Public pays price for privatization
By: Matt Stoller
June 8, 2011 09:29 PM EDT

There is a dignity in the Hoover Dam, a massiveness that speaks to a grand national purpose. A country — our country — decided to build it. As the Hoover Dam was constructed, in the middle of the Great Depression, the nearby city of Las Vegas stretched itself from a sleepy town of 5,000 to accommodate tens of thousands of new residents: the people building the dam and staffing the associated businesses.

In 1956, President Dwight Eisenhower embarked on the most aggressive public works project in U.S. history — the jobs-producing interstate highway system. And throughout the 1930s and '40s, the government designed an elaborate set of public financing vehicles to build the great postwar suburban housing stock.

America used to be a country that built things — using public and private resources. Great works of infrastructure provided jobs and returned an incredible social investment. It is inconceivable to imagine the modern economy without the vast investments in infrastructure made by preceding generations — everything from rural electrification to developing the Internet.

So why aren't we building more of it? One way to think about the question is: Why did we build infrastructure in the first place?

The answer is complicated. We need to look to the political coalitions behind our immense public works and ask which coalitions today support the current infrastructure rhetoric. Seen through that lens, the real trend in infrastructure today is not building more of it but privatizing what exists.

After all, building infrastructure implies the ability to build things here and being able to use the power of taxation to finance them. Privatizing infrastructure requires the ability to securitize revenue flows. Which one do you think modern America does better?

Privatization takes inherently governmental functions — everything from national defense to mass transit and roads — and turns them over to the control of private actors, whose goal is to extract maximum revenue while costing as little as possible.

Republicans have long advocated this in the name of free markets — saying that privatizing government services reduces the size of government. Democrats express more mixed support, but they sometimes go along for the privatizing ride.

Yet it isn’t true, as a general rule, that privatization shrinks the public sector. When investor demand for high returns is combined with the natural monopolies of public assets, what often results instead is citizens finding themselves saddled with high fees and poor service.

Even more perniciously, selling infrastructure such as toll roads puts the coercive power of the state in the hands of private actors. We have great public assets built by prior generations. We should and could be building a better country for our children, rather than liquidating what we have.
The last great era of public works — the New Deal’s roads, bridges, arts programs and schools — did not come from great planning and bipartisan concern over U.S. infrastructure. It came from the desperation of then-new-economy industrialists, who sought an economic structure in which they could profit and a populace seeking to govern its own country.

It was initiated by an unemployed and hungry citizenry and supported by builders clamoring for a government-backed housing-finance system, auto companies demanding roads and airlines seeking airports. The scorching class conflict of the Great Depression led to a national consensus in favor of avoiding unemployment that lasted until the 1970s.

The greatest public works project of all time — the interstate highways — was begun in 1956 after heavy lobbying by the auto industry. It was financed straight up by gasoline taxes and provided jobs and an on ramp to the new suburbs, which solved pressing postwar housing needs.

That period was unique in its political alliance between labor unions and capital-intensive industries that provided a continuously rising standard of living for most Americans. American firms had no rivals internationally, so free trade meant higher sales and profits for all.

The political coalition today augurs for far different policies — despite what the politicians may say. The New Deal coalition melted in the 1970s, the political scholar Tom Ferguson points out, as international competitiveness and environmental costs drove the logic of cost reductions into our political order. Today, we are still living in the Ronald Reagan-Paul Volcker era of low taxes, low regulations, low pay, low spending and high finance.

Today’s intellectual consensus thus fiercely opposes public infrastructure. For example, while it’s always nice to talk about repairing bridges, in 2009, Rep. Peter DeFazio (D-Ore.) pointed out the truth of the Obama administration’s stimulus program: “Larry Summers hates infrastructure. And some of these other economists — they don’t like infrastructure. … They want to have a consumer-driven recovery.”

Both domestic manufacturing and taxation are opposed by the current corporate and political elites. Take the liberal establishment economist Alan Blinder, who horrified former Intel chief Andy Grove when he celebrated as “success” the fact that America today cannot make televisions. Or Michael Boskin, an economic adviser to President Reagan, saying potato chips, microchips, what’s the difference?

The real infrastructure trend in America today is privatizing what is left. House Transportation and Infrastructure Committee Chairman John Mica has been holding hearings on privatizing Amtrak’s Northeast corridor — ostensibly because private capital can more easily bring in high-speed rail.

Kansas Gov. Sam Brownback just turned over arts funding to the private sector, making Kansas the only state without a publicly funded arts agency. Cities across California, meanwhile, are trying to outsource nearly all municipal functions. Chicago famously sold its parking meter revenue to a consortium headed by Morgan Stanley. The Arizona Legislature sold and then leased back its state capitol.

Are these good deals? History would say no. The granddaddies of privatization were
Fannie Mae and Freddie Mac, the housing giants whose public role was supporting the secondary mortgage markets. These companies were “private” in the sense that they operated without public accountability. But eventually, their losses ended up on the public’s balance sheet.

Most privatization deals of core public assets have the same essential structure as Fannie and Freddie. Listen to a Goldman Sachs managing director, John Ma, who expressed his reservations about the privatization of Amtrak’s Northeast corridor.

“Structuring these public-private transactions are always a delicate balancing act,” Ma explained, “of what risks the public sector will retain and what risks you’ll try to transfer to the private sector.” Privatization doesn’t actually make something private; it simply divides risks between public and private entities.

In fact, the real allure of privatization is that it offers what looks like a free lunch. The public receives revenue, but privatization keeps the costs hidden by deferring them to the future. Political actors get to close deficits without raising taxes on wealthy interests. And the political muscle is provided by the people who ultimately benefit from the deal — the same way that Countrywide, Fannie Mae and allied private bankers brutalized their political critics in the name of homeownership.

Republicans often get the added benefit of eliminating unionized workers and driving their ideology of shrinking the amount of social resources under public control.

For Democrats, the benefits are more subtle. Privatization allows them to paper over the party schism between liberals and neoliberals by spending money for social aims through what is, essentially, an off-balance-sheet channel.

Take the continuing chatter around an infrastructure bank, which would be funded by a one-time tax holiday on corporate cash held abroad — hardly a sustainable financing source.

Ultimately, of course, we will have no choice but to rebuild our infrastructure or risk social collapse. It’s not just the disintegrating bridges and extreme weather. Recent global supply chain disruptions suggest that certain parts of corporate America may turn toward a pro-infrastructure posture out of self-interest.

Meanwhile, the ideological fight is not over whether to spend more on infrastructure. It’s whether we should privatize what’s left.

Matt Stoller worked on the Dodd-Frank financial reform law and Federal Reserve transparency issues as a staffer for Rep. Alan Grayson (D-Fla.). He is currently a fellow at the Roosevelt Institute.