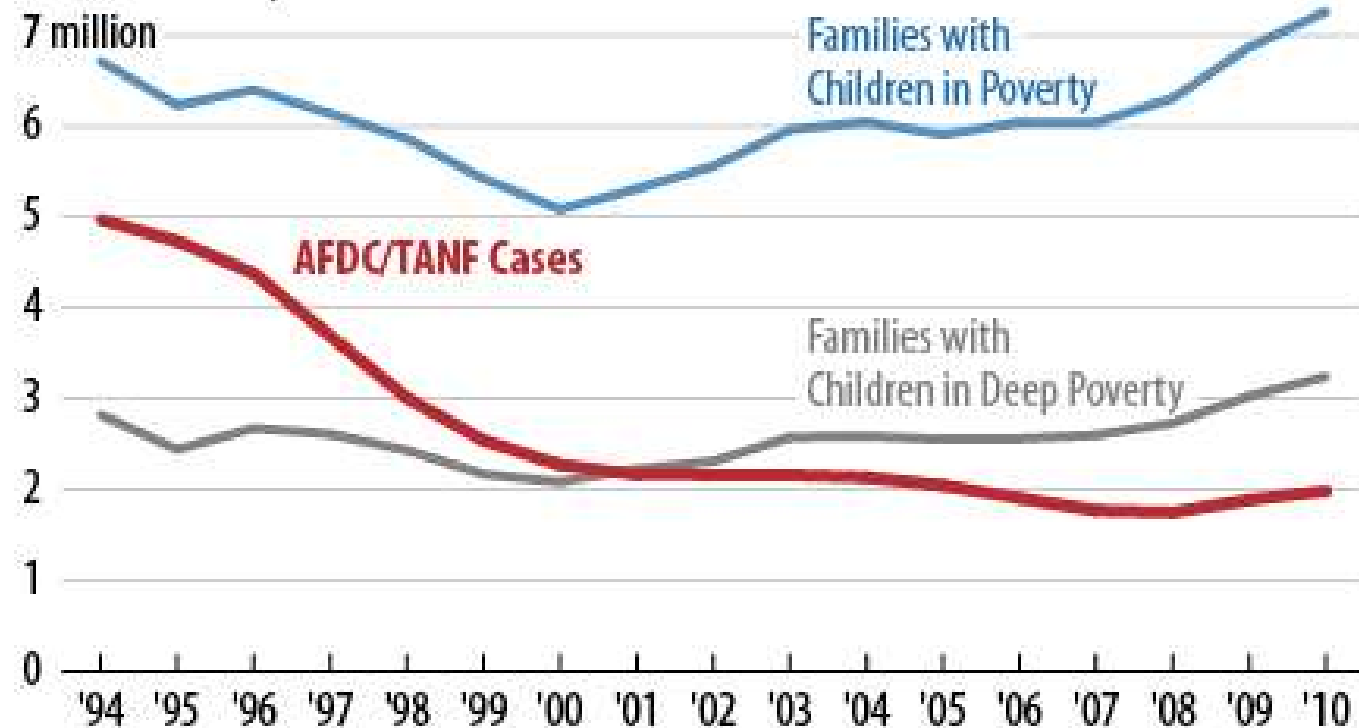
- Potential reduction in those who are impoverished/lift more out of poverty
- More efficient use of resources
- More efficient distribution of aid

## Cons

- Societal and political repercussions; no “community/government” sponsored aid of poor segments of society
- Potential exploitation of the impoverished



## TANF Cases Have Declined Dramatically, Including in Years When Poverty Has Increased



Source: CBPP analysis of poverty data from the Current Population Survey and AFDC/TANF caseload data from Health and Human Services and (since 2006) caseload data collected by CBPP from state agencies.



# Trend and Path to Privatization

- **Trend:**
  - There have been reductions in Welfare spending over the course of the 21st century. Many individuals have come to favor job creation over government financial aid. Numbers of those using welfare programs have dropped recently.
- **Path to Privatization:**
  - Privatization faces many issues due to the reliance of the impoverished on these services.
  - The Private Sector could potentially do a better job at getting aid to those who need it most first.
  - Privatization could offer improvements by encouraging the family unit, self sufficiency and self reliance, and efficient use of resources.

# Education: Purpose in Modern Society

In an increasingly specialized economy, Education has been slow to catch up. Public education enables the vast majority of U.S. children to receive learning on the most basic parts of subjects, but neither funding nor scope of standards allows very much for many of our youth to be prepared for specialized jobs in the modern economy.

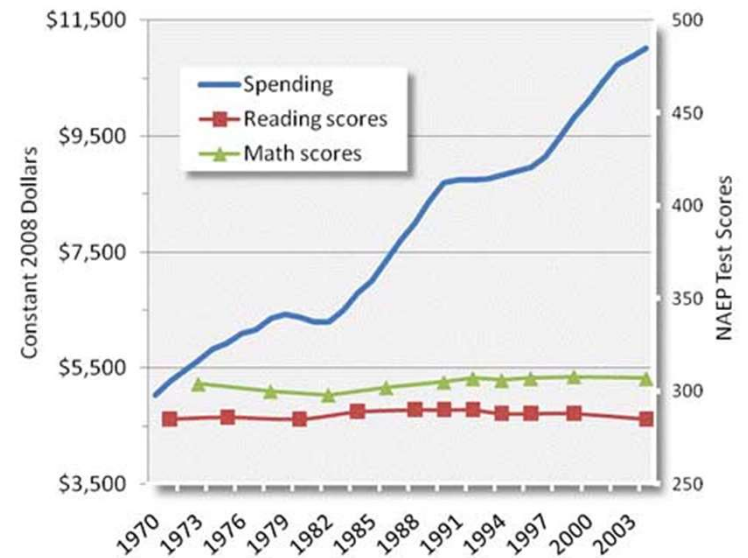
Privatization would help solve this issue by offering a greater focus on specialized skills and careers for students to work on for years prior to entering the workforce.



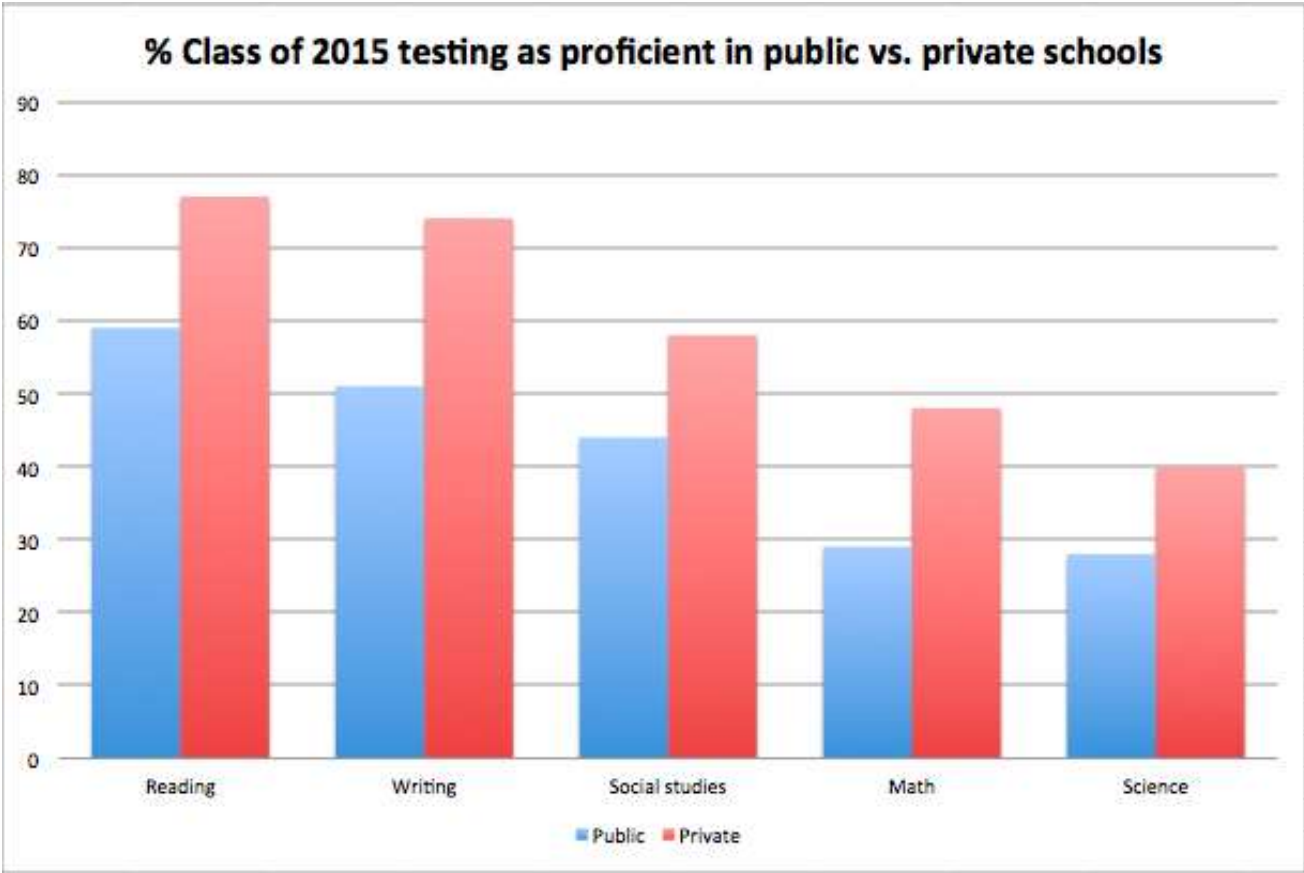


## Education: Opinion

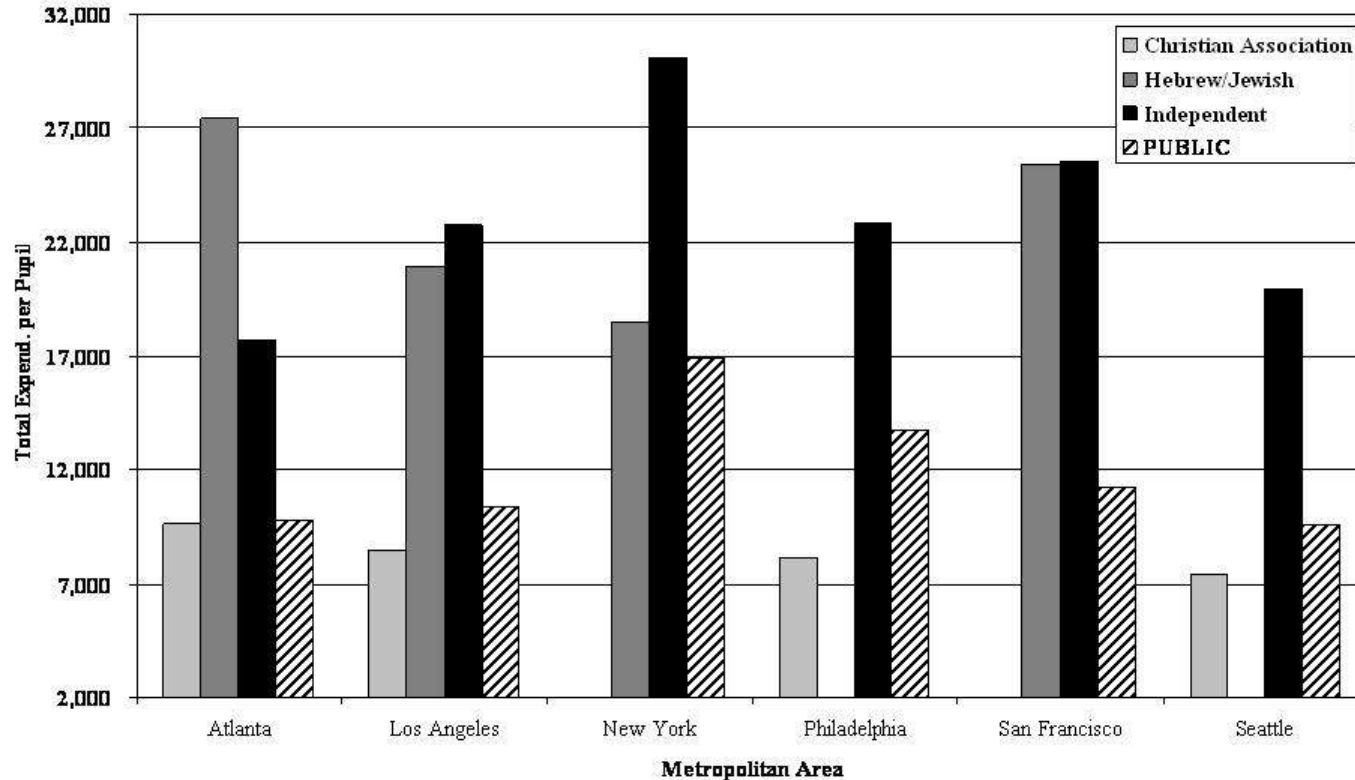
Spending has increased dramatically per pupil over the last several decades, yet only marginal improvements have been seen in average test scores for American students compared to foreign education systems. Whether this is attributable to the antiquated design of the American educational system for an industrial-age economy or failures of the Public education system is unknown. Something needs to change.



Sources: NCES, *Digest of Education Statistics: 2007*, Table 171; National Assessment of Educational Progress (NAEP), Long Term Trends.



**Figure 12**  
 Mean (enrollment weighted) nominal total expenditures per pupil for major labor markets



*Data Source:* Financial data on private schools from Guidestar (IRS 990). Enrollment data for private schools from NCES Private School Universe Survey and reconciled by other sources (school web sites, NAIS, [www.privateschoolreview.com](http://www.privateschoolreview.com)). Public school financial data from NCES/US Census Fiscal Survey 2005-06. NCES Comparable Wage Adjustment used for public and private school regional cost adjustment and merged to private school data by labor market of private school zip code.



# Pros and Cons of Privatizing Education

## Pros

- Private schools focus on specialization
- Smaller class sizes = more per student instructional time and focus
- Private schools have better supplies
- More up-to-date equipment
- More challenging curriculum

## Cons

- Cost of shifting to privatization is high
- Less diverse learning experience
- Higher entry standards make it more difficult for students to enter private education
- Many private schools limit entry based on religious affiliation
- Barrier to entry in poorer communities



# Trend and Path to Privatization

- **Trend:**
  - Expansion of public education, implementation of new standards focusing on academic progress and penalization of poorly-performing systems
  - Obama Administration-era goals to lead world in college completion and make it so every American student receives one year of post-high school education
- **Path to Privatization:**
  - Offering private school vouchers with “universal eligibility”; “means-tested eligibility”; and “universal eligibility with means-tested scholarship.”
  - Giving tax credits to families enrolled in private schools and corporations that subsidize private schools
  - Subsidize private schools for disadvantaged subsets of students





# Social Security's Function Today

Created in the 1930s in the time of the Great Depression and great uncertainty, Social Security Disability Insurance is a federal insurance program that is paid into over an individual's lifetime that provides income supplements to those who become restricted in their ability to be employed.

It is a mandatory program all individuals are associated with from birth (save for some exceptions), and the cardboard Social Security Cards have come to be used as a de facto form of identification for Americans.

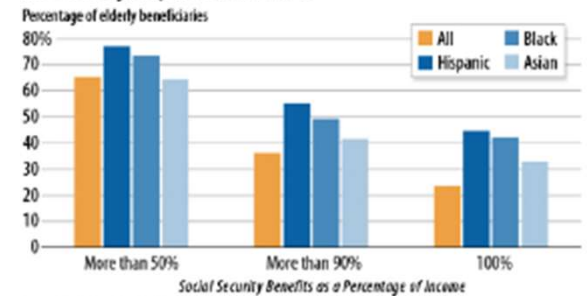




# Social Security: Opinion

The Social Security system is not sustainable and will eventually collapse as our population ages, as it inevitably will. It is an expensive program that has had benefits for many, but has also been ineffective in helping many others. It can only survive as it is by remaining mandatory, but change must occur if we are to have a sustainable support net for the elderly and a system that treats young Americans more fairly and with more freedom.

**Most Elderly Beneficiaries Rely on Social Security For the Majority of Their Income**



Source: Social Security Administration, 2010 data.

Center on Budget and Policy Priorities | cbpp.org



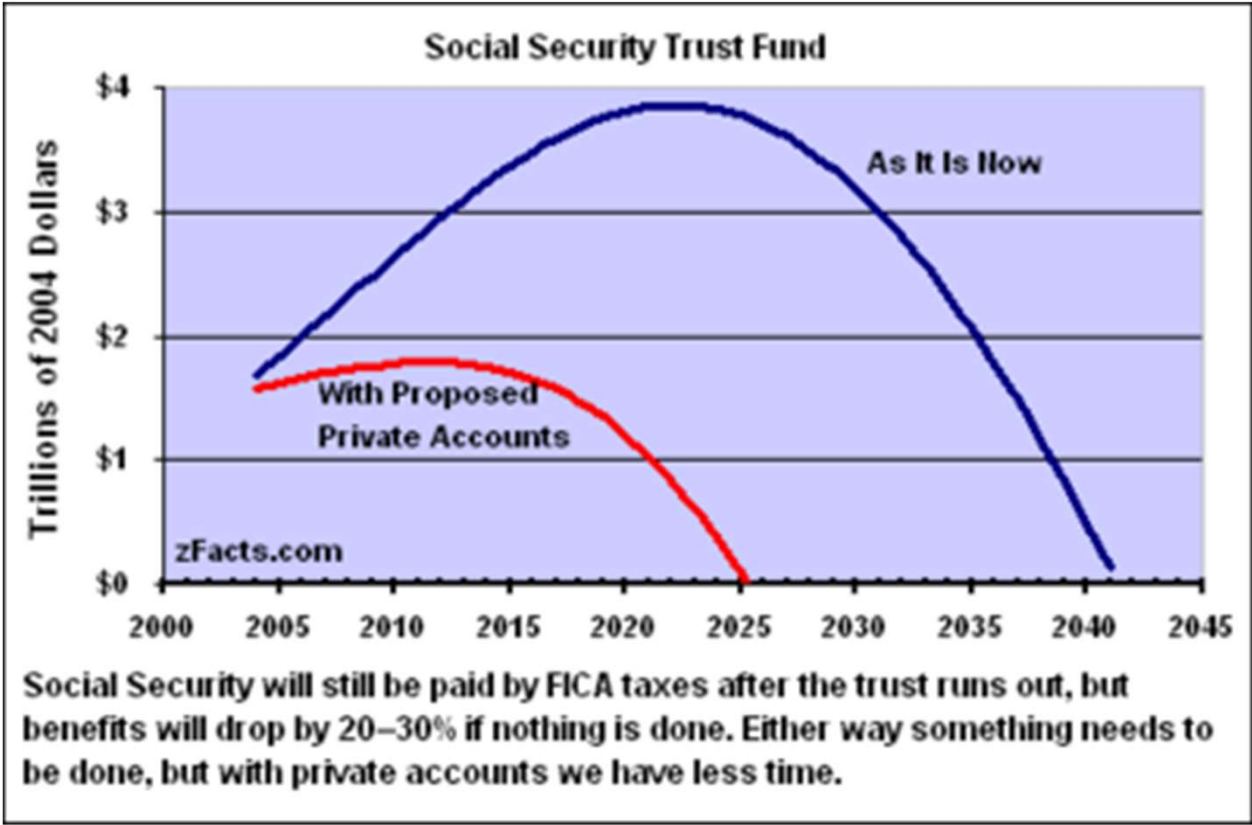
# Pros and Cons of Privatizing Social Security

## Pros

- Alleviates federal spending
- No more mandatory paycheck reductions to be paid into social security
- Freedom to investment retirement benefits as desired
- Reduced government responsibility

## Cons

- Poor financial literacy of Americans limits ability to utilize newfound freedoms
- Federal debt issues as result of special-issue bond system of SS being eliminated
- Does not change worker-to-beneficiary ratio or improve situation with aging population



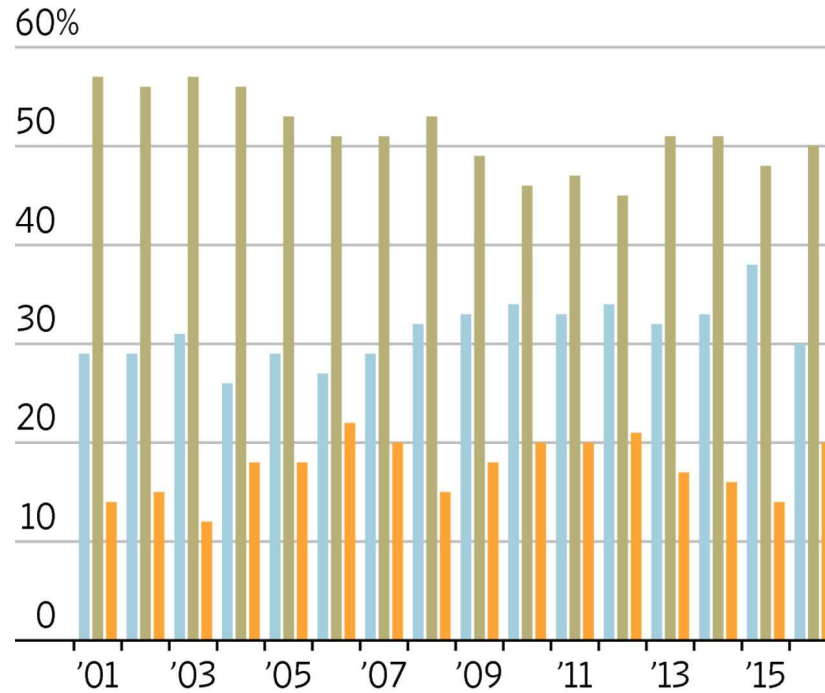


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## Income Expectations

How will Social Security benefits factor in as a source of income in retirement?

■ Major source   ■ Minor source   ■ Not a source





# Trend and Path to Privatization

- **Trend:**
  - Social Security has seen increasing digitalization to adapt to the technology of the 21st century. There have also been changes to the retirement age, taxation benefits, and the addition of spousal and child payment. It is unlikely to be privatized.
- **Path to Privatization:**
  - Privatization is unlikely and difficult.
  - Social security will continue to be a key proficiency subject for advisors and a key discussion item for the federal government in the coming future. A close eye must be kept on the situation as it evolves.



## Conclusion

- Privatization can be beneficial, but there are understandably many obstacles to privatization and many negatives associated with privatization
- I am in favor of the privatization of many programs because I believe that private companies would do a better job in terms of efficiency and use of resources, but I would be wary of certain efforts; we must be cautious in privatization of many programs to avoid the situation actually worsening for Americans.



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