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Public Services, “Privatized” and Mutualized

Kevin Carson

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Larry Gambone has a couple of good posts on the organization of public services at the Porcupine Blog. In the first, “Why Privatization and Deregulation Haven’t Worked,” he writes:

The central concern of any corporation is to make a profit. Anything which interferes with this profit making is eliminated. When this rule is applied to services, most particularly those ‘natural monopolies’ like electricity, water, rail transport, and ‘human services’ like hospitals, the results can be highly negative. Profitable, ‘high traffic’ areas are serviced, while less profitable are not. The wealthy get health care, the poor remain sick. In the old days, rural areas were not electrified because it cost too much. City districts with a lower population were not served with tram ways because it wasn’t profitable. </quote>I confess to some reservations about this complaint. Ultimately, services should be paid for by those using them, and

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the price should reflect the cost of providing them. Of course, that's leaving aside near-term expedients for dealing with the unjust distribution of wealth, which results from government intervention on behalf of the privileged owning classes. But ideally, in an economy where labor keeps its full product and no economic exploitation takes place, people should not receive subsidized services that they aren't willing to pay for at the full cost. The cost of providing electricity and water to rural areas may be so high that, when the cost is internalized in price, people in those areas find wells, cisterns, solar and wind power, etc., to be more cost-effective.

Of course, violations of the cost principle more often benefit the well-to-do at everyone else's expense. Many comfortable middle-class people live in outlying areas and engage in costly behavior precisely because the government has been providing subsidized utilities. (This is comparable to the yuppie practice of building those beach front houses that keep going down in mudslides, because the government bears the cost of insurance) One of the main forces behind sprawl is the provision of below-cost utilities to new suburban housing developments and big-box stores, at the expense of homeowners and businesses in older downtown neighborhoods.

And, as Larry points out, privatized utilities violate the cost principle more than they honor it. Ordinary residential rate-payers pay higher bills to compensate for provision of cheap services to industry.

Then, the corporation has a debt, the amount it had to pay to the city for the water works. To pay for this debt, employ-

ees are fired and rates increased. Since the industrial users are charged low rates, the people least able to afford the increases, small business and home owners, will pay the bulk of increased costs. The consumer and the worker end up paying for the purchase.

On the whole, I think the provision of below-cost services by government-owned utilities has been a powerful force for promoting our dependence on “hard energy” distributed through centralized grids, and impeding the adoption of decentralized forms of appropriate technology or intermediate technology.

Larry is 100% correct that the real motive behind “privatization” has nothing to do with genuine free market principles. It’s just another example of the old game of “public assets, private profits”:

Rail, public transit, electricity generation, water and sewage treatment represent hundreds of billions of dollars of tax payer money invested over the last 90 years. To this figure must be added lands expropriated or given as gifts to build dams and railroads. Privatization hands all this wealth — that we tax payers in theory own — to corporations at a cut rate, for if they were sold at their true cost, no one would buy them.

The policy of deregulation and privatization was never designed to improve services, it was designed to loot.

Amen! This was pretty much the finding of a recent study of water “privatization.” In many cases, the government had to spend even more money upgrading facilities, before “private” corporations would find it worthwhile to purchase them. In effect, the taxpayers have paid the corporations to take public assets off their hands.

Instead of encouraging investment, privatisation has left governments offering increased concessions to entice investors to acquire their assets— often to meet the requirements of donors. For example, between 1991 and 1998 the Brazilian Government made some US\$85 billion through the sale of state run enterprises. However, over the same period, it spent US\$87 billion ‘preparing’ the companies for privatisation.

Rather than being a major source of finance, private contractors are committing little of their own capital and are instead looking to municipalities, central government or donor governments/institutions to provide the money...

In fact, in many cases foreign companies are relying on the donor community to bail them out when they get it wrong.

Larry concludes his post with a call for expropriating “privatized” services (without compensation), and placing them under a system of cooperative governance with day-to-day management carried out by the workforce’s representatives, and strategic control

divided between representatives of the labor force, consumers, and community.

In his second post on a similar theme, “All Power to the Bureaucrats,” he writes specifically about the government-owned super-hospitals being built in the Montreal area.

Doctors, trade unions, *Medicins sans frontieres* are all opposed. These projects result from bureaucratic empire-building, and are not derived from any real need.

The mega-hospitals will centralize the power of the health care bureaucracy even more than it already is. And as someone who works in health care, I can tell you that they have enough trouble running the system now.

Hospitals, he writes, are an ideal candidate for mutualization:

Ironically, hospitals would be an ideal place for introducing worker-self management. They are not owned by a corporation, and supposedly belong to the community. They have a highly educated staff. A council composed of nurses, doctors, technical, trade and support staff, elected by mass meetings of the groups concerned would be the best form of management. For sure such a group would not come up with a crack pot idea like a mega hospital!