Privatization: going beyond austerity to disintegration

by Steve Parsons

On April 23, at the same time that the Bush administration was setting up the Iraq conflict as the launching pad for its new world order, White House Policy Planning Assistant James Pinkerton announced President Bush's intention to impose a parallel domestic policy on the United States. Pinkerton dubbed it the "New Paradigm," the dawning of a new age in America in which "the corrupt bureaucratic welfare state," mired in the failures of the Great Society and New Deal, is to be replaced by a "restructured government" characterized by "decentralization of authority," an emphasis on "individual choice," and truly "equal economic opportunity" in the context of "free market forces."

The vehicle for the New Paradigm is privatization, the shift from publicly to privately produced goods and services. For the adherents of free market dogma, it is the panacea for the world's ills. The reality of privatization, however, is far different.

'Panacea' will intensify the depression

Prof. Paul Starr of Princeton University aptly summed up privatization in a recent paper published by the Economic Policy Institute. "They prescribe it as a tonic for efficiency and economic growth, an appetite suppressant for the federal budget, a vaccine against bureaucratic empire-building, and a booster for individual freedom, including opportunities of disadvantaged minorities. . . . Its advocates have called for privatizing" virtually all government functions, from public schools and parks to infrastructure and social services. "They are convinced that government is . . . a bloated, parasitic public sector [that] blocks the bustle and growth of an otherwise burgeoning private economy. To change that picture, they say we need to put as much of government as possible in private hands."

In fact, it is the depression that is the driver to privatization, not the flowery theory of the free marketeers. Desperate governments, faced with gaping budget shortfalls and increasingly unpayable debt service requirements, are grasping at anything they can to hike cash flows and cut expenditures. They are almost literally willing to sell the Brooklyn Bridge at a song, and are frantically grasping at the huckster pitches of private corporations promising lower costs and greater efficiency.

While government programs and services do indeed have innumerable and worsening problems, these failings are aggravated by depression-driven collapses in revenue, lack of capital investment, and social disintegration. Under these conditions, private ownership or contract services can generally make profits only through even more severe cutbacks in service, higher fees, and austerity measures against the labor force.

With their balance sheets crumbling amid dismal prospects for normal growth through private sector expansion, corporations see privatization as a lifeline to the public trough. More often than not, after highly dubious short-term "successes" in one-shot cost-cutting, the firms that have contracted to run government services or institutions "misestimate" costs and cause such deterioration of quality that governments wind up paying more than ever in cost overruns and service supplements.

Not surprisingly, the biggest benefits from privatization are reaped by the banks.

Free market loot for the banks

The privatization of government is already a booming business. According to a recent study by the Reason Foundation, a radical free enterprise think tank, in the last five years privatization has taken off around the world. Since 1980, some $210 billion of state-owned enterprises have been privatized, led by the British, who have sold off everything from their airports and railroads to electricity distribution plants. The British are claiming supposed savings ranging from 10-40%.

Ibero-America is the immediate priority target. Through the imposition of U.S.-dominated "free trade" agreements throughout the hemisphere, bankers are drooling over the dual prospect of financing hundreds of billions of dollars in potential Ibero-American government sales of their national assets to U.S. corporations, while getting that same money back from these governments in payment of their otherwise unpayable debt—that is, debt-for-equity.

In the United States, according to one survey, some 23% of local governments, driven primarily by budget pressures, have already privatized some services in order to "cut costs" and "increase efficiency"—from selling off sports stadiums to contracting out garbage collection. And more than 50% have imposed or raised user fees. In every case, government employees are laid off, with wages often sharply reduced, and benefits like health insurance either viscerated or entirely dropped.

And as in Ibero-America, the banks stand to make a bundle from privatization. Besides the vicious cost-cutting by governments implemented in large part to meet debt service requirements, the banks are poised to make a killing from an incredible fiscal gimmick that states have begun using to cover over their hemorrhaging budgets: selling state assets. As usual, New York and its banks are setting the pace.

The way it works is that the state "sells" an asset—a prison, a highway, a racetrack, anything it owns—to a state agency whose budget is entirely separate. To "pay" for the asset, the agency floats long-term bonds or debt issues, and then deposits the proceeds into the state's treasury or general fund. The general fund gets an overnight influx of cash, the state's budget deficit miraculously drops, and there is no new debt on the state's books. The state then "leases" back the asset from the agency at the cost of the debt service, plus pays the operating costs as usual.

On April 1, reports *Business Week,* New York Gov. Mario Cuomo announced that for $200 million, the state had sold Attica prison to the Urban Development Corp. (UDC), a state agency, which paid for the purchase by floating bonds taken up by the investment banks. That was only the last deal for FY 1991, which ended on that day. Throughout the year, Cuomo had quietly sold state assets to various agencies for $1.9 billion to partially paper over New York's yawning budget deficit.

These schemes aren't just asset-stripping; they are *asset-recycling,* in which assets serve as the basis for monetizing new levels of debt, all guaranteed by government. This pyramiding is to be taken out of the hides of taxpayers, users of state services, and labor.

Cuomo's debt swindle

Over the life of these bonds, the debt service will add up to at least double, triple, and even quadruple the amount the state received from the asset sale—a tidy subsidy for the desperate banks on Wall Street. For the $200 million from the Attica sale, the state will have to pay nearly $500 million to bondholders over 30 years. For the sale of the Cross Westchester Expressway to the New York Thruway Authority for $20 million, the state will have to pay $70 million over 15 years.

Further, after the initial cash fix, the state is immediately saddled with ever-higher debt payments in each year's budget. To try to meet such payments, agencies will almost immediately begin to make the "asset" pay for itself. That means that highways and bridges will have more and higher tolls, and user fees will dominate all forms of services. Prisons will have to become more "self-supporting"—i.e., prisoners will be worked harder with fewer "amenities" and poorer food to cut costs. The ultimate logic leads to premature inmate deaths, resulting in the additional cost "benefits" of reducing prison populations.

When states and their agencies can't pay for the debt and operation of their institutions and services, the next step is actual privatization—that is, to sell the institutions to private business or to contract out services. For example, for Attica, the UDC could re-sell the prison to the Corrections Corp. of America, a booming private venture already operating prisons in several states. CCA would float a new debt issue or get a new bank loan to buy the prison. The cash would go to the UDC and the state, which would guarantee the new debt or loan, and use the cash to pay off some of the old debt.

This is Third World "debt-for-equity" looting brought home. CCA would then make the prison even more of a "business venture"—like the *maquiladoras* in Mexico, or, more precisely, in the same way that Auschwitz was a "business" for the Nazi SS.

Eleven states now have private jails or prisons in operation, with many more slated to follow. The justice system in the U.S. is targeted for privatization. In the words of the Reason Foundation's report, "Use of 'rent-a-judge' services, arbitration, and mediation have increased significantly. . . . Cities are increasingly looking to contract for the provision of attorneys, including public defenders" instead of government-hired attorneys.

That means certain law firms get to run the justice system, in tandem with judges whose incomes go up with their hired work. With private security personnel now more than double local police forces, there is a push to privatize collection of court fines through collection agencies. And in Wisconsin, businesses are now handling welfare services.

This is the real content of the free enterprisers' privatization swindle: the making of a full-fledged Orwellian police state. And it is the fulfillment of the promises of "controlled disintegration," a policy initiated 15 years ago by Jimmy Carter, Paul Volcker, and George Bush's blueblood mentors.