

Carnegie Council \ DRT International Privatization Project

**Is Privatization a
Solution to the
Urban Crisis?**



John Giraudo

Skadden, Arps, Slate, Meagher & Flom;
and Former General Counsel
to President Reagan's
Commission on Privatization



No. 10

The Carnegie Council \ DRT International Privatization Project has been made possible by a generous grant from DRT International, of which Deloitte & Touche is a member.

Is Privatization a Solution to the Urban Crisis?

May 8, 1992

John Giraudo

"The lights are much brighter there. You can forget all your troubles, forget all your cares, and go downtown."

For those of us who can remember, that was 1964 and Petula Clark. The lights downtown are even brighter now. Last week they were burning very brightly—augmented by fires. We can't seem to forget all our troubles anymore—nor forget all our cares. Certainly not downtown.

Perhaps if it were possible we would like to go back to 1964; maybe even 1954. The success of the movie "Back to the Future" seemed to stem in large part from a nostalgia about less complicated times. Childhood for most of us was an armorial age: the music was better, the kids better behaved. Unfortunately, Mr. Peabody's "way back machine" doesn't work anymore. We are stuck in the future. And the future regrettably is now.

The title of my talk this morning asks a question: Is privatization a solution to the crisis in our cities? I believe it is. Privatization is not a panacea, it is a solution. And it may be the only one we have left.

To paraphrase a philosopher, the question is not so much "Is God dead?" but, for those of us less ontologically inclined, "Is Government dead?" As the events of last week unfolded on our TV screens the answer must seem to be "Yes." Our schools are the worst in the developed world—both the students and the buildings. Our bridges are falling down. Our sewers are backing up, and when they are not backed up, the rivers flow out of them into the streets. Our prisons are overcrowded. Our streets full of holes. Once proud cities and states teeter on the edge of bankruptcy. For anyone who travels extensively overseas, parts of America surely resemble the Third World.

Confidence in government at all levels in America has fallen to record lows. Only five percent of Americans surveyed say they would choose a career in government. Why should they? Our cities and states are laying off thousands of public employees; those that remain don't seem to care much

about the rest of us.

The Eastern Bloc is no more, but the New York Bloc reigns. If you doubt me, take a morning off and go get your driver's license renewed from the Department of Motor Vehicles. I recently had this experience in the District of Columbia. Three hours and four lines later you will have it, and your photograph will look like it was taken off the reflection of a dented hub cap. Soviet agriculture works much the same way.

More dangerous is the ineptitude of government. Reports have it that the Los Angeles Police Department was slow to respond last week; that the National Guard could not deploy because it lacked equipment; that fire trucks broke down and had to be towed to the fires. Throughout this recession

our political leaders have debated the same old options: fewer services or higher taxes. We have gotten both. As a result, public anger alternates with apathy.

We hope that Eastern Europe and the Soviet Republics might successfully throw off the deadening hand of bureaucracy and oppression, but at home we feel helpless. Our cities succumb to crime and poverty and court anarchy and lawlessness. Our states are handcuffed by fiscal crisis. And Washington—immobilized by a \$350 billion deficit of its own—drifts through it all like 30 square miles of Disneyland bounded by reality. *Perestroika*, my friends, is what is required here at home, not just

overseas. The time has come for an American *perestroika*; I don't know the Russian word for it, but in English the word is "privatization."

Socialism died in the Soviet Union on December 31, 1990 when the hammer and sickle were taken down from the ramparts of the Kremlin. But it lives on in cities and states across America. Municipal socialism in America predated the Soviet one by several years. Like the Soviet kind it sprang from the same well-spring of idealism which held sway at the turn of the century. America had erupted in an explosion of capitalism which transformed the face of the nation in the second half of the 19th century. No nation has come close to that record of economic expansion. But with that rapid industrial-

"City and state governments are bankrupt. The riots in Los Angeles have given that conclusion a moral dimension as well as a fiscal one. When they become bankrupt, governments do not go into receivership like ordinary businesses. They are not liquidated with their assets returned to the shareholders. They are simply and sadly ignored. If the bankruptcy goes on long enough, they are defied—with dangerous consequences."

ization came problems: exploitation by the private sector; corruption in the public sector. The robber barons and boss tweed made common allies and common enemies.

So the progressive era swept across American government. It replaced patronage with civil service. To keep essential services out of the hands of miscreants, it created public works boards and authorities to run the sewers, the reservoirs, and the bridges and roads. Even Teddy Roosevelt—one of my heroes—gave bureaucracy a respectable name.

This was a worldwide phenomenon. As Max Weber, the German sociologist, put it: “The decisive reason for the advance of bureaucratic organization has always been its purely technical superiority over any other form of organization.” Lewis Mumford may have been the father of the modern city, but Norman Thomas was its political heir. Bureaucracy came of age after the first World War, fueled in large measure not merely by the progressive movement, but by the good intentions of Uncle Sam. It is not widely remembered, but in the last century most city services in the United States were privately provided—from trash collection to fire protection. The turnpikes, the roads and canals were—as they are today—the thoroughfares to new markets; the only difference is that they were under private ownership. Even in this century, the first commercial service airport was a private venture sponsored, in part, by the Wright brothers. Similarly, water and sewer systems were built, owned, and operated by private companies. The same is true of housing.

That all changed with the commencement of the federal grant programs for infrastructure development. The sixteenth amendment to the Constitution in 1913 (to permit a federal income tax) gave the federal government a source of revenue that would, in time, dwarf every possible source of revenue in the country. It produced more money than the federal government alone could spend. Federal grant programs were devised as the means of sharing that money with cities and states.

Beginning in 1916 with the Federal Aid to Roads Act, the federal grant programs today amount to \$112 billion annually, half of which is for infrastructure. The pernicious problem has not been the subsidies or even their size; one could make the argument that the money has not been enough. The problem has been their beneficiaries.

Until recently—in fact, until last November with the passage of the Intermodal Surface Transportation Efficiency Act of 1991—federal grant money, with rare exception, went exclusively to state and local governments for the construction of government-owned facilities. In other words, it has gone to subsidize municipal socialism. Lenin himself could not have planned the revolution better. The private sector, unable to compete with free federal money, was wiped out of

the infrastructure business. Only governments have remained to provide monopoly services, and we’ve all seen the consequences. City and state governments have erected command and control economies that are more Eastern than Western in

“If private ownership could be harnessed to rebuild Los Angeles and the rest of America it could introduce awesome new dynamics; the dynamics of talent, enterprise and innovation. The dynamics of ownership and the market, and the feedback of profit—not the corporate form—make private enterprise the most exciting instrument of renewal men and women have ever invented.”

their responsiveness to the public weal and, like their counterparts in Latin America, they’ve turned our inner cities into pockets of the Third World—and too often lined the pockets of the wrong people.

Mercifully, the cycle may be reversing itself because the federal government has run out of grant money. The money machine created by the federal income tax has ground to a halt. And that, I contend, is a silver lining in the cloud that hangs over our nation.

City and state governments are bankrupt. The riots in Los Angeles have given that conclusion a moral dimension as well as a fiscal one. When they become bankrupt, governments do not go into receivership like ordinary businesses. They are not liquidated with their assets returned to the shareholders. They are simply and sadly ignored. If the bankruptcy goes on long enough, they are defied—with dangerous consequences.

This very threat of bankruptcy which threatens city life across America may have a beneficial effect. With their backs up against the wall, city and state governments have no choice but to become more resourceful. More taxation will not save them. Neither will more federal money. But more entrepreneurship may. I am not alone in believing this. A recent book, *Reinventing Government*, chronicles the revolutionary changes already taking place across America. David Osborne, a Democrat, and Ted Gaebler, a Republican, offer nothing less than a liberation theology. Just listen to some of the book’s chapter headings: Community-Owned Government, Competitive Government, Mission-Driven Government, Market-Oriented Government, Decentralized Government, Enterprising Government, Catalytic Government. In a word, privatized government. Government where the people take back city hall. Government where the public are real owners, not the shadow owners of state enterprises, as they have been in Eastern Europe and the Soviet Union. An American *perestroika*, like the one abroad, must include privatization as its central reform.

To understand just how powerful a force ownership can be, I want to describe to you one particular privatization example—the change that occurs when a group of tenants in a

public housing project take over their living space. Public housing began as a New Deal era solution to the housing shortage. It was intended to function as a way station for families that had been evicted during the Depression. With this limited objective, public housing worked reasonably well, as far as centrally planned, bureaucratic solutions go. But then the dam broke.

“Last week President Bush signed an executive order which eliminated a substantial barrier to privatizations by state and local governments of assets such as airports, ports, highways and waste water treatment plants. Because these assets were built in large part with federal grants, the Office of Management and Budget has long required that the federal government be repaid its past grants in the event the infrastructure was sold. The executive order does away with this disincentive.”

As the immigration of the Southern poor began in the 1950s, public housing moved from being transitional housing to permanent housing. Before long public housing projects were functioning as traps, not safe havens from troubled economic times. The safety net became a snare. Now large numbers of our citizens are stuck in places none of us would even dream of visiting, much less living in—powerless to fight the drugs and the crime.

The only option for the tenants has been to complain to the public housing authority. And a lot of good that has done them. Like the Department of Motor Vehicles, three hours and four lines later, with luck, someone might be available to take the complaint. But in parts of our country the residents are skipping the complaints and taking back the infrastructure. The Kenilworth-Parkside development in northeast Washington has been a stupendous success. In 1980, it was an open air drug market. Today, the drug dealers have gone, crime is negligible, and the buildings are in better shape than they have been in for decades. The person responsible for this change is a remarkable woman—Kimi Gray.

Ms. Gray believed that a family's home was truly its castle and she set out to prove it. In 1982 she persuaded the D.C. Public Housing Agency to let the tenants manage the property. They took it over and rewrote the rules. They held monthly meetings of all the tenants; set up fines for those who littered or loitered or failed to cut the grass; and hired a security service to chase the drug dealers away. Rent collection went up 60%, which came about largely through an increase in tenant income. This was not the result of the eviction of poorer families and their replacement with others, but by the establishment of a thrift store, a day care center, a cleaning business, and a sandwich shop—all businesses and jobs created by the tenant association. Owners take care of a home better than renters take care of a house. No wonder Kimi

Gray proudly embraced Queen Elizabeth when the Queen recently stopped by Kenilworth—now she too has a castle of her own.

Ownership is a powerful stimulus. The book *In Search of Excellence* recounted an experiment in which an industrial psychologist brought a group of adult subjects to a lab, supposedly to take part in an investigation focusing on the effects of noise on productivity. All of them were given some difficult puzzles to solve and some rather dull proofreading to do. While they attempted these two chores, a raucous tape—consisting of one person speaking Spanish, two people speaking Armenian, a mimeograph running, a chattering typewriter and street noise—ran in the background. Half the subjects were given a button they could push to suppress the noise, the other half were not. The results? As you might expect, those with buttons to push

solved five times more puzzles and made one quarter less proofreading errors than those who had no button. The incredible fact, however, was that not a single one of those with buttons actually pushed them. The experiment was repeated several times with the same result. The mere fact that people perceived that they had a modicum of control over their lives—the option of pushing the button—made an enormous difference in performance.

The tenants at Kenilworth-Parkside experienced the same phenomenon. Before the tenants had taken over, they were helpless subjects to authority—legal and illegal alike. They expected to be victimized. They expected their sons and daughters to become drug addicts, and they expected to have no power over their lives. Now they are self-reliant and have a new view of themselves and the world around them. They have gained the self-respect so long denied them. Many more such projects are needed.

If private ownership could be harnessed to rebuild Los Angeles and the rest of America it could introduce awesome



President Alberto de Benedictis (left), senior vice president, Finmeccanica, and John Giraudo.

new dynamics; the dynamics of talent, enterprise and innovation. Marx was correct when he said we should not underestimate the power of private property to generate production and bring about social transformations. The dynamics of ownership and the market, and the feedback of profit—not the corporate form—make private enterprise the most exciting instrument of renewal men and women have ever invented.

For society to benefit from this deep-seated desire to fulfill human needs, it is the social responsibility of government to unleash ownership and channel it to those needs. The task of government is to establish incentives in such a way that the profit motive is made to do what society most requires.

It is not a footrace we are after, but a partnership. A private/public partnership in which government does what it does best which is steer; and people do what they do best, which is produce. The best of each is certain to come forth. Rather than discourage the initiative and drive of the individual, government must seek to harness individual initiative for the collective good. How then is the American *perestroika* to come about on a wide scale? The Kenilworth experience is a macroeconomic change. Can we have a macroeconomic policy for privatization?

A month ago 100 economists, including six Nobel Prize winners, wrote a letter to President Bush, the Federal Reserve, and Congress. I know this sounds like the beginning of a bad joke, but for once it isn't. Instead, the 100 economists suggested an unconventional program for economic recovery. A key feature of that program was a proposal to increase federal grants to state and local governments by \$50 billion to rebuild our crumbling infrastructure. According to these economists, spending for investment of this kind is very different from spending for consumption. It goes to increase the nation's productive capacity. Predictably, the suggestion to increase federal spending by \$50 billion has fallen on deaf ears in Washington. With federal interest payments on the deficit running now at nearly 23% of all federal outlays—soon to be the single largest domestic program—and the budget agreement in limbo pending this year's elections, it is hardly surprising that 100 leading economists made no impact at all on our public officials.

Their proposal, however, should not be disregarded. I have a suggestion. Our present infrastructure represents a gigantic pool of untapped capital. This capital lies idle in large tracts of real estate owned by state and local governments up and down the country: ports, airports, waste water plants, highways, housing, municipal power systems, and a host of similar kinds of property. Because these assets are in state or local government ownership, they earn a zero return on their equity. Because they have no real owners, they are poorly utilized. It ought to be possible to empower people to run these enterprises, by making them owners—through municipal buyouts. This would have a dual effect.

For those of us who believe that ownership makes a difference, it would liberate this infrastructure from its present state of neglect. Selling these assets would also produce a pile of cash for cities and states to rebuild the inner cities. The Reason Foundation in Los Angeles estimates that privatization of such a kind would fetch more than \$200 billion



Porifiro Ramirez (left), Arnold & Porter, with Steve Worth, DRT International, during the cocktail reception.

dollars for state and local governments to rebuild America. Even in Washington, where I am from, that is a lot of money. Best of all, unlike the proposal made by the 100 leading economists, raising money this way would not cost the federal treasury a single penny. Because this money would be a one-time windfall, it should not be frittered away. It should be recycled. Recycle the proceeds of such infrastructure sales by reinvesting it in additional infrastructure.

Let me give you an example. The City of Los Angeles owns four airports, a port, a water system, an electric power company, and doubtless a variety of other assets I know nothing about. The City does not need to be in these businesses. Selling all of these assets could endow an infrastructure fund—a REBUILD LOS ANGELES FUND—with billions of dollars. Maybe \$5 billion! Just imagine how much leverage such a fund could generate. It might be possible to live off of the interest alone, recycling it over and over again as low interest business loans into that devastated economy. Privatization is the key to unlocking our slumbering wealth and putting it into productive service. The idea is so simple it almost seems self-evident. Why hasn't this already been done? Well, there have been obstacles.

Last week President Bush took the first step toward making it possible. He signed an executive order that eliminated a substantial barrier to privatizations by state and local governments of assets such as airports, ports, highways, and waste water treatment plants. Because these assets were built in large part with federal grants, the Office of Management and Budget has long required that the federal government be repaid its past grants in the event the infrastructure was sold. The executive order does away with this disincentive. State and local governments will be able to keep the lion's share of the proceeds of such privatizations. In effect, the President's executive order permits state and local governments to cash in on their past federal grants.

The billions of dollars they need to rebuild America is thus already available to them. Now state and local governments must show how truly resourceful they can be. It is for them to act and demonstrate they care. It is a crime that state and local governments fiddle with billions of dollars in assets that could be used to rebuild cities—while the cities burn.

So, I think, we have come to a time for choosing. I suggest to you that there is no left or right, only up or down. Up

to the heights which personal effort and ownership can bring or down to the depths of despair and subordination which bureaucracy offers and enforces.

I am convinced we are not yet bankrupt. In the words of the old Scottish ballad, "For those defeats that we have had so far, we are hurt; we are not slain. We'll lie us down and rest a bit, and then we'll fight again." For true believers in the redemptive power of ownership, risk is inevitable, but failure is not. There is great work ahead in rebuilding America and

empowering its people. Work that is not unlike the building of a great cathedral. The work is slow, complicated and painstaking. It is work not only of leaders, but ordinary people. The cathedral evolves as it is created, with each generation adding its own vision—but the initial spark of vision remains constant, and the faith that drives the vision persists. Eventually the spires and arches of the cathedral ascend to soaring heights.

So let it be with us. ■

Questions and Answers

Q In connection with privatization, have you thought of what can be done to limit the amount of gain the private sector can get so it doesn't lose consideration of the people it's supposed to serve?

A The executive order that was issued last week addresses this to some extent. It says that no transaction can take place unless the agency head from which the state or local government received its original grant is satisfied that some mechanism exists and is in place to ensure that the user fees will be reasonable. How that ultimately will play itself out in any given transaction we'll have to see, but in terms of the federal government's own concern, the executive order requires the agency head to be satisfied that the user fees will be reasonable. In any case, as a practical matter, I expect that no state or local government is likely to sell any asset in which the user fees would become so high that the people who elect the officials would find it intolerable. Privatizing an asset will require balancing the degree to which the state or local government wants to realize dollars and cents from the sale with the conditions that it intends to impose on the private sector's ownership of the asset. It is inevitable that there will need to be some sort of tradeoff.

Q Short of privatization for facilities such as airports, the major resource which is unused is a realistic pricing mechanism and there is really no reason why current airport authorities cannot make substantially better use of those facilities.

A I agree that pricing at an airport at the moment defies reality. Economists who look at the economics of airports will tell you that tickets should be priced according to some market system in which people who travel at congested hours pay more of the airlines' landing fees than people who travel at less congested hours. But I have yet to see a public authority in the United States undertake congestion pricing, for a variety of reasons.

The airline industry is a very powerful political lobby. I think it has been very successful in Washington in ensuring that, by administrative decisions, the FAA ensures that the pricing of all aircraft be uniform.

Q Given that many of the properties you suggest privatizing are critical to the health and welfare of the citizenry, how would the citizenry be protected in terms of performance by the private entities who would assume the roles of running airports, water facilities, transportation facilities, and all other facilities which essentially make a city go?

A Water systems, particularly in Europe, are generally privately owned. It's a strange anomaly in the U.S., largely because of the federal grant programs, that water systems—and particularly waste water systems—are publicly owned. The electricity business in the United States and the telephone business in the United States are privately owned. Some might say that AT&T is, in fact, a pretty good company in terms of its innovation and technology. I don't have any worry about the regulatory power of government to impose the necessary solutions to ensure that the public is not gouged. They do it in the case of electricity; they do it in the case of telephones; they've done it in the U.K. up and down in a whole series of privatizations. I'm reasonably confident that we can find the necessary regulatory solutions to protect the public. If that's the only problem that we face, then I think we can begin privatizing next week.

Q Arguably, money to cities needs to be supplied now, but even state governments that are strong proponents of privatization, like Massachusetts, would appear to face years of bureaucratic red tape and conflicting interest groups before they can privatize Logan Airport or the Massachusetts Turnpike. What is your best estimate of the time of privatization?

A An airport will be privatized next year somewhere in the nation; some other facility such as a highway or a waste water plant may be privatized in the next six to ten months.

Q What appetite do you see from the private sector for taking over these assets?

A Interestingly, in the airport sector, a number of the defense contractors no longer in the business of making missiles and submarines (I can think of Lockheed, Boeing, McDonnell-Douglas, and Hughes) have been looking at airports. It is an analogous kind of business. They build planes, at least Lockheed does, and Lockheed has a subsidiary which in fact manages airports both in the United States and overseas and they would be very eager to own a piece of an airport. Lockheed used to own Burbank Airport. In fact, Burbank Airport was built and owned by them from 1924 until the mid-70s when they sold it to the City of Burbank. In the case of highways, the large engineering companies (Morrison-Knudsen, Parsons-Brinkerhoff, CRSS, Inc.) are all companies that are eager to own or lease bridges, roads and tunnels. The Perot Group is heading up an effort to build and own one of the first four private tollway projects in California. I grew up in California. They're not called "highways"; in California they're called "freeways." As a consequence I think it is quite a remarkable policy change that California will be building four privately developed and owned toll roads.

Q One reason for the highways being in bad shape is that the Highway Trust Fund monies have been diverted for decades, even though the public from coast to coast contributes directly to the Highway Trust Fund by paying gasoline taxes. How are you going to solve that problem?

A We've reached the point where there is no more money. As a consequence, turning off the spigot has meant that states have had to look to the private sector. Departments of Transportation in California, Arizona, Florida, Minnesota, and other states are turning to the private sector and saying, "Look, we don't have any more money. If there are any projects out there that you guys think you could build and operate and make some money off of, let us know." It turned out that in California the private sector came forward with about ten different projects, and four were selected and so we're off and running. Arizona recently put out a request for proposals for four private toll-road projects, and my law firm, Skadden, Arps is working with one of the bidders. The situation is such that out of sheer necessity governments have had to seek new ways of financing transportation projects.



Win Himsworth (left), Trust Company of the West, and Michael Claes, Burson-Marsteller, attend a private dinner for Mr. Giraudo.

Q I'm in the process now of negotiating on behalf of a private corporation to purchase an airport in this country as well as a major property which is in receivership and being marketed by the FDIC. In order to have a successful transaction, instead of going to the state first, I tried to harness community support. The support has been dramatic from the various communities, but the FDIC and local politicians are scared to death of these proposals. They want to run away and hide. Do you have a possible method by that we can make them more comfortable?

A I don't know about this particular problem, but the executive order sought to do two things: to change the dynamics at the federal level, and change the dynamics at the state and local levels. At the federal level the dynamics were changed because the President told the federal agencies that they're to get out of the way and they are to be helpful and not hinder the process. In fact, the executive order says that the agency "shall approve of any request" by a state or local government to privatize any asset for which a federal subsidy has been given. That will change the dynamics at the federal level. I was involved in Lockheed's attempt to buy Albany County Airport which was unsuccessful because of FAA reluctance and recalcitrance, so we're hopeful the executive order will now change the dynamics in such cases. At the state and local levels it changes the dynamics insofar as assets have been federally subsidized. In the past, if you sold any of these assets you had to return the federal grants that you received to the federal government and in many instances these grants amounted to well over 50, 60, or 70 percent of the original project costs. In fact the rule was that you had to return a *pro rata* share of the proceeds of any disposition, as if the federal government were an equity co-owner. So if in 1940 they financed 50 percent of the project and you could sell it for a billion dollars today, the federal government would get 50 percent. Now the executive order says, "If you sell it, you get to keep most of the proceeds." I'm hopeful that kind of financial in-

centive, when fully understood, will get the attention of somebody at the state and local level. It will be the equivalent of giving them more federal money. So, I don't know about the particular situation that you have, but I'm hopeful that the executive order will change the dynamics to make your transaction a reality.

Q I think there is a real problem in this country: people don't want to take risks anymore. What you're talking about is risk-oriented. There is a long-term risk in *not* doing it because our country will continue to decline, but how do we change people so that they understand that life is not without risk; how do you get people to accept risk?

A I think it takes leadership. Frankly, I think it will not matter who is president next year. Even if Ross Perot is president, his money will not be enough to pay down the budget deficit of \$350 billion, which has immobilized Washington. I don't think it is fully appreciated beyond the Beltway the degree to which the federal government is incapable of dealing with the social need of inner cities because of the size of the deficit. We had great hopes about reductions in defense spending as being a possible source of revenue for infrastructure investment; as it turned out it's been extremely difficult to cancel Seawolf submarine programs we don't need. It has been extremely difficult, as you know, to close military bases, to reduce the number of personnel in the military, etc. Moreover, whatever savings will come from the defense build-down will only occur in the next ten, fifteen, twenty years. They won't occur next year.

I have no immediate answer other than to say I think that the problem of the inner cities exists and regardless of who is president next year, it's not going to go away. The solution that I have proposed of privatization and reinvestment will continue to be there and I think it will continue to be an attractive one regardless of who is president. I mentioned the book *Reinventing Government*. David Osborne, who is one of its co-authors, writes speeches for Bill Clinton. So I don't view this idea as a partisan suggestion. I view this approach as very strong medicine for a very sick patient.

Q What do you think about the future of privatization in the field of energy?

A The City of Los Angeles owns an electricity company. It also owns a water company and a waste water business. The City of L.A. is not a rare example; there are plenty of municipalities across the country that own their own electricity business. It will be interesting to see to what degree the executive order will have an effect on them. All I can say is that I'm hopeful. I think the situation is such that cities and counties are going to realize they don't need to be in this line of work and that they could use the money a sale of such businesses would bring. ■

Founded in 1914 by Andrew Carnegie, the Carnegie Council on Ethics and International Affairs is a non-partisan, nonprofit organization dedicated to research and education in the field of ethics and international affairs.

The views expressed in this paper are solely the author's and are in no means reflective of the views of the Carnegie Council, DRT International, or Deloitte & Touche.

This is the tenth in a series of briefings published by the Carnegie Council as part of the Carnegie Council/DRT International Privatization Project.

Past briefings include: William Doherty, "Labor's View of Privatization;" Ladislav Venys, "The Political Economy of Privatization in Czechoslovakia;"

Geoffrey Bell, "Privatization in a Capital-Short World;" Brian Pomeroy, "An Assessment of Privatization in the U.K.: Mistakes, Successes, and Future Prospects;" Valeri Chernogorodsky, "Privatization in the Republic of Russia;" James C. Miller III, "Privatization in the United States;" Ronald S. Lauder, "Privatization: Opportunities for New York;" Mary Shirley, "Privatization: Misconceptions, Glib Answers and Lessons;" and Minister Per Westerberg, "From 'Confusion Economics' to a Market Economy: The Only Way for Sweden."

The briefings are distributed free of charge to those interested in the topic. To order, write to Gloria Gilbert Stoga, Director, Privatization Project, Carnegie Council, 170 East 64th St., New York, NY 10021.