

The purpose of this study is to identify those **parameters** and **policy issues** to be considered in connection with **proposals to transfer** federal, state or local government services, assets and/or functions **to the private sector**. The study will review **privatization goals** and the **community impact** of such transfers, and **identify strategies** to ensure transparency, accountability, and preservation of the common good. In other words, when privatizing is proposed, what factors should be considered? What are the goals and how will it impact the community? What can be done to preserve transparency, accountability and the public interest in the process?

***What is privatization? The transfer of anything away from the public domain to a private entity, whether it was held by a governing body or simply treated as belonging to the general public.***

**IN THEORY: Philosophies and motivations vary as to why some favor or oppose privatizing efforts.**

In favor:

Some believe that public expectations on a governing body create a budget and management crisis beyond its ability to perform. Trying to meet these demands by increasing the budget, throwing money at a problem, is seen as unrealistic and unaffordable. In addition, by trying to meet the demand, the governing body inhibits individuals and markets from supplying the service (nanny state). Finally, the governing body becomes bloated with layers of bureaucracy and procedural inefficiencies so that the service doesn't meet expectations and costs more than it would if left to the market. Some proponents of privatization are aiming for a government reduced to little more than a policing agency.

<http://www.youtube.com/watch?v=xvz8tg4MVpA> (no such thing as public money)

Opposed:

Opposition to privatization seems to be selective rather than all-encompassing. Since the private market favors profitability, a concern is that only self-funding services are provided adequately while others are neglected. Services that might be considered in the public interest, but not suitable for self-funding include public safety and assistance programs. The profit-motive is suspected of overriding safety concerns and risking the health and well-being of the many in favor of the few. Policies that protect public funds from misuse and deter favoritism are necessary even though it may add inefficiencies or increase costs. Opponents of privatization may cite the commons, an inherently shared resource and the public interest, a shared responsibility. The 'general welfare clause' in the Preamble to the Constitution has been used to justify this philosophy.

<http://www.youtube.com/watch?v=t1Zjl-awk1s> (imagine if)

**IN PRACTICE: Privatization reverses the trend towards publicly funded and publicly managed services, such as road construction, public schools, social security, public transportation, subsidized housing etc.**

**Privatization methods of public services, functions or assets can be summarized as follows:**

**1. Outsourcing public services/functions while maintaining governing authority**

**2. Transferring public services/functions direct to consumer, pay-for-service.**

- a) passively, by ceasing or reducing functions, prompting a consumer demand to be fulfilled by private entities.
- b) actively, by arranging for a commercial enterprise to take over the function.

**3. Selling public assets (for revenue, for relief from a burden, for a higher purpose.)**

References

Paul Starr, "The Meaning of Privatization," *Yale Law and Policy Review* 6 (1988): 6-41. This article also appears in Alfred Kahn and Sheila Kamerman, eds., *Privatization and the Welfare State* (Princeton University Press, 1989).

(<http://www.princeton.edu/~starr/meaning.html>)

[http://mi.gov/documents/PSAQA\\_54517\\_7.pdf](http://mi.gov/documents/PSAQA_54517_7.pdf)

<http://charterschoolresearch.com/states/michigan.htm>

<http://www.lwv.org/AM/Template.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=18014>

<http://www.nybooks.com/articles/archives/2010/nov/11/myth-charter-schools/>

<http://www.governing.com/topics/mgmt/pros-cons-privatizing-government-functions.html>

<http://www.inthepublicinterest.org/>

<http://reason.org/news/show/local-government-privatization-101>

## **OUTSOURCING:**

When a service or function previously managed and performed by a public department with public employees becomes a contracted service, performed and somewhat managed by a company and its employees. Cost-savings are largely realized by reducing wages and benefits, while government oversight and regulation may ensure performance, fairness and accountability.

On the local level, cities and schools vary in the level of 'privatizing' such that outsourcing a particular function on a contract basis is similar to contracting with suppliers. Of course a public school or government building purchases cleaning products and office supplies from private companies. Why would it be different if the maintenance and cleaning crew themselves are contracted through a vendor? Is this kind of outsourcing what we mean by privatization?

### **Example – outsourcing education:**

Recent documentaries about the failure of public schools offer charter schools as a solution, but reality doesn't match the hype. *Waiting for Superman* highlighted spectacular successes of some charter schools and spectacular failures of some public schools. On the other hand, the failures or problems of certain charter schools may be used to curb enthusiasm for charter schools.

Another way to privatize schooling is to outsource the public school itself. For example, Baltimore City Public Schools contracted several schools out to an education management organization in 1992. The contract with the for-profit company was ended after 4 years due to unmet promises and increased costs. If policies and parameters can be implemented to address the problems with that particular example, perhaps it can turn out differently.

According to the Center for Education Reform, closures for mismanagement of student performance problems are account for about half of the closures, but 85% of the total number of charter schools opened between 1992 and 2009 remain open. In Michigan, charter schools (public school academies) are seen as a successful public-private balance, with regulations and requirements similar to traditional public schools according to state law.

<http://www.youtube.com/watch?v=iJr7dqdCGJ8> (mackinac)

Some charter schools have excellent resources and facilities that put their public counterparts to shame. When additional funding is available, education improves. Where charter schools and public schools face the same obstacles, the differences become less noticeable. With regulations that level the playing field and when funding levels are comparable, the average charter school is simply an alternative. According to analysis of the 2006-07 school year, 72 percent of Michigan's charter schools made federal targets (AYP), compared with 69 percent of conventional schools in the same host districts.

### **Example – outsourcing city services:**

When increasing expenses meet decreasing revenues, government leaders face the inevitable budget cuts. Outsourcing services to a provider willing to do it for less can be an alternative to reducing or eliminating the service altogether. Dearborn has often been heralded as a city with top-notch services, a selling point to potential home-buyers, but, just like cities across the nation, the budget calls for cutbacks. Outsourcing park maintenance and closing the health department may not have been noticed by most residents, but closing pools and libraries created controversy and some relief as residents voted to increase revenues.

Municipalities range in the amount of services provided, so resident expectations play a big part in the level of controversy. Building maintenance, information technology, office functions like printing, accounting and payroll for a large city are prime candidates for outsourcing. The size of the opportunity could entice private enterprise to take it on for less and offer a strapped community significant relief of a high-cost budget item.

Sandy Springs, GA has outsourced almost every aspect of city-wide functions, but is still governed by a mayor and city council with city fire and police services. The management firm is profitable and the residents are satisfied. <http://www.youtube.com/watch?v=f8qFvo2qJOU> (Sandy Springs)

## **The Grand Rapids Home for Veterans is run by the Michigan Department of Military and Veterans Affairs and provides nursing home care for hundreds of Michigan veterans.**

Governor Snyder planned to privatize 170 state-paid caregiver positions by October 1, but opposition won a temporary injunction in Ingham County Court. The home already has 100 contracted caregiver positions and has privatized security. The cost-savings by the state rest on the wages and benefits of the nursing assistants. The contracted aids receive about \$10 per hour while the state employers earn \$15 to \$20 per hour plus health care and retirement benefits.

[http://www.mlive.com/news/grand-rapids/index.ssf/2011/11/grand\\_rapids\\_veterans\\_home\\_pri.html](http://www.mlive.com/news/grand-rapids/index.ssf/2011/11/grand_rapids_veterans_home_pri.html)

<http://www.nytimes.com/2011/11/07/business/as-states-shift-to-contract-workers-savings-are-not-clear-cut.html?pagewanted=all>

**Mayor Dave Bing of Detroit wants to cut city subsidies to the DDOT bus system and public lighting department, offering these to private entities.** Both of these services have frustrated the city with poor performance and the city's budget problems may lead the state to appoint an Emergency Manager. The crisis is so severe that eliminating 1/3 of the city employees (2200 employees) would only postpone bankruptcy from April to July of this year.

<http://www.freep.com/article/20111116/NEWS01/111160429/Bing-expected-privatize-Detroit-bus-management-lighting-system>

<http://www.freep.com/article/20111115/NEWS01/111150398>

### **Privatizing Social Security**

The President's Commission to Strengthen Social Security (CSSS) wrote in a Dec. 2001 report titled "Strengthening Social Security and Creating Personal Wealth for All Americans" on the US Government Printing Office website:

*"Social Security will be strengthened if modernized to include a system of voluntary personal accounts.*

*Retirement security will be increased through personal accounts because they would facilitate wealth creation for individual participants. Strengthening Social Security to include personal accounts can add valuable protections for widows, divorced persons, low-income households and other Americans at risk of poverty in old age.*

*Personal accounts would permit individuals to seek a higher rate of return on their Social Security contributions, offering higher total expected benefits to individuals with accounts than those lacking them.*

*Partial advance funding of Social Security should be a goal of any effort to strengthen the system. Advance funding within Social Security can best be accomplished through personal accounts rather than direct government investment.*

*The Commission finds that the establishment of personal accounts is likely to lead to an increase in national saving. The Commission believes that the establishment of personal accounts will improve incentives for labor force participation."*

Dec. 2001 - President's Commission to Strengthen Social Security (CSSS) ★

Apr. 28, 2010 - AARP (American Association of Retired Persons) ★ →

The AARP (American Association of Retired Persons) wrote in an Apr. 28, 2010 email from John Rother, AARP Executive Vice President of Policy and Strategy, to ProCon.org:

*"AARP strongly opposes these proposals.... Private accounts in place of Social Security are risky, expensive to administer, and require huge increases in the federal debt. AARP believes there are better and more responsible ways to strengthen the system.*

*To compensate for the loss of Social Security revenue sent into private accounts, the federal government would have to borrow significant sums for the next several decades in order to continue to pay promised benefits to currently retiring beneficiaries. One prominent proposal would require \$1 billion in the first 10 years the private accounts were in place. Then, \$3.5 trillion would be needed in the following decade. Younger workers would have to bear much of the burden for paying this debt. That's not right, and it's not fair to them.*

*Social Security is an insurance program, not an investment program. The essence of Social Security is that it has always been risk-free for all of us. It's also inflation-proof - something neither investments, nor even many pensions, can guarantee. Private accounts within Social Security would add a large measure of personal risk. AARP has publicly stated many times that there are places in retirement planning that are appropriate for taking risks, such as 401(k) plans, Individual Retirement Accounts, and mutual funds, but they should be in addition to the guarantee of Social Security."*

## **Privatized Military and Security**

A private military company (PMC) or (Private Military or Security Companies) provides military and security services. These combatants are commonly known as mercenaries, though modern-day PMCs refer to their staff as security contractors, private military contractors or private security contractors, and refer to themselves as private military corporations, private military firms, private security providers or military service providers. Private Military Companies refer to their business generally as the private military industry, in an attempt to avoid the stigma often associated with mercenaries. The hiring of mercenaries is a common practice in the history of armed conflict.

[http://en.wikipedia.org/wiki/Private\\_military\\_company](http://en.wikipedia.org/wiki/Private_military_company)

<http://www.youtube.com/watch?v=nqM4tKPD1R8> (the nation)

<http://www.youtube.com/watch?v=HLhwGBLuh-w> (Blackwater Xe Ad)

## **Privatizing USPS**

The history of government–run mail service dates to the early days of the republic. In 1775, the Second Continental Congress named Ben Franklin as the first Postmaster General. In 1792, the Cabinet-level Post Office department was created.

The current USPS came into being in 1971 under the Postal Reorganization Act. That law was designed to have the Postal Service *operate like a business* free of taxpayer subsidies. Congress, though, often prevented it from acting like a private company that's able to cut costs wherever it sees fit. The USPS is required to deliver first-class and standard mail to all Americans, regardless of the cost to serve them.

“The USPS is in deep financial trouble as a result of declining mail volume, bloated operating expenses, a costly and inflexible unionized workforce, and constant congressional meddling.,” Ted DeHaven of the libertarian Cato Institute wrote last year. “At the same time, electronic communications and other technological advances are making physical mail delivery less relevant.”

<http://www.investorplace.com/2011/11/postal-service-privatize-mai/>

“Congress has to decide whether universal mail service is valuable enough to subsidize, or whether it wants the post office to be set free to actually compete.”

<http://www.theatlantic.com/business/archive/2011/09/whither-the-post-office/244633/>

<http://www.youtube.com/watch?v=E3VQmSUxKYQ> (usps is not able to compete)

[http://www.youtube.com/watch?v=3UJGS\\_1oFXU](http://www.youtube.com/watch?v=3UJGS_1oFXU) (usps is a public option among competitors)

<http://www.youtube.com/watch?v=EUisfLtGN2A> (postal heist)

<http://www.youtube.com/watch?v=NlxXzBQtEIA> (bill o'reilly)