Historians may argue about the negative or positive legacy of the outgoing administration, and political pundits may spin certain outcomes to fit their own ideology or party affiliation, but the current financial crisis and the deep recession we are experiencing will definitely be cited as part of this legacy. Analysts may also squabble over the major factors and reasons behind the dismal economic conditions that we find ourselves experiencing. One of the serious factors that did not receive much attention during these debates was "the privatization of public goods." In this article, some light will be shed on this issue.

To understand this problem, it is important to explain here that there are three kinds of goods and services that are produced and consumed in a market economy: private, public, and quasi-public. Public (or social) goods like the war on terrorism, national defense, judicial system, and police protection would not be produced through the market (the private sector), because they possess three major characteristics: Collective consumption, non-rivalry and non-excludability. Collective consumption means that the population may consume the good or service together (collectively) since the good produces benefits to the community at large, not a specific individual. Non-rivalry indicates that the consumption of one individual does not decrease the consumption of others. Non-excludability suggests that everybody will enjoy the public good whether or not they paid

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for it. Thus, it is the job of the government to supply the public good due to the aforementioned characteristics and also because the private sector's attempt to provide these goods is either not feasible or completely inefficient.

On the other hand, private goods or services are usually produced by the private sector since they enjoy the opposite characteristics of the public goods. Namely, the private goods possess the following three characteristics: individual consumption; rivalry; and excludability. This means you consume the good yourself; if you consume the good it has vanished (not available to others); and if you do not pay for it, you can be excluded from consuming it. Most of the goods in the market (food items, clothing, shelters, appliances, cars, etc.) do enjoy these qualities. Thus, the private sector supplies the private goods or services and it is rather very inefficient for a government to supply the private goods. The examples of the former Soviet Union or the Cuban economy now are the best testimony to this fact.

The quasi-public goods or services (education, health services, roads and high-ways are good examples) do possess most of the qualities of the private goods and some of the benefits of a public good. Thus, if you leave it to the private sector, it will be under supplied. Imagine if we only had private schools, private colleges, private hospitals and toll roads. How accessible would education, health, and transportation services be? Accordingly, it does make a lot of economic sense for the government to support the provision of the quasi-public goods to account for the public benefits provided by such goods and services.

Thus, the successful administration of the economy requires that the government not intrude on the role of the private sector and leave the provision of private goods to private businesses. Also, quite as importantly, the government should take on the responsibility of the provision of public goods and making sure that the production of quasi-public goods is sufficiently supported in quantity and quality.

One of the major problems that occurred over the last eight years has manifested itself in the government not fulfilling its responsibilities toward the provision of both the public and the quasi-public goods. The Bush administration came to office in 2000 with an ideology that led it to take an extreme position on the issue of providing public goods. The ideology can be traced to Milton Friedman's and Ronald Regan's quote with regard to the government "[being] the problem and not the solution". I believe that the Bush administration misunderstood the quote, or at least applied it literally and to an extreme. I think people now can see clearly that government is the problem only when it gives away its role as an arbitrator, regulator, referee, enforcer, and a provider of public goods.

The Bush administration came to office in 2000 convinced that the role of the government in economic activities can be leased to the private sector. So they pushed for privatization of public goods or services wherever and whenever they can and without any calculations for the impact on the society or anticipation of the unintended consequences that could be produced by such privatization. For folks who are not familiar with the term "privatization", it generally means the process of transferring
ownership of business from the public sector to the private one. For the Bush administration, privatization meant the transfer of any government function to the private sector.

In 2002, the Bush administration indicated that they "would place as many as 850,000 government jobs - nearly half the federal civilian work force - up for competition from private contractors." (NY Times, November 15, 2002). The justifications were "to save money by ensuring the lowest cost for many routine duties like mowing lawns, picking up trash, making eyeglasses and printing paychecks." However, soon after the administration started privatizing sovereign governmental functions such as revenue collection, law enforcement, and correctional facilities. Administration of ports and airports as well as management of army medical centers also followed. However, I think the peak of privatization happened by giving many of the functions of the military (including training, and security) to private companies. In Iraq, the contractors have their own weapons, equipment, and their own support system. In a sense, we have now a private army controlled by a private company! What do you think this army will be capable of doing when the war in Iraq is over?

Needless to say, extreme deregulation was the logical extension of these extreme cases of privatization. The latter created the ripe environment to deregulate the financial system on the assumption that deregulation, like privatization, will promote competition and lead to more economic efficiency in the sector. The consequences of this action are well known by now. As for the detrimental outcomes of privatization on the economy, imagine what could have happened if the Bush administration was successful in its drive to privatize the social security system by now?

In addition and most significantly, the provision of the public good through private supplier usually substituted public employees, with expertise and interests in public goods, with private vendors and contractors who were are out to make a quick buck. Also, in the long run, privatization could result in significant excesses when the spending on auditing and supervising private suppliers is considered. In addition, outsourcing by the private suppliers could occur to cut costs and local employment may suffer. Finally, privatization is always under suspicion since corruption in granting contracts and loss of accountabilities is always associated with privatization. "Kickbacks, price fixing, collusive bidding and charges for work never performed, all characterize federal, state and local privatization efforts" during the outgoing administration. For example, many blame privatization for the "deplorable" outpatient care for soldiers at Walter Reed Army Medical Center and the security problems associated with the "Dubai Ports" issues.

I believe the extent of the negative impact of privatization on the economy has not been scrutinized yet and will receive more analysis and more attention in the future. No one knows how much damage the economy took due to the extreme position on the provision of public goods taken by the outgoing administration. However, what is really vital and important now is that the new administration takes a balanced and objective approach on this issue. The signs are pointing to another extreme that might lead us to an even more destabilizing position. Privatizing public goods is truly dangerous, and has led us to this
very disastrous position economically and politically. However, the publicizing of the
private goods that might be coming with the new administration could bring even more
catastrophic consequences.

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