

# Socialist Party of Wisconsin Exposes Myths and Reality of Privatization and Outsourcing

The Preamble of the US Constitution reads: “We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defense, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.”

Socialism is a set of economic and political principles supporting the idea of a government set forth by the above Preamble. The following sums up what each person should expect from government:

1. Rule of law (justice),
2. Protection from evil forces (common defense and domestic tranquility) and
3. Balance the need for the common good and the rights of individual freedoms (promoting the general welfare and securing the blessings of liberty).

**This brochure focuses on the topic of privatization. The Socialist Party of Milwaukee finds that privatization (and outsourcing) are policies and programs that are often opposed to the ideals of good government. Privatization often lowers worker’s wages, reduces the power of unions, add to the costs of governing. Additionally, privatization reduces accountability to taxpayers and often leads to graft and corruption. The following explores the MYTHS promoted by advocates of privatization and presents the REALITY of the effects of privatization.**

## **WHAT IS PRIVATIZATION?**

The term *privatization* covers an array of actions, some described by other terms such as *outsourcing*, *contracting-out* or *public-private partnerships*. Privatization activities may include:

- Outsourcing jobs performed by public employees (such as parks maintenance, food service, security and janitorial services) to for-profit or private not-for-profit companies
- Giving private, profit-making companies and/or non-profit organizations managerial or operational control over public services such as the distribution of health and welfare benefits or diverting Medicare and Social Security resources to Wall Street
- Diverting tax dollars from public education to for-profit and not-for-profit (including religious) school corporations, including “virtual” schools”. Additionally, the providing of tax breaks for contributions to scholarship funds for private schools or other charitable school activities.
- Leasing, selling or giving away public assets such as highways, parks and airports – or income from those assets – to for-profit or not-for-profit businesses or groups of investors

## **Myths and Realities**

**MYTH #1:** *Privatization saves taxpayers money.* **REALITY:** In a study of privatizing inpatient psychiatric services, Robert Brent found that there were no savings to the public when services were privatized. Costs actually went up when one considers non-hospital services that are often shifted to the communities.

BRENT, R.J. *The role of user fees in the cost-benefit analysis of privatization with an application to inpatient psychiatric services in the US.* *Applied Economics*, 40, 15, 1981-1989, Aug. 10, 2008.

**MYTH #2.** *Privatization uses private enterprise to provide services, therefore privatization leads to more efficient services.*

**REALITY:** In theory privatization would introduce competition and market-place efficiencies and save money. However, in a worldwide analysis of solid waste and water services, there was no empirical evidence that privatization saved money. In another study, Jeff Tan finds that the nature and goals of most public services are not conducive to market competition and often results in costly corruption.

BEL, G; FAGEDA, X; WARNER, ME. *Is private production of public services cheaper than public production? A meta-regression analysis of solid waste and water services.* *Journal of Policy Analysis & Management*, 29, 3, 553-577, 2010.

TAN, J. *Infrastructure Privatization: Oversold, Misunderstood and Inappropriate.* *Development Policy Review*, 29, 1, 47-74, Jan. 2011.

**MYTH #3:** *Privatization helps the economy.* **REALITY:** Elliot Sclar maintains that privatization is nothing more than an exercise that shifts the costs of government from the rich to the middle class. Part of this process is reducing the wages of public employees, thus lowering a local community’s purchasing power.

SCLAR, E. *Looting the Urban Commonwealth: Privatization and the Politics of Austerity.* *New Labor Forum* (Sage Publications Inc.), 22, 3, 46-53, Sept. 2013.

**MYTH #4:** *Privatization is good governance.* **REALITY:** Derek Prall found in a review of numerous case studies that the lower wages and reduced benefits paid by private firms frequently leads to the same workers having to rely on public assistance. In New Jersey food service workers had wages cut and benefits cancelled when jobs were outsourced. The food service companies have some of the highest levels of workers enrolled in state assistance programs. Nursing assistants in Michigan found their wages of between \$15-\$20/hour with benefits reduced to \$8.50/hour with no benefits. To no one’s surprise turnover became a problem and the quality of services deteriorated.

PRALL, D. *The hidden costs of privatization.* *American City & County Exclusive Insight*, 5, June 4, 2014.

**MYTH #5:** *Privatization savings will lead to more and better public services.* **REALITY:** In Stockton, California citizen groups forced their local government to roll back the largest water privatization in the western USA. The decision came about after residents complained about noxious odors drifting from the sewage treatment plants. More complaints involved sewage spills, fish kill, increased leakage from under ground pipes, staff turnover and increases in water rates after years of rate stability.” Additionally, “there was, however, another deeper reason for dissatisfaction: widespread concern about the loss of citizen input into the future of an essential resource. “

Alan, S; Deborah, K. *Taking back our water.* USA Today.

**MYTH #6:** *Privatization and market forces create a more informed citizenry.* **REALITY:** In a report about higher education, former President of the UW System, Katherine Lyall and UW Madison professor Kathleen Sell write that the steady privatization of funding for “public” universities by state governments has reduced access to higher education for low-and middle- income students, thus increasing inequality. Additionally, the increased reliance on private funds increases the risk of conflicts of interests on what is taught and researched. The needs of the public become secondary. Privatization also leads to a commoditization of curriculum. The increased dependence on private funds means a loss of support for educating public service workers (educators, public administrators, social workers, etc.). This will ultimately lead to an erosion of the nation’s ability to produce human capital. Market forces are often at odds with the public good (namely an educated citizenry).

LYALL, KC; SELL, KR. *THE DE FACTO PRIVATIZATION AMERICAN PUBLIC HIGHER EDUCATION.* (Cover story). Change. 38, 1, 6-13, Jan. 2006.

**MYTH #7:** *Privatization allows citizens more choices and will provide better services.* **REALITY:** At the elementary and secondary school levels, we find charter schools and voucher programs (not to mention home schooling) claiming to offer parents an opportunity to send their children to the best schools. James Harvey examines numerous studies of both charter schools and voucher programs. The results have been mixed for charter elementary programs and generally poor for charter high schools. There was no evidence of better education at voucher schools. Both types of schools are drains on local school systems.

HARVEY, J. *Privatization: A Drain on Public Schools.* Educational Leadership. 69, 4, 48, Dec. 2011

**MYTH #8:** *Privatization is in the public interest.* **REALITY:** More than half of local health departments have delegated at least one service to an outside contractor. In a random sample of 380 local health departments, many health directors said that accountability and control is a major concern. Most departments that privatized came to focus more on management and overseeing contracts, rather than the provision of services. Sometimes privatization increased costs because the health departments needed more people to oversee the contracts. While a majority of local health departments have contracted out some services, most directors complained about the loss of control and increased difficulty responding to health problems, whether it is communicable diseases or environmental health. Many were concerned about the potential for outside contractors to be corrupted than municipal employees.

KEANE, C; MARX, J; RICCI, E. *Perceived Outcomes of Public Health Privatization: A National Survey of Local Health Department Directors.* Milbank Quarterly. 79, 1, 115, Mar. 2001

**MYTH #9:** *Privatization will reduce inequality.* **REALITY:** When examining the effects of privatizing water and sanitation services, it was found that private interests are more likely to invest in wealthy areas, rather than poor ones, thus perpetuating and increasing inequality. The increased corruption and resulting poor services have caused many pro-privatization institutions such as the World Bank to reconsider their policies.

CASTRO, JE. *Neoliberal water and sanitation policies as a failed development strategy: lessons from developing countries.* Progress in Development Studies. 8, 1, 63-83, Jan. 2008.

**MYTH #10:** *Privatization operates with the same ethical and human rights standards as a democratic government.* **REALITY:** Part of the prison-industrial complex includes the operators of private prisons and corporations that exploit prison labor. Prison labor often undermines local economies as corporations close operations to enjoy greater profits from prison labor. The working conditions are often atrocious. There has been a shift away from rehabilitating criminals to strictly punishment and exploitation. Susan Kang reported that while the USA pushes countries like China to abide by international standards, the USA disregards those same standards. If our nation is to be a leader, it must lead by example.

KANG, S. *Forcing Prison Labor: International Labor Standards, Human Rights and the Privatization of Prison Labor in the Contemporary United States\*.* New Political Science. 31, 2, 137-161, June 2009

## **CONCLUSION**

**Some privatization is inevitable. However, the Socialist Party of Milwaukee finds that communities should be careful when contracting out services, as privatization favors corporate interests at the expense of the well being of the people!**

***"Privatization . . . means you take a public institution and give it to an unaccountable tyranny." Noam Chomsky***

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