

# Privatizing Public Services Imperils Cities

By Amanda Witherell

Over the past few decades, governments at all levels in the United States have been in a perpetual state of deficit. Taxes are way down from their post–World War II levels, and except for a brief period during the tech boom, there is rarely enough money for even basic social services.

“It’s been a strategy since the 1970s to ‘starve the beast,’ as Grover Norquist calls it,” says Robert Haaland, an organizer with Service Employees International Union Local 1021.

At the same time, politicians terrified of raising taxes, have been looking for a magic bullet to fix the deficit problem. It goes by many names—privatization, public-private partnerships, competitive outsourcing, creative financing solutions—but the basic idea is to allow the power of competition in an unregulated market to provide the public with the best services at the lowest cost.

“To do or to buy is the question that all governments face,” says Ken Jacobs, director of the University of California Berkeley’s Labor Center.

We have been buying.

Since 2000, outsourcing of federal dollars has increased 100 percent, to \$422 billion in taxpayer funds, according to a September 2007 study by the United States Public Interest Research Group of Washington D.C. The federal government is now the private sector’s largest customer.

Even a city like San Francisco, with a reputation as one of the most progressive cities in the country, has been wooed by public-private partnerships to fund its many civic needs, including construction of a new power plant and the running of its Muni transit system.

## Public, Bad! Private, Good!

“The public has been schooled to think that government is the problem, not the solution,” says

Elliott Sclar, professor of economics at Columbia University. In his book, *You Don’t Always Get What You Pay For: The Economics of Privatization* (Cornell University, 2000), he writes: “American folk wisdom holds that, by and large, public service is uncaring, unbending, bureaucratic, and expensive, whereas competitively supplied private services, such as FedEx are efficient and responsive.”

Competition, the privatizers say, drives innovation. Less red tape means more efficiency. A lack of unions and collective bargaining agreements translates to lower labor costs. Large-scale multinational operations can reduce redundancy and streamline their processes. But this country has a lot of experience with privatization, and the record is not good.

One hundred years ago, private companies did a lot of what we now call government work. “Contracting out was the way American cities carried out their governmental business ever since they grew beyond their small village beginnings,” writes Moshe Adler, a Columbia University professor of economics, in his 1999 paper “The Origins of Governmental Production: Cleaning the Streets of New York by Contract During the 19<sup>th</sup> Century.” At one time, private companies provided firefighting, trash collection, and water supplies, to name just a few essential services. But, according to Adler, “By the end of the 19<sup>th</sup> century, contracting out was a mature system... and the realization that every possible improvement to contracting out had been tried, led city after city to declare its failure.”

Following the 1906 earthquake and fires in San Francisco, for example, the city decided to municipal-



ize water service after Spring Valley Water—the company charged with the task—failed to deliver while the fires raged.

In Philadelphia, as well as in San Francisco, the business of firefighting was once very lucrative—for both, the firefighting companies and the arsonists who were paid to “generate business.”

“Large amounts of public contracting out historically created lots of opportunities for fraud and nepotism,” says Jacobs. So, public agencies stepped in to provide basic services as cheaply and uniformly as possible. Towns and cities took on the tasks of security, education, and sanitation. Nationally, the federal government improved roads and transit, enacted Social Security benefits, and established a National Park System, among other things.

### A Legacy of Deficits and No-Bids

About 30 years ago, the pendulum started to swing the other way and privatization came back—driven by University of Chicago Economist Milton Friedman, enacted in a massive policy shift by Ronald Reagan, and proliferated by Grover Norquist and the neocon agenda. During Reagan’s first term, he cut taxes by 25 percent overall, but the rich got a 40 percent cut. Domestic spending fell by half a trillion dollars in the 1980s, but any savings were countered by a rise in defense spending.

According to Harvard Economist Lawrence Summers, “The Reagan budgets will influence the government for the rest of this century. Just as the Great Society left an imprint of federal commitment to help the indigent and equality of opportunity, the Reagan budget deficits will leave an imprint of non-involvement.” (Quoted in *Looking Back on the Reagan Presidency*, Johns Hopkins University, 1990.)

Reagan’s massive tax breaks and realignment of money led to a boom in the outsourcing of public services, with private companies doing more municipal work and nonprofit organizations trying to fill in for social services, welfare, housing, health care, and the environment.

The George W. Bush era has seen even more overt outsourcing, with no-bid contracts that completely turn over government services to the private sector in “direct conversions.” *The Washington Post* recently reported that no-bid government contracts have tripled in the past six years.

### The Failure of the Privatization Myth

To field-test the primacy of privatization, the Reagan administration sponsored a transportation competition in the early 1980s between Miami’s Metro-Dade Transit Agency and Greyhound Bus Service. The two providers were each given five comparable transit routes to manage over three years and

Photo:

Milton Friedman is congratulated by President Ronald Reagan.

© 2008 Free To Choose Media, courtesy of the *Power of Choice* press kit

80 new buses were bought with a \$7.5 million grant from the federal government.

After 18 months, 30 of the Greyhound buses were so badly damaged that they had to be permanently pulled from service; passenger complaints were up 100 percent; and ridership was down 31 percent. Why? There was no incentive in Greyhound's contract to maintain the equipment or retain riders, so the company's only goal was to deliver the cheapest service possible.

The experiment offers an important lesson in privatization politics: when you add the cost of adequately protecting the public's interest, the private sector doesn't look so efficient.

"Market fundamentalists present an idealized, simpleminded notion of competitive markets in which buyers and sellers have equal knowledge," says Sclar. "Anyone can be a buyer, anyone can be a seller, everyone can evaluate the quality of the good. In this never-never land, that's often the way the case is made for privatization by this particular group of economists."

In the real world, privatizing a service raises a number of issues. "Accountability gets to be a really big problem," says Ellen Dannin, professor of law at Penn State University. "There are predictions about how much money will get saved through privatization, but no one ever goes back to check."

When companies take over services that aren't typically part of a competitive market, all sorts of unexpected problems occur. Jacobs points to the contracting of school bus services in cash-strapped districts. Not only did costs eventually rise in many places, but when schools tried to go back to providing their own service, the skilled drivers who knew the routes and the kids and were able to do much more than drive a bus were gone.

Sclar and Dannin agree that any service that lacks competition—such as, electricity—should be public. "It's a natural monopoly," Sclar points out. "It's either going to be a well-regulated industry, or it's got to be done publicly."

Corporations exist to make money. And although graft, mismanagement, and scandal have always been present in City Halls, in the final analysis, the legislative, judicial, and executive branches were not

designed to generate profits. Typically, very little is known about a private contract outside the company. Open books are something most companies lobby against fiercely and this lack of transparency leaves the door wide open for corruption.

Sclar is of the opinion that private and nonprofit companies that receive contracts should be required to abide by public-records laws. "Transparency should always be the goal," he says. "If a company doesn't want to make its records public, [it shouldn't] go after public work."

### Who Owns the Roads?

These days, public goods, from which everyone presumably benefits, are all too often falling into the hands of profit-driven companies. In New Orleans, charter schools have replaced all but four public schools. In about 15 municipalities, public libraries are now managed by the privately owned Library Systems and Services. At least 21 states are considering public-private partnerships to finance massive improvements to aging roads and bridges. When a publicly owned road is leased for 99 years to a private company, the politician who cut the deal gets a huge chunk of cash up front to balance the local budget, or to meet another need. But when the new owner of the road puts in a tollbooth to recoup costs, it's not that different from the tax that the politician—perhaps long gone from office—refused to impose. What option does that leave the voting driver?

If there's one point that Dannin never tires of making to her students, it's this: Employers depend on roads for their employees to drive to work and a public education system to train their workers. They depend on housing, police, the court system, and the system of laws.

"[There's] a huge amount of infrastructure we tend not to think about [usually]," she says. "We live within an ecosystem... [but we have] a hard time seeing that ecosystem, that infrastructure. That's what your taxes pay for."

If we keep this reality in mind, we might have a slightly different answer the next time someone asks: "Who own our cities?" ■

# the Race, Poverty Environment



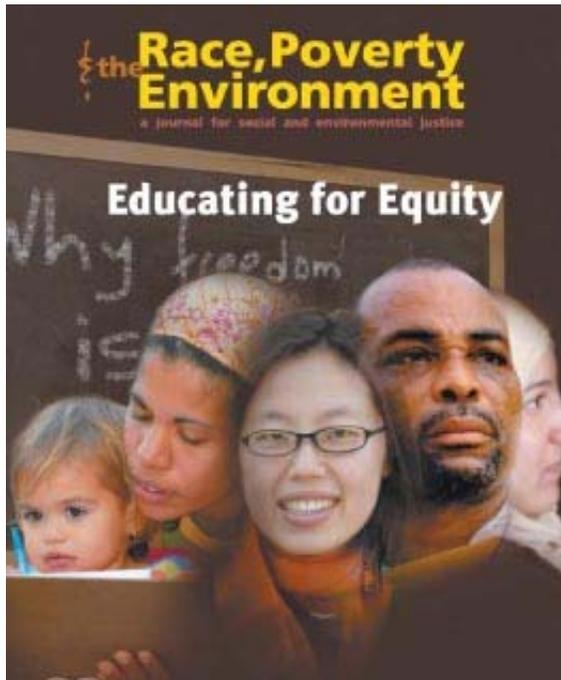
a journal for social and environmental justice

[www.urbanhabitat.org](http://www.urbanhabitat.org)

First published as a joint project of the Urban Habitat Program and the California Rural Legal Assistance Foundation, **RP&E** is now published twice annually by **Urban Habitat** and is dedicated to exploring the intersection of race, class, and environmental and social justice.

Don't miss any of our passionate, in-depth discussions of important social topics!

## Support RP&E: subscribe today!



Use the form below or order online:  
[www.urbanhabitat.org/subscribe](http://www.urbanhabitat.org/subscribe)

- Spring 1990 ▶ Earth Day
- Summer 1990 ▶ Cultural Diversity
- Winter 1991 ▶ Women of Color
- Spring 1991 ▶ Pesticides
- Summer 1991 ▶ Energy
- Winter 1992 ▶ The Summit
- Spring 1992 ▶ Asian/Pacific Islanders
- Summer 1992 ▶ Water
- Fall 1992 ▶ Native Nations in 1992
- Spring 1993 ▶ Urban Problems
- Summer 1993 ▶ Population and Immigration
- Fall 1993 ▶ Latinos and the Environment
- Spring 1994 ▶ Military Base Conversion
- Winter 1995 ▶ Environmental Justice and the Law
- Summer 1995 ▶ Nuclear Technology & Communities of Color
- Fall 1995 ▶ Social Justice and Transportation
- Spring 1996 ▶ Multicultural Environmental Education
- Fall 1996 ▶ The Border
- Winter 2000 ▶ A Place at the Table:  
Food & Environmental Justice
- Winter 2001 ▶ Reclaiming Land and Community:  
Brownfields & Environmental Justice
- Summer 2002 ▶ Fixin' to Stay: Anti-Displacement Policy  
Options & Community Response
- Summer 2003 ▶ Where Do We Go from Here? A Look at  
the Long Road to Environmental Justice
- Fall 2003 ▶ Governing from the Grassroots:  
EJ and Electoral Activism
- Summer 2004 ▶ Reclaiming our Resources:  
Imperialism and Environmental Justice
- Winter 2005 ▶ Burden of Proof:  
Using Research for Environmental Justice
- Winter 2006 ▶ Moving the Movement:  
Transportation Justice
- Summer 2006 ▶ Getting Ready for Change:  
Green Economics and Climate Justice

**Yes!** I want an annual subscription to Race, Poverty & the Environment.  
Sent free of charge to grassroots groups upon request.

\$20 (Individuals)       \$40 (Institutions)

**Yes!** I want to support the advancement of social, economic,  
and environmental justice in the Bay Area and beyond.

I want to support Urban Habitat with a tax-deductible donation of:

\$25    \$50    \$100    \$500    \$1,000    Other \$ \_\_\_\_\_

Name: \_\_\_\_\_

Organization: \_\_\_\_\_

Address: \_\_\_\_\_

State: \_\_\_\_\_ Zip: \_\_\_\_\_ Email: \_\_\_\_\_

A check is enclosed       Please charge my Visa/MasterCard

Visa/MC Number: \_\_\_\_\_ Exp. Date: \_\_\_\_\_

*(Please include the 3-4 digit card verification number found on the back of most credit cards.)*

Signature: \_\_\_\_\_