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PREDATORY PRIVATIZATION:

*Exploiting Financial Hardship, Enriching the 1 Percent,
Undermining Democracy*



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PREDATORY PRIVATIZATION:

EXPLOITING FINANCIAL HARDSHIP, ENRICHING THE 1 PERCENT, UNDERMINING DEMOCRACY

THE AMERICAN LEGISLATIVE EXCHANGE COUNCIL AND ITS CORPORATE AND RIGHT-WING ALLIES PROMOTE ANTI-DEMOCRATIC PRIVATIZATION OF PUBLIC ASSETS AND GOVERNMENT SERVICES.

The combination of state and local budget crises and the 2010 election of anti-government ideologues in many states has left taxpayers and communities increasingly vulnerable to predatory “privatization” of government services and public infrastructure. Privatization, whether promoted as a short-term way to fill a budget gap or as part of a long-term campaign against the government and unionized workers, can bring disastrous long-term consequences for American families and taxpayers as well as for the democratic process.

Privatization is a wonky term that can obscure the real mechanism and process at work. Through privatization schemes to outsource traditional governmental functions, taxpayer dollars are diverted from the building of public assets and institutions to create long-term revenue streams and profit for corporations. The privatization of governmental functions has resulted in the loss of public sector jobs that have been crucial to the growth of the middle class in favor of lower-wage jobs for workers and new profit centers for CEOs and investors. The cycle of privatization weakens the institutions whose funding is robbed to enrich the private sector. And, at the same time,

it generates taxpayer-funded revenue that gets invested in lobbying and political investments seeking ever-more taxpayer dollars.

Through privatization schemes that directly sell off assets that belong to the public, legislators enrich corporate interests at the expense of the long-term interests of the American people in assets their taxes have helped build. The privatization of the people’s assets is essentially permanent. Once buildings and lands are sold off to the private sector by a temporary legislative majority, those assets that may have taken years to build or maintain are lost forever to private, nondemocratic control.

The agenda of privatization schemers was manifest at last August’s American Legislative Exchange Council meeting in New Orleans where ALEC members urged that the government, meaning the people, should not own buildings but should sell them to the private sector, which could then lease the space back to the government at a profit. Their aim is to make the private sector the landlords of our public spaces to accrue more profit for the few while rendering “we the people” the tenants of corporations in the halls of our democracy. In 2009, the state of Arizona even mortgaged its own capitol complex to investors and turned the legislature itself into a tenant.

In recent years, dozens of privatization initiatives have been proposed, passed, or implemented. They are aimed at water

treatment, transportation infrastructure, education, prisons and prison services, health care and other human services, government buildings, municipal maintenance, emergency services, and more. Those efforts are frequently promoted by the same Wall Street firms that helped create the recession and financial crisis; by right-wing foundations, think tanks and political donors who are eager to exploit the budget-balancing desperation of public officials; and, of course, corporations eager to tap public coffers and take over assets built with taxpayer funds.

Claims that privatization will improve efficiency and accountability often turn out to be false, with legislators running interference to protect companies who do not welcome transparency. For example, according to the February 2012 report from the American Friends Service Committee,

Private prison companies largely are unaccountable to the state or the taxpayers; they are not subject to the same transparency, reporting or oversight requirements as government agencies.

This makes it impossible, even for state officials, to do a full comparative analysis of their operations.

ONCE BUILDINGS AND LANDS ARE SOLD OFF TO THE PRIVATE SECTOR BY A TEMPORARY LEGISLATIVE MAJORITY, THOSE ASSETS THAT MAY HAVE TAKEN YEARS TO BUILD OR MAINTAIN ARE LOST FOREVER TO PRIVATE, NON-DEMOCRATIC CONTROL.

WHAT IS PRIVATIZATION?

The term *privatization* covers an array of actions, some described with other terms such as “outsourcing” or “public-private partnerships.” They can include:

- outsourcing jobs performed by public employees, such as parks maintenance, food service, to for-profit companies
- giving private, profit-making companies 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 school corporations, including “virtual” schools” as well as religious schools, plus reducing tax revenue by giving **corporations** a tax deduction for contributing to scholarship funds for private schools

- leasing or selling public assets such as highways, parks and airports – or income from those assets – to for-profit companies or groups of investors

A **report** by the nonpartisan Congressional Research Service in 2006 reviewed arguments pro and con and case studies of privatization, some more successful than others. The report notes an essential danger of privatization: “any effort to shift bureaucratic functions to the private sector may risk transferring away some governing discretion into the hands of private parties who are not accountable to the public and may not have its interests at heart.”

The private sector firm, then, has one essential goal: to pursue profits. All other goals are subordinate. Thus it faces strong incentives to undertake activities that promote this essential goal. This

can prove beneficial to the government, should the private firm devise more-efficient means of production and develop new products and services. This might also negatively affect the government, should the private firm lower its costs of production by reducing the quality or quantity of the product or service. The private firm, in large part, is rewarded for achieving results pleasing to its owners and shareholders. How it achieves this may or may not prove beneficial to the government.

The report also noted that large-scale privatization transforms the nature of government oversight in ways that “many federal administrators and public administration scholars have found vexatious.”

Given the ways in which multinational companies and anti-government ideologues have harmed taxpayers and undermined the public interest in the name of privatization, those comments come across as cautious understatement.

PRIVATIZATION AS A PHONY PANACEA

Privatization is almost always promoted as a way to save money, improve services, and shake up unaccountable bureaucracies. But in reality, privatization often fails on all counts. Privatization plans can cost government and taxpayers more money, limit accountability and

transparency, and leave people who depend on public services worse off.

A **study** released last fall by the nonprofit Project on Government Oversight **found**, for example, that in 33 of 35 occupations, the government paid billions more to hire contractors than it would have cost to have the same functions performed by government employees.

Some privatization efforts are windfalls that enrich major corporations or politically connected local businesses at the expense of taxpayers. Sometimes the cause is simply a mismatch between the resources and expertise of a public official and a major Wall Street firm.

“There’s a reason that there’s been so much enthusiasm in the finance community for privatization deals. You are dealing with a less savvy partner,” **said** David Johnson, a partner in a firm that advises struggling municipalities. “The bigger sucker is always the government.” Privatization can be good business, whether successful or not. When privatization plans fail and government steps back in, politically connected financiers brokers, and law firms can still walk away with millions of taxpayer dollars.

Perhaps worst of all, privatization can undermine good public policy and democratic decision making. Turning tax dollars and control of public services over to companies whose overriding incentive is to maximize profits can lead to long-term costs and sometimes devastating consequences.

In February, surveying the privatization push at the state level, economist Paul Krugman **suggested** that Madison, Wisconsin, in 2011 was similar to Baghdad in 2003, when Bush administration officials’

top priority was to “corporatize and privatize state-owned enterprises” and to “wean people from the idea the state supports everything.” Krugman notes that author Naomi Klein, in her book “**Shock Doctrine**,” put the Baghdad fiasco in a larger context in which “right-wing ideologues have exploited crises to push through an agenda that has nothing to do with resolving those crises, and everything to do with imposing their vision of a harsher, more unequal, less democratic society.” And such policies also put more profits in the hands of their political allies and election funders.

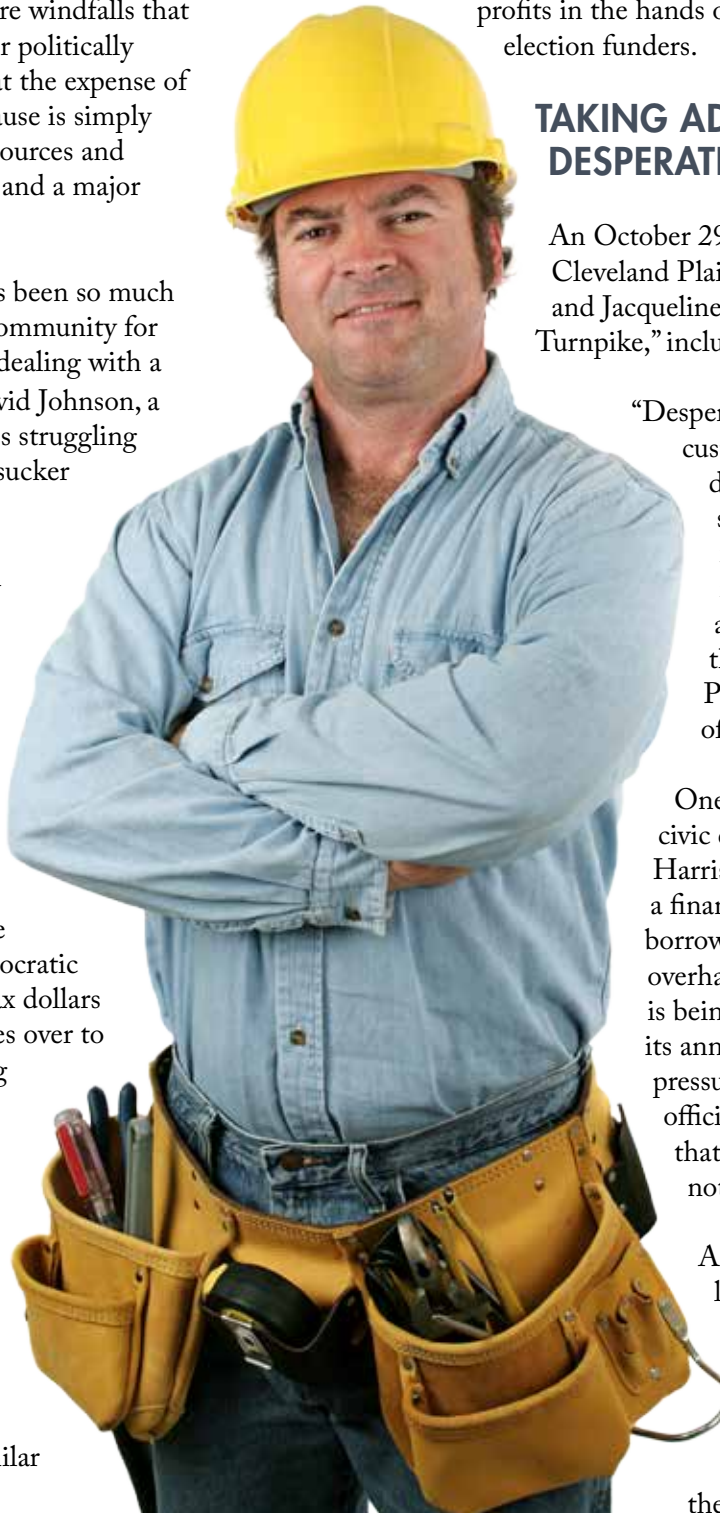
TAKING ADVANTAGE OF DESPERATION

An October 29, 2011, column in the Cleveland Plain Dealer by Gary Suhadolnik and Jacqueline Thomas, “Pitfalls of Leasing Turnpike,” includes this:

“Desperate government is our best customer. There will be a lot of desperate governments out there,” said the chairman of a major finance company specializing in infrastructure privatization, addressing the annual meeting of the National Council for Public-Private Partnerships in the midst of the financial crisis in 2008.

One harrowing example of civic desperation can be found in Harrisburg, PA. The city has been in a financial crisis caused by excessive borrowing by former officials to pay for overhauling a trash incinerator; the city is being crushed by debt many times its annual budget. The city was being pressured last year by state and county officials to accept a “recovery” plan that would spare bondholders but not taxpayers.

As the Huffington Post **reported** last June, “The finances of Harrisburg, Pa., are so desperate that local officials are considering a deal they fear will ultimately make the city more miserable.” Part of the plan involved leasing or selling the city’s parking garages, resulting in the long-range loss of valuable



Privatization outsources jobs performed by public employees, such as parks maintenance and food service, to for-profit companies.

revenue and leaving city residents vulnerable to the whims of a private corporation. One proposal would have given investors leasing garages the power to double parking rates twice a year. “This is a situation where Wall Street will get paid, and the little guys on Main Street, taxpayers, are going to get stuck holding the bag,” **said** City Council member Brad Koplinski in June.

Last July, the City Council defied pro-privatization Gov. Tom Corbett and rejected the plan it was being pressured to accept. Some councilmembers said Wall Street should share the painful consequences of its lending on the troubled incinerator project. “The bondholders took a risk, ladies and gentlemen,” **said** City Councilor Susan Brown-Wilson. “When you take a risk on Wall Street, guess what? Sometimes it’s a loss.”

The city council attempted to avoid a state takeover by filing bankruptcy; that plan was rejected by courts in November. Chaos continued this spring. At the end of March, a widely respected receiver appointed by the governor last December abruptly quit.

Shortly before he resigned, he reportedly requested state and federal prosecutors investigate an auditor’s report on the financing of the municipal trash incinerator. He’s called the debt structure ‘disturbing.’” Another report said he wanted an investigation because “the people of Harrisburg have been mistreated as a result of the incinerator deals.”

THE ROLE OF THE AMERICAN LEGISLATIVE EXCHANGE COUNCIL

Privatization has long been promoted by ALEC, a nonprofit organization that functions as a matchmaking service between corporations and public officials who are eager to take care of each other’s interests. ALEC, funded by corporations, CEO-funded foundations and extremist ideologues like the Koch brothers, invites corporate lobbyists to write model legislation with and for right-wing state legislators. A campaign by public interest groups exposing ALEC’s efforts to make it more difficult for American citizens to vote and to advance reckless “shoot first” laws – and the departure of major corporate funders – led ALEC to abolish its “Public Safety and Elections” task

force in name, although its chairman recently suggested that the agenda would be carried forward through other parts of ALEC. The move is not ALEC’s first PR maneuver to spin public perception of the organization: It **claimed** earlier this year that ALEC “is no longer involved with the private prison industry. Corrections Corporation of America is not, nor is any other private prison company, a member or supporter of ALEC.”

Corrections Corporation of America apparently left ALEC in late 2010 in the wake of controversy over expanded seizure and warehousing of immigrants, but numerous bills approved while CCA led or had a seat on that task force--bills that privatize prisons, expand the use of low-wage prison labor, extend the sentences of prisoners (and occupancy rates) and increase detention of immigrants – remained on ALEC’s agenda as templates for state policy long after CCA left. And ALEC has never repudiated the private prison agenda or worked to repeal bills that

had been adopted across the country and that it previously touted as its successes.

ALEC was infamously the incubator of anti-immigration legislation in Arizona through the task force on which CCA had a long-standing seat and previously led. There is no doubt that immigration detention is a profit center CCA and other for-profit prison corporations are interested in, even though

CCA claims it did not vote for the bill. (CCA’s claims that it never voted on any bills on the task force it chaired are difficult to believe and are belied by numerous minutes from task force meetings where bills are described as passing “unanimously” without any dissent or abstention from CCA, but there is no evidence that CCA drafted SB 1070.)

Regardless of its recent efforts to spruce up its image, ALEC plans to focus even harder on its core economic agenda, which is anti-union, anti-regulatory, and pro-privatization; the group also retains a Tea Party-flavored focus on the 10th Amendment, aimed at limiting federal authority and giving more power to state legislatures, where ALEC can more effectively advance its anti-government agenda while disregarding the similarly vague Ninth Amendment’s efforts to preserve unspecified individual rights.

REGARDLESS OF ITS RECENT EFFORTS TO SPRUCE UP ITS IMAGE, ALEC PLANS TO FOCUS EVEN HARDER ON ITS CORE ECONOMIC AGENDA, WHICH IS ANTI-UNION, ANTI-REGULATORY AND PRO-PRIVATIZATION.

Last year, for a short-time before a new effort was launched to expose ALEC's agenda, ALEC proudly promoted a project called "Publicopoly" as a way to help legislators promote privatization in seven sectors: government operations, education, transportation and infrastructure, public safety, the environment, health, and telecommunications. As summarized by the magazine "In These Times":

Though the specifics are secret and "restricted to members," ALEC openly advocates privatizing public education, transportation and the regulation of public health, consumer safety and environmental quality including bringing in corporations to administer:

- Foster care, adoption services and child support payment processing.
- School support services such as cafeteria meals, custodial staff and transportation.
- Highway systems, with toll roads presented as a shining example.
- Surveilling and detaining convicted criminals.
- Ensuring the quality of wastewater treatment, drinking water, and solid waste services and facilities. (After all, when someone mentions a safe and secure public water supply, the voter's next immediate thought is: "Only if it's cost-effective!")

To accomplish these initiatives, ALEC contends that "state governments can take an active role in determining which products and services should be privatized." ALEC advocates three reforms: creating a "Private Enterprise Advisory Committee" to review if government agencies unfairly compete with the private sector; creating a special council that would contract with private vendors if they can "reduce the cost of government"; and creating legislation that would require government agencies to demonstrate "compelling public interest" in order to continue as public agencies.

Last year, the Center for Media and Democracy obtained a copy of 800 ALEC model legislation bills and last summer launched **ALEC Exposed** to publicize the bills and their harm to Americans' rights and interests. The Nation's John Nichols summarizes the impact of ALEC's agenda: "ALEC's model legislation reflects long-term goals: downsizing government, removing regulations on corporations and making it harder to hold the economically and politically powerful to account."

A CAUTIONARY TALE: THE CHICAGO PARKING METER FIASCO

While workers are often the most visible victims of privatization, taxpayers often bear the brunt of privatization schemes that enrich a few while failing to live up to their promise of saving tax dollars.

IN 2009, THE CITY OF CHICAGO SOLD THE CITY'S PARKING METERS TO A GROUP OF COMPANIES LED BY WALL STREET GIANT MORGAN STANLEY, WHICH INCLUDES AN INVESTMENT FUND OWNED BY THE GOVERNMENT OF ABU DHABI. IN RETURN FOR \$1.2 BILLION IN CASH, MOST OF WHICH WAS SPENT IN THE FIRST YEAR, PRIVATE INVESTORS WON THE RIGHT TO CONTROL PARKING METER REVENUES FOR THE NEXT 75 YEARS.

In 2009, the city of Chicago sold the city's parking meters to a group of companies led by Wall Street giant Morgan Stanley, which **includes** an investment fund owned by the government of Abu Dhabi. In return for \$1.2 billion in cash, most of which was **spent** in the first year, private investors won the right to control parking meter revenues for the next 75 years. This deal, later criticized by the city's inspector general, has come to stand as one glaring – and maddening -- example of privatization gone wrong.

The deal was, is and will continue to be a disaster for Chicagoans. It allowed the private investors to massively hike parking rates, which frustrated drivers and hurt downtown businesses by giving customers a reason to stay away. In addition, the deal prevents the city from providing any competition to the private investors – so decades from now, public officials will still be unable to decide, for example, that they should build new parking garages downtown. This is crony capitalism at its worst, creating endless revenue streams for for-profit businesses under terms that protect their profits from marketplace competition.

Chicago taxpayers even have to reimburse corporate investors for lost revenue when the city wants to close a block for a street festival or has to close off traffic to make street repairs. If a meter is out of commission for six hours, the company is reimbursed for an entire day's worth of fees. Chicago has essentially given up control of its streets. Documents **released** late last year reveal that the city was billed by the meter firm for \$1.7 million in 2010, on top of more than half a million the year before, in this kind of "true-up revenue."

This May, the Chicago Sun-Times **reported**, "The private company that runs Chicago's parking meter system has sent City Hall another big bill, bringing the total amount of money it's demanding from taxpayers to nearly \$50 million." The paper notes that the company had already billed the city \$14 million for "revenues the company says it lost when the city took meters out of service last year because of street closures" and \$13.5 million for "free parking the company says it provided to people displaying disabled-parking placards or license plates for the year ending Feb. 28, 2011." Another \$22 million bill seeking reimbursement through February 2012 arrived on May 17.

The Chicago parking meter deal, which like many privatization efforts, was rushed through the city council with little time or real oversight, binds the city and its public policy for an astonishing 75 years.

Who won? The arrangers and brokers walked away with serious money: The lawyers, accountants and advisers on the parking meter scheme **reportedly** pocketed \$7 million in fees. The corporate owners will tally up handsome profits for decades to come from revenues that once helped make up the city's budget.

Who loses? Chicagoans whose officials have given up the ability to make decisions about traffic and parking that are in the best interest of Chicago residents and visitors. And certainly the taxpayers and residents of Chicago.

The Chicago deal is far from unique.

Harrisburg Controller Dan Miller told the PBS series "Need to Know" in September that when he looked at the fine print of the parking deal put before his city's officials, the deal's language transferred "almost all of the risk" from investors to the city. In addition, the deal would have prohibited the city from building new parking, and the city would either have had to approve investor requests for higher fines or pay for not raising the fines.

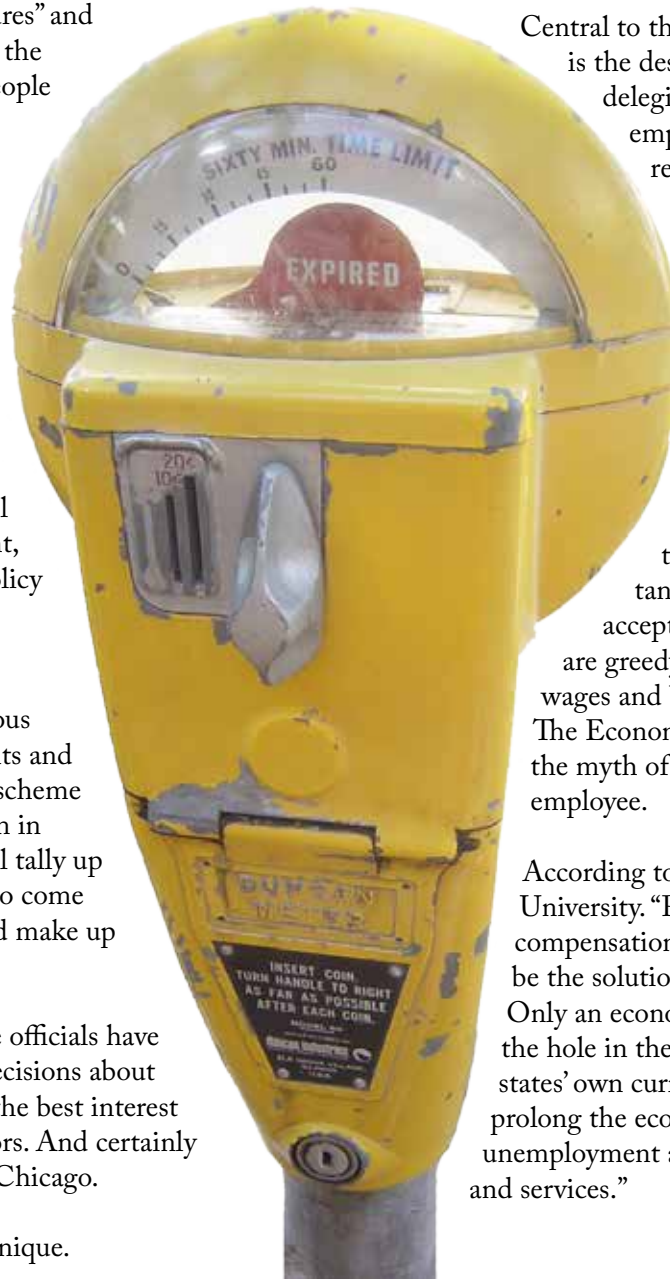
Penn State law professor Ellen Dannin says the kind of no-compete or "adverse action" clauses that often appear in infrastructure contracts threaten the loss of "democratic control of democratic institutions."

PRIVATIZATION: ATTACK ON PUBLIC EMPLOYEES, ALL WORKERS' WAGES

Central to the predatory privatization push is the desire by right-wing leaders to delegitimize and disempower public employees and the unions they represent. That's why the top priority of many newly elected Republican governors and legislators, many of whom are part of ALEC or are ALEC alums, has been to aggressively attack public employees' jobs as well as their bargaining rights.

The soil for these attacks has been fertilized over the years by the efforts of right-wing think tanks to create and sustain the accepted wisdom that public employees are greedy and overpaid, enjoying unfair wages and benefits while taxpayers suffer. The Economic Policy Institute has **challenged** the myth of the overcompensated public employee.

According to Jeffrey Keefe of Rutgers University. "Public sector workers' compensation is neither the cause, nor can it be the solution to the state's financial problems. Only an economic recovery can begin to plug the hole in the states' budgets. Unfortunately, the states' own current budget balancing efforts may prolong the economic downturn by increasing unemployment and reducing demand for products and services."

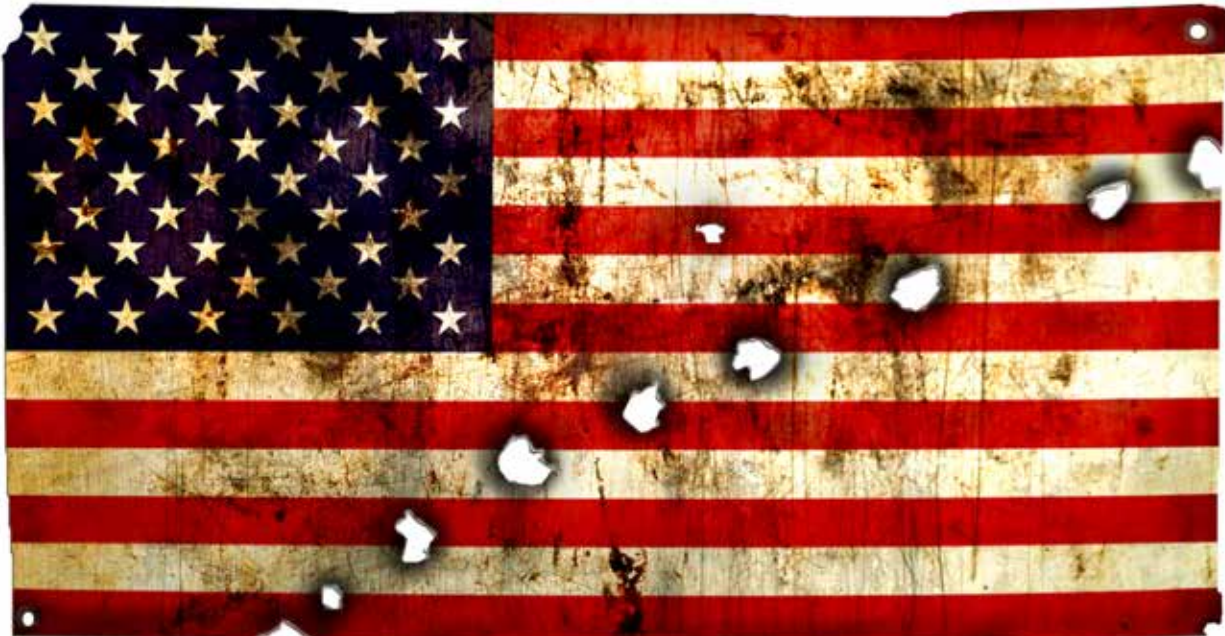


The politicians and corporate interests that promote the notion of greedy public servants are, of course, the same ones working to keep pay and benefits low in the private sector. They back policies that ship jobs overseas (another part of the ALEC “free trade” agenda) and keep wages low at home, then try to stir resentment among low-wage workers toward public employees whose wages can support a middle-class family. In other words, they are essentially arguing that low-wage jobs with few benefits should be the standard for all workers, an approach that fits the middle-class-destroying agenda of the corporate right and its GOP allies. ALEC’s agenda on wages is a race to the bottom for workers not in the executive suite.

In a 2007 [article](#) called “Roads to Riches: Why investors are clamoring to take over America’s highways, bridges, and airports – and why the public should be nervous,” Business

And despite right-wing rhetoric denigrating public employees, privatization efforts are being pushed regardless of how effectively civil servants are doing their jobs. Last year, state officials in Michigan began pushing to [privatize](#) the feeding of inmates even though food service operations had done an excellent job in cutting costs, according to the Michigan Department of Corrections. Supporters of the plan, which could eliminate more than 400 state jobs, say it would save taxpayers \$7 million a year, savings that will [come](#) “entirely in wages and benefits because employees of a private company are expected to be paid less than state workers.”

One problem that could end up costing the state much more: State food service employees are now trained to help respond to incidents requiring security. Their contractor replacements, however, would be pulled out in the case of



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Week noted that workers were hurt by the privatization of the Chicago Skyway: “Skyway toll takers used to be full-time city employees with rich benefits. Now most are part-time independent contractors without benefits.”

That’s typical. “Much of the savings from outsourcing federal projects to private companies doesn’t come from greater efficiency, but rather lower wages and benefits,” said Kathryn Edwards, co-author of “Outsourcing Poverty,” a 2009 [report](#) by the Economic Policy Institute. According to the report, 20 percent of federal contract workers did not earn enough to put a family of four over the poverty threshold; fewer than 8 percent of federal employees fail to meet that threshold.

trouble. “Doing things cheaper isn’t always better,” [says](#) Mel Grieshaber, executive director of the Michigan Corrections Organization.

State efforts to privatize some \$400 million in prison services were put on hold earlier this year when a judge argued that state law would require private companies to pay prisoners minimum wage. In February, a group of unions published a blistering [report](#) detailing the pitfalls of privatization proposals and including 20 questions about cost comparisons and other issues that lawmakers should answer before considering proposals. A November 6, 2011, New York Times [story](#) on the hidden costs of privatizing state jobs focused on efforts to

privatize nursing assistants who work in veterans' homes in Michigan. The article noted that while the state may appear to be saving money by paying private workers half of what civil servants earn, there are other costs to the veterans, whose quality of care may diminish, and to the state itself – for example, low-wage workers need to rely on Medicaid and food stamps:

What governments save in salaries and benefits often “ends up on the government books through all sorts of programs,” said Paul C. Light, a professor at the Wagner School of Public Service at New York University, referring to unemployment insurance, Medicaid and other public assistance for workers earning low incomes.

Privatization efforts are also moving at local levels of government. Last June, commissioners in Frederick County, Maryland listened to a consultant's proposal to privatize services now performed by about a quarter of the county's employees, including human resources, public works, financial administration, and parks and recreation.

According to a local news [report](#), the consultant, Oliver Porter, said the county would be “the first governmental body of its kind to undergo a large-scale transformation – using private contractors to provide most of the services targeted in the study.” Local nonprofit leaders urged county officials to slow down the proposal so that officials and citizens could consider more carefully what one called an effort to make Frederick County “the biggest guinea pig in the history of privatization.” County commissioners created a [Privatization Advisory Committee](#) in September.

THE PERNICIOUS PRIVATE PRISON INDUSTRY

The push to move prisoners from public to private prisons may be the best (or worst) overall example of the dangers of privatization: the failure to live up to promised cost savings,

the threat of political corruption, the damage to sound public policy and actual harm to citizens.

According to the nonprofit privatization resource center In the Public Interest:

In states across the country, private prisons have been plagued with a multitude of problems – major riots have exploded, inmates have died, and civil rights have been routinely violated. Private prisons have an economic motive to cut costs in every area of operations, resulting in lower-quality staff, higher employee turnover, and degrading prison conditions. These dismal conditions directly contribute to the decreased security and higher incidence of violence found at privatized prisons. As prison quality greatly suffers, there is little evidence that these private prisons save governments money.

Indeed, in a May 2011 investigative [report](#), the New York Times concluded: “Private Prisons Found to Offer Little in Savings.”

The conviction that private prisons save money helped drive more than 30 states to turn to them for housing inmates. But Arizona shows that popular wisdom might be wrong: Data there suggest that privately operated prisons can cost more to operate than state-run

prisons – even though they often steer clear of the sickest, costliest inmates.

A February 2012 [report](#) from the American Friends Service Committee on private prisons in Arizona reached a similar conclusion:

The data shows that private prisons under contract with the state cost more than equivalent units operated by the state Department of Corrections. AFSC estimates that in 2009 and 2010, Arizona overpaid for these units by as much as \$7 million. If the state adds 2,000 medium-security private beds, as it has proposed, Arizonans could be losing over \$10 million every year on private prisons.

“ANY EFFORT TO SHIFT BUREAUCRATIC FUNCTIONS TO THE PRIVATE SECTOR MAY RISK TRANSFERRING AWAY SOME GOVERNING DISCRETION INTO THE HANDS OF PRIVATE PARTIES WHO ARE NOT ACCOUNTABLE TO THE PUBLIC AND MAY NOT HAVE ITS INTERESTS AT HEART.”
— Congressional Research Service Report 2006

Yet in spite of evidence that privatization has frequently failed on all these counts, public officials who are ideologically committed to privatization (or eager to please their prison-industry contributors) continue to push ahead.

According to a 2011 [New York Times](#) story, the number of state inmates in private prisons grew by a third over the previous decade, to more than 90,000. And state legislatures keep trying to make that figure grow.

Prison industry contributions are clearly one factor. According to a [report](#) by the Institute on Money in State Politics, between 2000 and 2004 private prison companies and companies that provide prison services gave a total of \$3.3 million in 44 states. Of that total, \$2.1 million was concentrated in 22 states that had “three-strikes” laws on their books.¹ The industry has earned a huge return on that investment in political giving and lobbying. In June, the nonprofit Justice Policy Institute [noted](#) that the two largest private prison companies reported \$2.9 billion in profits in 2010.

Those profits are evidence that private prison companies such as the Corrections Corporation of America and their financial backers have powerful reasons to subvert public policies designed to reduce spending on incarceration and sensibly reduce the number of nonviolent offenders being held in the nation’s prisons. As Adam Sewer of The American

Prospect [noted](#) in a review of the JPI report,

...every good idea criminal justice experts have come up with over the past twenty years to reduce prison costs and the devastating social impact of mass incarceration on marginalized communities, from non-custodial sentencing to reforming drug laws to innovation in parole and probation, hurts the CCA’s bottom line and it’s in their financial interest to oppose any change that might lead to fewer people being locked up.

1 “Three-strikes” laws impose mandatory extended jail time to people who have been convicted of a serious offense on three or more occasions; two dozen states have some form of three-strikes laws, which have sometimes resulted in people being sentenced to decades in jail for nonviolent crimes such as the theft of a few videotapes from a K-Mart.

SB 1070, Arizona’s notorious anti-immigrant law, one now being copied by other states, was pushed by the right-wing American Legislative Exchange Council, which CCA long served on, and once chaired, and by the Public Safety and Elections Task Force through which the “model legislation” moved. While CCA has denied reports that it authored the law, claiming that it only “observed” the task force’s endorsement of the legislation, there’s no question that CCA and others benefit from policies that encourage more detention of immigrants. According to the Justice Policy Institute, contracts from federal Immigration and Customs Enforcement made up 12 percent of CCA’s revenues in 2010 and 20 percent of rival GEO’s.

In September, the [New York Times](#) [reported](#) on the emergence of an international “detention-industrial complex” profiting from crackdowns on immigration, noting that private companies control half the detention beds in the United States.

PRIVATE PRISONS HAVE AN ECONOMIC MOTIVE TO CUT COSTS IN EVERY AREA OF OPERATIONS, RESULTING IN LOWER-QUALITY STAFF, HIGHER EMPLOYEE TURNOVER AND DEGRADING PRISON CONDITIONS.

Earlier this year, CCA [wrote](#) to officials in 48 states offering to buy and run prisons if states would guarantee a 90 percent occupancy rate. A coalition of religious groups [urged](#) state officials to turn down the offer, which the groups said would create an incentive for mass incarceration and “be costly to the moral strength of your state” as well as costly financially. “Truth in Sentencing” laws championed by ALEC

backers such as Wisconsin Gov. Scott Walker also have the effect of encouraging longer prison stays, and higher profits, by limiting parole and incentives for good behavior.

It’s not only big companies that profit at the expense of the public interest. In Louisiana, according to a May 2012 [investigative series](#) by the New Orleans Times-Picayune, sheriffs have become entrepreneurs, overseeing local for-profit local prisons that give them a powerful financial incentive to keep their no-frills prisons full. The paper reports that Louisiana locks up more people per-capita than any other state, and the profit motive is one reason. “Prison operators, who depend on the world’s highest incarceration rate to survive, are a hidden driver behind the harsh sentencing laws that put so many people away for long periods.”

Some localities that have tried to cash in have found themselves in trouble. When private prisons locate in small towns, the towns can become so financially dependent on the prisons that state and local officials defend even nightmarish operations, like the violence-plagued juvenile detention center in Walnut Grove, Tenn., that was the subject of an NPR [exposé](#) last May. Because of changes by state lawmakers, prison officials were permitted to raise the age limit and expand beds and profits, so that the “juvenile” facility has 13-year-old offenders locked up with 22-year-olds. And, prison corporations tout their role as the county’s largest employers as a way to gain even more leverage and power over policy decisions.

Sometimes the opposite happens: Communities fall for financial promises made by prison industry brokers and bet the town’s future on income that never shows up.

In the second [story](#) of its [exposé](#), NPR reported that in 2000, the Texas farming town of Littlefield borrowed \$10 million to build a local prison that made money while Idaho and Wyoming sent prisoners there. But after Idaho stopped doing so, operator GEO pulled out, leaving the town with an empty facility and a \$65,000 monthly debt payment, or \$10 for every resident.

According to NPR, “To avoid defaulting on the loan, Littlefield has raised property taxes, increased water and sewer fees, laid off city employees and held off buying a new police car. Still, the city’s bond rating has tanked.” Other towns in Littlefield’s situation are trying to figure out how to undercut their competition by housing prisoners for other cities and states at bargain-basement rates, which doesn’t necessarily translate into sound operations. As the Tucson Citizen [wrote](#) in summarizing the NPR series, private prison

companies “are in the business of making money first, and they will always prioritize profits over protecting the public or rehabilitating prisoners.”

But prison officials’ political connections seem to make them virtually immune to accountability. In 2010, two prisoners escaped from a for-profit prison facility and killed a couple in Oklahoma. Even though a state investigation found security deficiencies in all private prison facilities,

the chair of Arizona’s Senate Judiciary Committee, Ron Gould, responded to proposed legislation to increase oversight and monitoring of private prisons by [saying](#) he “did not believe these bills are necessary.” Gould’s district [includes](#) a privately run prison; he has received contributions from prison-industry officials.

[According to the Tucson Citizen](#) report in February 2011, Gov. Brewer’s chief of staff was a former lobbyist for CCA; her campaign manager runs a public relations firm that lobbies for CCA, and the chairman of the

Governor’s Commission on Privatization and

Efficiency served as senior director of state and customer relations for CCA from 2005 to 2006 and lobbied for the company in 2007. That may make it less surprising that Arizona officials

have pushed to award an additional 5,000 beds to a private bidder, even though the state’s own investigators have said the private prisons are frequently more expensive than the state’s own operations.

In an April 4, 2012, [editorial](#), The Nation highlighted the hypocrisy of lawmakers who claim that privatization is a matter of government efficiency but reject evidence that efficiency is not the result:

One might think that, faced with evidence that the state isn’t getting enough bang for its buck, Arizona legislators would rethink their commitment to



IN 2010, THE NATION’S TWO
LARGEST PRIVATE PRISON COMPANIES
PROFITED
\$2.9 BILLION



According to a 2011 **New York Times** story, the number of state inmates in private prisons grew by a third over the previous decade, to more than 90,000. And state legislatures keep trying to make that figure grow.

putting ever more prisoners into private facilities. Instead, in a move Orwellian even by the gutter standards of Arizona politics, they've simply tried to bar the state from collecting the evidence. On February 27 the legislature proposed a budget bill eliminating the requirement for a cost and quality review of private prison contracts. According to the AFSC, "The move would ensure that the public would have no way of knowing whether the state's private prisons are saving money, rehabilitating prisoners, or ensuring public safety."

This May, the Arizona Department of Corrections **signed** a three-year contract to privatize health care in state-run prisons.

In Florida, Gov. Rick Scott **pushed** a plan to cut nearly 1,700 state corrections jobs and move as many as 1,500 additional inmates to private prisons, according to the Orlando Sentinel. Even some Republican lawmakers resisted: "Private prisons make a profit on the New York Stock Exchange," said Sen. Mike Fasano. "Government should not be in the business of helping companies make a profit, and that's what we're doing here."

But CCA and two other companies running private prisons are, says the Orlando Sentinel, "prime financiers of the Republican Party." One, GEO Group, "gave more than \$400,000 to the party in the past election cycle and another \$25,000 to Scott's inaugural bash." In addition, a GEO group lobbyist hosted the governor at his home for a Super Bowl party and helped raise \$3 million for the governor's inaugural.

Last summer it was reported on the blog FireDogLake that the FBI was investigating corruption around private prison contracting; among the reported targets of the investigation was former Florida Budget Chief and Speaker of the House Ray Sansom, who "introduced a very last-minute provision into the budget bill to provide for \$110 million to be appropriated to the GEO Group for the construction of what became the Blackwater Correctional Facility."

Last fall, a judge **rejected** the legislature's move to privatize 29 prison facilities, ruling that doing so in the fine print of the budget violated the state constitution. That ruling is on appeal. Also **in the courts** is the state's plan to privatize health care for all 100,000 inmates in the state prison system, which was mandated in the legislature's 2011 budget.

Ohio's Governor Jon Kasich has also pushed prison privatization; after planning to sell five prisons, the Kasich administration **decided** in September to sell one to CCA and hire vendors to operate others. According to the Cleveland **Plain Dealer**, at least one lawmaker had earlier said there was a clear perception of a conflict of interest given that Kasich's pick for director of the Department of Rehabilitation and Correction, Gary Mohr, used to work for CCA, which was one of three companies that **submitted** bids to buy and operate the state prisons.

In one case in Pennsylvania, the huge potential profits from privatizing juvenile corrections created enough of an incentive for a detention facility to create a kickback scheme that involved bribing judges to sentence nonviolent juvenile offenders to unconscionably long detentions for minor offenses.

According to **CNN**, a 24-year-old who stole some change from parked vehicles to buy a soda spent nine months in detention. A teenager was **sentenced** to three months for creating a MySpace page mocking an assistant principal. Two judges **pleaded** guilty, were disbarred, and sentenced to jail time. "Once somebody is going to make more money by holding more kids, there is a pretty good predictable profit motive," criminal justice consultant Judith Greene, who heads a nonprofit group called Justice Strategies, told **CNN**. "It's predictable that companies are going to tolerate certain behaviors they shouldn't."

PRIVATIZING PUBLIC EDUCATION

For decades, anti-government intellectuals, right-wing funders, and Religious Right activists have teamed up to wage a long-term assault on public education. For some, privatizing education is primarily a religious or ideological project. For others, the billions of dollars that flow through public schools is a tempting source of cash, from outsourcing meals and transit to vouchers and other tax

schemes to send tax dollars to private schools. For some it's both.

In a phenomenon reminiscent of the prison industry example, the ideological and financial incentives motivating those who are seeking privatization are seemingly immune to failures of existing vouchers to deliver on the promise of improved educational outcomes.

In the wake of the 2010 elections, there has been a surge of legislation to create or expand programs that divert public education dollars into religious schools and other private academies. Florida is expanding both voucher and tuition tax cut programs. Pennsylvania is expanding a program

that allows corporations to direct their taxes to private schools. In Indiana, a new voucher program diverts up to \$4,500 from public schools for each of the thousands of students who decide to attend a private school; according to **CBS**, all but six of the roughly 240 private schools in the program are religious schools. Indiana's program, and the cost to public schools, is set to expand in coming years.

In addition, for-profit "online learning companies" and their allies in the American Legislative Exchange Council have had success getting right-wing legislators to push money into "virtual schools" and other online moneymakers.

PRIVATE PRISON COMPANIES SUCH AS THE CORRECTIONS CORPORATION OF AMERICA AND THEIR FINANCIAL BACKERS HAVE POWERFUL REASONS TO SUBVERT PUBLIC POLICIES DESIGNED TO REDUCE SPENDING ON INCARCERATION AND SENSIBLY REDUCE THE NUMBER OF NONVIOLENT OFFENDERS BEING HELD IN THE NATION'S PRISONS.

An **investigative article** by Lee Fang published in November in *The Nation* quoted excited executives and investors exulting about the "immense potential for entrepreneurs." *The Nation* reports that the enthusiasm of investors and their allied legislators has not been dimmed by a recent study from the Center for Research on Education Outcomes at Stanford University, which revealed that "students in online schools performed significantly worse than their traditional counterparts."

The article quotes Ed Fuller, an education researcher at Pennsylvania State University, asking "Why are our

legislators rushing to jump off the cliff of cyber charter schools when the best available evidence produced by independent analysts show that such schools will be unsuccessful?" The answer is almost certainly a combination of ideology, lobbying and lavish campaign contributions.

David Brennan, the chairman of White Hat Management, which runs both traditional and virtual charter schools, became Ohio's second-largest GOP donor. According to *The Nation*, White Hat's success rate under No Child Left Behind was 2 percent – not a typo – compared to 54.9 percent for traditional schools and 30 percent for "virtual schools" run by nonprofits. Says Fang:

From Idaho to Indiana to Florida, recently passed laws will radically reshape the face of education in America, shifting the responsibility of teaching generations of Americans to online education businesses, many of which have poor or nonexistent track records. The rush to privatize education will also turn tens of thousands of students into guinea pigs in a national experiment in virtual learning – a relatively new idea that allows for-profit companies to administer public schools completely online, with no brick-and-mortar classrooms or traditional teachers.

A December New York Times investigation drew similar conclusions about profit-maximizing online education companies, which spend hundreds of thousands of dollars in advertising and lobbying for a payoff worth tens of millions in public funds.

K12, an ALEC member described by the Times as "the biggest player in the online-school business," is paying its CEO \$5 million this year despite questionable educational outcomes. Says the Times of K12, "a portrait emerges of a company that tries to squeeze profits from public school dollars by raising enrollment, increasing teacher workload, and lowering standards."

The Times calls advocates for charter and online schools "a lobbying juggernaut in state capitals." The legislative victories they are racking up these days are the culmination of a long-term strategy.

In a May 2011 article, researcher Rachel Tabachnik **reviewed** the history of the school privatization movement. Its financial backers have been pouring millions of dollars into state politics for the past decade in order to build legislatures more to their liking. Right-wing donors such as Betsy DeVos and the Walton Foundation funnel money through groups with media-friendly names like All Children Matter, its successor the American Federation for Children, and AFC-affiliated state-level political action committees like Students First, which raised more than \$6 million for the 2010 election cycle in Pennsylvania.

Columnist Mark Ballard of *The Advocate* in Baton Rouge, La., recently **documented** that national privatization advocates have made major financial investments in supporting Gov. Bobby Jindal state legislators, and candidates for the state Board of Elementary and Secondary Education.

It is important to understand that targeted voucher programs that allow students from poor families, children with disabilities or students in underperforming schools

to attend private schools that will accept them are not the ultimate goal of school privatizers. They are a tactical means to a much larger strategic end, which is the end of public education altogether, as pushed by David Koch in his run for the White House in 1980, echoing his late father's John Birch Society antipathy to public schools as socialist or communist.

"Like most other conservatives and libertarians, we see vouchers as a major step toward the complete privatization of schooling," **stated** Heartland Institute President Joseph Bast in 1997. "In fact, after careful study, we have come to the conclusion that they are the only way to dismantle the current socialist regime." Heartland has **received** significant funding from right-wing foundations over the years, including the Charles Koch Foundation.

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—LEE FANG, THE NATION**

If you doubt that many privatizers seek to dismantle public education, take a look at the many prominent right-wing activists and thinkers who have signed the **“Public Proclamation to Separate Church and State,”** which proclaims that “I favor ending government involvement in education.”

As Milton Friedman, intellectual godfather of the movement, **said** “Vouchers are not an end in themselves; they are a means to make a transition from a government to a free-market system.”

More famously, the late televangelist and Religious Right leader Jerry Falwell **said**, “I hope I live to see the day when, as in the early days of our country, we won’t have any public schools. The churches will have taken them over again and Christians will be running them.” At the 2011 Values Voter Summit held in Washington, D.C., in October, one of the most frequent and enthusiastically received applause lines was a call to abolish the Department of Education. In Florida, Gov. Rick Scott **signed** five bills last year that build on the voucher programs put in place by former Gov. Jeb Bush and promote Scott’s agenda to

expand charter schools, virtual schools, vouchers and a program that allows students to transfer out of failing public schools. Florida also gives tax breaks to corporations in return for private school scholarships, echoing ALEC model legislation: With Scott’s urging, that program’s cap increased by \$30 million to \$175 million while the McKay scholarship program for students with disabilities could nearly quadruple under new looser eligibility guidelines. Florida’s education chief, selected by the state board at Scott’s request last year, is a former executive director of the **Black Alliance for Educational Options**, a group created by right-wing funders to make black parents, rather than right-wing economists and Wall Street financiers, the face of the voucher movement.

Mark Pudlow, spokesman for the Florida Education Association, **called the laws** “shameful” and said Rick Scott and his allies are pursuing a “carrot and stick plan,” meaning “its all carrot for the privateers and all stick for the teachers and schools.”



Any doubts that Florida children are being exploited should be put to rest by an in-depth **investigation** published in June 2011 by Miami New Times.

The paper exposed a breathtaking lack of oversight and accountability in the program, with millions in public funds flowing to bogus academies and schools that used identity theft to claim funds for disabled students who attended other schools. According to the New Times, Bush's McKay scholarship program distributed \$148.6 million in the past 12 years, with 1,103 schools getting an average of \$7,144 per year for 22,198 students.

It's like a perverse science experiment, using disabled school kids as lab rats and funded by nine figures in taxpayer cash: Dole out millions to anybody calling himself an educator. Don't regulate curriculum or even visit campuses to see where the money is going. For optimal results, do this in Florida, America's fraud capital.

The investigative reporters also identified another disturbing trend: Public schools use the voucher program to get rid of students likely to fare poorly on statewide achievement tests, a practice known as "FCAT cleansing."

According to the New Times, the state placed little priority on going after fraud due to the program's importance to former Gov. Bush. When one charter school was shut down by the Palm Beach County school board, its founder reopened it as a private school that draws money from McKay scholarships.

In Pennsylvania last spring and summer, Dick Armey's FreedomWorks aggressively pushed a school voucher proposal in the state legislature. FreedomWorks, like Americans for Prosperity, is a successor of David Koch's Citizens for a Sound Economy. The head of the Pennsylvania School Boards Association **asked**, "How can Pennsylvania afford such a new entitlement program when public schools are facing almost a \$1 billion cut?" He also questioned the rationale for the program, noting that the state was ranked seventh for K-12 student achievement.

But student achievement isn't the issue: attacking public school teachers is. According to the **New York Times**, "FreedomWorks is pushing anti-union legislation in several states, and saw the school choice legislation as part of that larger battle."

FreedomWorks hired local Tea Party activists to lobby for its favored legislation. But there was a split within the Tea Party movement and within the Republican caucus that **prevented** voucher legislation from making it to the governor's desk. FreedomWorks' bruising campaign reflected the win-at-all-costs ethos of the Tea Party's corporate backers.

FreedomWorks' bullying tactics – which **reportedly** included tweeting the House Republican leader's personal cell phone number, as well as robocalls and newspaper

and TV ad campaigns against conservative Republican legislators who opposed FreedomWorks' bill – angered even some pro-voucher Republican lawmakers, such as Rep. Curt Schroder, who **told** the American Independent, "Instead of trying to shove one bill or concept down everyone's throat they need to back off and let others of good will try to come together to form a consensus. FreedomWorks is spewing their venom and poisoning the well."

Stan Karp, in the Spring 2011 edition of Rethinking

Schools, **says** that what is ultimately at stake in the school reform debate is "whether the right to a free public education for all children is going to survive as a fundamental democratic promise in our society, and whether the schools and districts needed to provide it are going to survive as public institutions, collectively owned and democratically managed – however imperfectly – by all of us as citizens. Or will they be privatized and commercialized by the corporate interests that increasingly dominate all aspects of our society?"

Richard Lee Colvin, executive director of Education Sector, **says**,

What's particularly unfortunate about this wave of voucher programs now is that they

THE MORE SUCCESSFUL THE STATE IS AT ENCOURAGING CARPOOLING, THE MORE IT HAS TO PAY THE PRIVATE COMPANY. IN CASES LIKE THESE, PRIVATIZATION PERVERSELY GIVES COMPANIES A POWERFUL FINANCIAL INCENTIVE TO PROMOTE AMERICAN FAILURE.

come at a time when states are so strapped and they are cutting the basic funding for public education. So, we're undermining public education by our state budgets and then we're undermining through these voucher programs.

This May, Republican presidential candidate Mitt Romney spelled out his privatization-focused education policy. Washington Post education writer Valerie Strauss **writes**:

Romney is advancing a pro-choice, pro-voucher, pro-states-rights education program that seems certain to hasten the privatization of the public education system....

It's a voucher system that would, among other things, require families of the neediest children to constantly shop around for schools in an unstable market and would likely exacerbate the very thing – a chronic achievement gap – all of this is supposedly intended to fix. Obama opposes vouchers.

Romney's education vision is based on an ideology that demonizes unions and views the market as the driver of education reform. His program is not based on quality research or best practices; indeed, it doesn't mention the one reform that has been shown over the years to be effective: early childhood education.

HIGHWAY ROBBERY?

Privatization watchdog Donald Cohen of In the Public Interest **wrote** last year:

A century ago, con men got away with selling the Brooklyn Bridge to immigrants looking to buy a piece of America and get rich quick. The swindle became standard shorthand and joke for gullibility. Today it's no punchline. Mayors and governors staring down massive budget gaps are putting bridges, buildings, parking lots, and more up for sale. Who's buying? Wall Street, which, in turn, wants to sell off your public assets to investors with the promise of sure-fire returns.

Indeed, momentum for privatizing public assets has picked up steam since the 2010 elections. As Philadelphia columnist Joseph DiStefano **wrote** in May 2011, "The campaign to turn America's highways back a century to

when they were privately run – only with new electronic tollbooths that will silently tap your wallet as you drive – is shifting into high gear." This April, the Washington Post's Ezra Klein **noted** that more states are "mulling" privatizing their infrastructure, saying that "as many states find themselves scrounging under sofas for cash, privatization may prove increasingly appealing."

Indiana, under the leadership of Gov. Mitch Daniels (whose agenda has been featured and lauded by ALEC), signed one of the first of the big **deals** in privatization of highways in 2006. The state got \$3.8 billion for turning over the Indiana Toll Road for 75 years to Spanish and Australian firms. In addition to the power to boost tolls, the firms got hundreds of millions of dollars in tax breaks and immunity from most state and local taxes.

The money paid for a lot of road and bridge projects. But as the Post's Klein noted recently, "residents are still



The state essentially burned through 75 years' worth of highway project money in less than 10. And while the state has doubtless benefited from the projects, the new roads add to the miles of highways the state must maintain for the next 69 years.

discovering surprises in the 600-page agreement – as when Indiana **had to reimburse the operators** for lost revenue after waiving tolls for safety reasons during a 2008 flood."

In 2007, Business Week **asked** whether investors were taking advantage of taxpayers in privatization deals.

The aggressive toll hikes embedded in deals all but guarantee pain for lower-income citizens – and enormous profits for the buyers. For example, the investors in the \$3.8 billion deal for the Indiana Toll Road, struck in 2006, could break even in year 15 of the 75-year lease, on the way to reaping as much as \$21 billion in profits, estimates Merrill Lynch & Co.

Business Week was right about toll hikes, which have just about **doubled** during the first five years of Indiana's 75-year lease deal; the contract allows the firms to raise rates every year.

A May 17, 2012, **editorial** in the Ft. Wayne Journal-Gazette notes that "by the time the next governor takes office, little to no money will remain" for new state road projects.

The state essentially burned through 75 years' worth of highway project money in less than 10. And while the state has doubtless benefited from the projects, the new roads add to the miles of highways the state must maintain for the next 69 years.

As State Rep. Win Moses noted: "We have built some important roads. But we did so by mortgaging heavily the future and allowing the tolls to go up quickly."

Now, Ohio Gov. Jon Kasich (an alum of ALEC who has been instrumental in ALEC's agenda over the years) sees Indiana as a model for his **push** to lease the Ohio turnpike to a private company. Truckers and others are reportedly concerned about the impact of much higher tolls, including the effect of truck traffic moving off the interstate and onto secondary roads.

In November, the Toledo Blade **urged** Kasich to "hit the brakes" on his plan:

A Quinnipiac University poll last month reported that 56 percent of Ohio voters said they thought leasing the turnpike is a bad idea. Fewer than one in three think it's a good idea. Nearly two-thirds of respondents in northwest and northeast Ohio reject the proposal.

Most Ohioans appear to agree that the short-term

benefits of leasing the turnpike don't justify the long-term costs and potential problems. Mr. Kasich needs to read the road signs and hit the brakes.

In February, Ohio signed a \$2.85 million contract with consulting firm KPMG to analyze options for leasing the turnpike and its rest stops.

While higher tolls may be the most visible impact on state residents, the bigger damage could be done to public control and policy-making authority. In March, law professor Ellen Dannin reported in "**The Toll Road to Serfdom**" that a 1995 deal in California that created private toll lanes in the median of State Route 91 actually "forbade the state from doing repairs and maintenance on the public lanes in order to herd drivers to the private toll lanes. As

the public lanes were left to deteriorate, potholes led to car damage and dangerous road and, eventually, public anger that toppled politicians." And she says today's deals continue to include terms that undermine democratic policymaking: Commonly found "noncompetete" terms forbid building or improving "competing" road or mass transit systems. They may also require what is called "traffic calming" but which means by narrowing

lanes or making other changes to make alternative routes unpleasant or less useful. Other contract terms require that the government "partner" compensate private contractors for "adverse actions," such as promoting [sic] car pooling to lower air pollution and urban congestion that could affect revenues. For the next 40 years, the HOT lanes contract with Transurban of Australia and Fluor Corporation of Texas requires Virginia to reimburse the private companies whenever Capital Beltway carpools exceed 24 percent of the traffic on the carpool lanes – or until the builders make \$100 million in profits.

(SCOTT) WALKER'S PLAN, WHICH WOULD HAVE GIVEN HIM UNCHALLENGED AUTHORITY TO DOLE OUT EXTREMELY VALUABLE PUBLIC ASSETS AT FIRE-SALE PRICES TO WELL-CONNECTED FIRMS, WOULD HAVE CREATED THE KIND OF SITUATION THAT PRACTICALLY GUARANTEES THAT CORRUPTION AND PRIVATE DEALING WILL OVERWHELM THE PUBLIC INTEREST.

In other words, the more successful the state is at encouraging carpooling, the more it has to pay the private company. In cases like these, privatization perversely gives companies a powerful financial incentive to promote American failure.

PRIVATIZING OTHER PUBLIC ASSETS

Privatization advocates are pushing for the sale of all kinds of public assets, including water and sewer systems and other major pieces of the nation's transportation infrastructure, from airports to the air traffic control system itself. These deals are promoted with the same assumptions about the inherent superiority and efficiency of private operations over public ones, even though there are plenty of counterexamples.

Even Business Week, which argues that there can be some advantages to privatization deals, questions whether investors are getting a better deal than taxpayers and says there are good reasons to be concerned about the quality of services people get. Business Week **noted**, for example, that after privatization, "The Atlanta City water system, for example, was so poorly managed by private owners that the government reclaimed it."

Wisconsin Gov. Scott Walker (an ALEC alum) tried hard last year to push through legislation that would allow him to force the sale of any state-owned power plant – without bids – for any amount he determined to be in the best interest of the state, but he was forced to back down, at least temporarily, after a public outcry. Walker's plan, which would have given him unchallenged authority to dole out extremely valuable public assets at fire-sale prices to well-connected firms, would have created the kind of situation that practically guarantees that corruption and private dealing will overwhelm the public interest. Walker's administration is reportedly still interested in privatizing the plants, though his focus this spring is on surviving a recall election, into which David Koch is **pouring money**. Calls for privatization of public assets are not restricted to the state level. Last June, House Republicans **unveiled** yet another plan for privatizing Amtrak; House

Transportation and Infrastructure Committee Chairman John Mica introduced a plan to privatize the profitable northeast corridor service in order, he said, to speed up the development of high-speed rail. Opponents argued it would have a devastating effect on rail service across the country and could wreak havoc on commuter rail services in northeastern metropolitan areas that currently share track with Amtrak. West Virginia Rep. Nick Rahall said the plan would "cripple Main Street by auctioning off Amtrak's assets to Wall Street."

Mica held a hearing when it became clear that Democrats would resist his efforts to push his plan through without scrutiny. In an example of the way privatization often becomes a can't-lose proposition for proponents, Mica's Amtrak plan included a provision that would pay private companies \$2 million each to prepare proposals to take over

operations or maintenance, an idea that drew mockery from Democrats on the committee, including DC Delegate Eleanor Holmes Norton, who **said**, "We pay corporations in order to encourage competition among corporations? Do I hear you right? Wouldn't it be an indication of whether or not a bidder were a serious bidder, that he was willing to put his own capital up to bid?" Faced with congressional resistance, Mica **backed down**, at least temporarily, in November.

There's pretty much nothing off the table. In September, Peter Orzag, former director of the Office of Management and Budget and now a Citibank executive, **praised** the idea of privatizing the nation's air traffic control system.

Utah Gov. Gary Herbert has **called for** the sale of federal lands in the western United States.

In May 2011, during the debt-ceiling showdown, Ron Utt, who promotes privatization from his perch at the right-wing Heritage Foundation, **called** for the United States to sell its gold reserves to raise money for deficit reduction, an idea that an Obama administration official called "just one level of crazy away from selling Mount Rushmore."



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PRIVATIZING MANAGEMENT OF SOCIAL SERVICES

Another target for privatizers is the management of government-provided social services. This is an area where the conflict between private companies' incentive to maximize profits and the public policy goal of providing good service to people who depend on it can clash – with particularly harmful results for individuals and families who depend on government assistance for food or medical care.

In June 2011, the Los Angeles Times published a **scathing exposé** of Indiana's privatization of the state's public assistance program, which concluded that "After the private sector took over the state's public assistance program, services were disrupted while politically connected firms benefited. The state's experience underscores the risks of such handoffs – and the issue is likely to persist nationwide."

The Times reported that after Governor Daniels privatized the public assistance program, thousands of Indiana residents "abruptly and erroneously lost their welfare, Medicaid or food stamp benefits" and "workers started routinely denying applications just to reduce the backlog."

"People were being dumped off food stamps and Medicaid in large numbers; people with profound disabilities were told they weren't cooperating," said John Cardwell, chairman of the Indiana Home Care Task Force, a coalition of organizations for the elderly and disabled. One 80-year-old woman had to rely on help from cash-strapped relatives for the months it took to reinstate her \$97 monthly

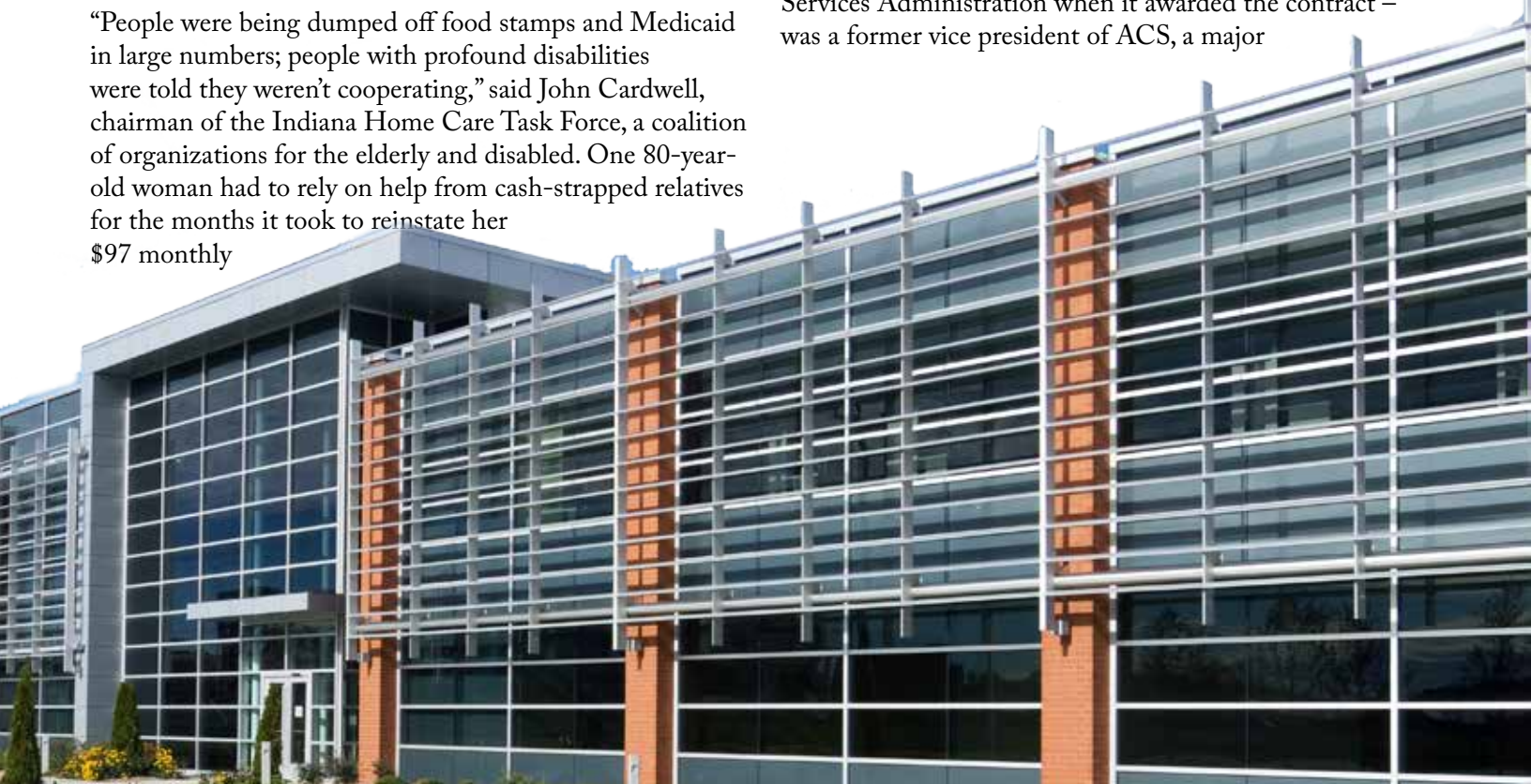
Medicaid payment.

The Los Angeles Times called these problems "the result of an efficiency plan that went awry from the very beginning, the state now admits."

Though the \$1.37-billion project proved disastrous for many of the state's poor, elderly and disabled, it was a financial bonanza for a handful of firms with ties to Daniels and his political allies, which landed state contracts worth millions.

The disparate effects underscore the risks of handing control over public services to the private sector. Whether the approach will ultimately improve services and save money remains a matter of fierce debate in Indiana. But the state's experience shows that without adequate safeguards, privatization can compound the very problems it is designed to correct: bureaucratic burdens, perceptions of influence-peddling and a lack of competition.

Not surprisingly, there were plenty of political and financial connections among people involved in the privatization plan. According to the Los Angeles Times, Mitch Roob – a Daniels appointee who ran the state's Family and Social Services Administration when it awarded the contract – was a former vice president of ACS, a major



In 2006, Texas hired a consortium of companies to develop and operate procedures for distributing public benefits such as Medicaid and food stamps. Almost immediately after privatization, individuals began experiencing long wait times in call centers, improper denials of benefits and other problems. The state canceled the contract in its second year but at that point had already laid off the experienced state workers who knew how to run the programs.

subcontractor in the IBM-led consortium granted the contract.

Another Daniels ally, former Indianapolis Mayor Stephen Goldsmith, had also been an ACS vice president. The Los Angeles Times also reported that ACS officials, working through several political action committees, donated nearly \$50,000 to Daniels' gubernatorial campaigns and his state leadership PAC between 2003 and 2010.

State officials say that the program's contractors are now working better under the oversight of public employees.

Meanwhile, Indiana sued IBM over the fiasco, seeking hundreds of millions of dollars it had paid, and IBM countersued, claiming the state owed it money. Both sides presented their closing arguments in early April after a six-week trial. An attorney arguing for the state said people were hurt because IBM was too worried about profits to hire sufficient workers, saying "Shareholders trump a million needy Hoosiers."

Commented Gary R. Welsh of the [Advance Indiana](#) blog, "If needy Hoosiers being well served was the motive, there would not have been a privatization initiative." In 2010, Welsh published an [insider's account](#) of the ideologically motivated drive to privatize public services, "come hell or high water."

Other states have experienced similar problems. In 2006, [Texas](#) hired a consortium of companies to develop and operate procedures for distributing public benefits such as Medicaid and food stamps. Almost immediately after privatization, individuals began experiencing long wait times in call centers, improper denials of benefits and other problems. The state canceled the contract in its second year but at that point had already laid off the experienced state workers who knew how to run the programs.

New York City has experienced its own slow-moving disaster with CityTime, a project to computerize the city's payroll and timekeeping system that has been fraught

with delays, outrageous cost overruns and outright fraud. The project was taken over by defense contractor SAIC in 2000. One city administrator who sounded an alarm about the project in 2003 was basically ignored; when he left his position he was replaced by a consultant to the firm hired to certify the quality of contractors on the project, and cost overruns ballooned further.

In March 2010, the New York Daily News [reported](#) that the hundreds of millions of dollars in cost overruns were partly explained by the astonishing 230 SAIC consultants on CityTime who were being paid an even more astonishing average of \$400,000 per year. Federal fraud charges [filed](#) in June 2011 brought to 11 the number of contractors and consultants charged in the CityTime scheme.

CityTime is one of several scandals involving city contractors, which led the City Council to [pass](#) the Outsourcing Accountability Act last October, which would require the city to document that outsourcing contracts actually saves the city money. Council Speaker Christine Quinn [said](#) it would bring needed transparency to outsourcing that costs the city as much as \$10 billion annually.

THE LAW GIVES MICHIGAN GOVERNOR SNYDER THE POWER TO DECLARE ANY CITY OR SCHOOL SYSTEM TO BE IN A STATE OF FINANCIAL EMERGENCY AND "INSTALL UNELECTED, UNACCOUNTABLE MANAGERS WITH ABSOLUTE CONTROL TO ELIMINATE CONTRACTS OR PRIVATIZE SERVICES AT ALL STATE AGENCIES AND IN ANY CITY HE CHOOSES. "

WHO'S PUSHING PRIVATIZATION?

Privatizing public services and assets has been a longtime goal of huge right-wing foundations that have provided much of the conservative movement's funding, right-wing think tanks and media operations supported by those foundations, and the crop of far-right Republican governors and legislators who were swept into office in 2010 and began aggressive attacks on public sector workers and unions. They are joined by the companies that stand to profit directly from government contracts, and by business groups like the U.S. Chamber of Commerce.

Public Officials

While state and local officials from both parties have

fallen prey to the promises of privatizers, many Republican politicians have brought enthusiastic zealotry to the pro-privatization ideology, particularly Tea Party-backed governors who were elected in 2010. Just a few examples:

In Ohio, ALEC alum Gov. John Kasich came into office pushing expansion of school vouchers and privatization of prisons and the state's liquor control business. JobsOhio, Kasich's privatized version of the state's economic development agency, was to be **funded** by leasing profitable state liquor stores to the new private authority at what critics charge is artificially low price. JobsOhio is "exempt from state laws governing public records, public meetings, ethics and oversight" – and there's a new proposal to broaden that exemption to include any government agency's communications with JobsOhio. So much for improved accountability. After a legislative victory, Kasich made a **videotape** thanking Americans for Prosperity, the Koch-led and – funded Tea Party astroturfgroup, for its support.

In Michigan, Gov. Rick Snyder signed a law that People For the American Way President Michael Keegan last year **called** "a full-scale assault on democracy." The law gives Snyder the power to declare any city or school system to be in a state of financial emergency and "install unelected, unaccountable managers with absolute control to eliminate contracts or privatize services at all state agencies and in any city he chooses." Notes Keegan, "One could hardly conceive of a more efficient way to transfer the public's resources into a few private hands."

In Pennsylvania, Gov. Tom Corbett named a new Advisory Council on Privatization and Innovation. According to the Pittsburgh Post-Gazette, a majority of the council's members are donors to Corbett's political campaigns as well as pro-privatization activists like Joe Watkins. Watkins heads Students First, a "pro-voucher group whose PAC sent Corbett's warchest \$27,000," leading one reporter to note that "The composition of the 24-member committee and Mr. Corbett's comments seem to indicate he has already made up his mind" about privatization.

Florida Gov. Rick Scott has similarly made an aggressive push to expand privatization of state prisons and schools, some of which has been, as noted elsewhere in this report, resisted by state legislators.

The Right-Wing Ideology Industry

Much of the push for privatization has come from right-wing and libertarian foundations and think tanks who share an ideological hostility to the public sector. A decade ago, the National Center for Responsive Philanthropy published a **report** titled "1 Billion for Ideas: Conservative Think Tanks in the 1990s." The report noted that the 20 think tanks and advocacy groups it examined "have pushed aggressively to privatize Social Security and Medicare, loosen laws governing workplace safety and the rights of workers to organize, roll back environmental and consumer

safety regulations, cripple the ability of nonprofit organizations to engage in public policy debate and advocacy, privatize systems of public education, and pare back the scope, size and cost of government in numerous other areas."

Ten years later, those organizations and many others,

including a network of state-level right-wing policy-marketing vehicles, constitute a massive infrastructure dedicated to denigrating the public sector, elevating the values of the marketplace, and promoting privatization and deregulation. The **State Policy Network** is a collection of 59 "market-oriented" think tanks in all 50 states, such as Michigan's Mackinac Center and Illinois' Heartland Institute. (SPN is also funded in part with Koch money.) SPN works closely with ALEC to advance its agenda, state by state, and many SPN entities have voting seats on ALEC task forces, magnifying the voices of funders like the Kochs.

In the wake of the 2010 elections, SPN launched "**Fueling the New Revolution**," an initiative whose purpose is "to equip state policy makers with the tools and ideas that can have real impact. As part of this effort, we are currently working with our state affiliates to deliver solid, well-

"ON WALL STREET, SETTING UP AND RUNNING 'INFRASTRUCTURE FUNDS' IS BIG BUSINESS, WITH OVER \$140 BILLION RUN BY SUCH BANKS AS GOLDMAN SACHS, MORGAN STANLEY, AND AUSTRALIAN INFRASTRUCTURE SPECIALIST MACQUARIE."

—DYLAN RATIGAN, MSNBC

researched policy solutions to lawmakers, opinion leaders and the media.” In the past two years, anti-government Tea Party leaders and activists whose organizing and political efforts are backed by Koch-related groups such as Americans for Prosperity and FreedomWorks, which do not disclose which corporations or CEOs fund their operations that are increasingly are designed to influence elections, have helped fuel the trend.

Among the longtime backers of privatization is the libertarian Reason Foundation, which **calls** privatization “a strategy to lower the costs of government and achieve higher performance and better outcomes for tax dollars spent” and promises “more efficient and effective government.” Reason is **funded** by major right-wing foundations, including those affiliated with the Koch brothers; David Koch is a board member.

“Ten Principles of Privatization,” a joint publication of the Reason Foundation and the Heartland Institute, advocates privatizing government services from A (Accounting, Airports and air traffic control) to Z (Zoo operations and maintenance) and offers advice to public officials on how to sell privatization to the public. Even the Reason Foundation recognizes, at least rhetorically, that handing off services to the private sector is no guarantee: “If badly executed, privatization like any policy can fail. Taxpayers are no better off, and may be worse off, if a service is moved from a government agency to an incompetent or inefficient private business.”

The libertarian Cato Institute (cofounded and funded by Charles Koch) and its website www.downsizinggovernment.org pushes privatization across the board, citing the assertion of a Bush-era Office of Management and Budget that “about half of all federal employees perform tasks that are not ‘inherently governmental.’” Cato promotes full privatization of the postal service, Amtrak, utilities such as TVA, air traffic

control, highways, airports, seaports, and the Army Corps of Engineers. Cato’s Ed Crane and David Boaz have **signed** the “Public Proclamation to Separate School and State.” Cato promoted the privatization of social security in the first issue of its Policy Report in 1979. The Koch brothers are currently waging a **hostile takeover effort** that some Cato officials **believe** is designed to turn the think tank into a more partisan organization focused on electing anti-government candidates.)

The Heritage Foundation, an \$80+ million right-wing behemoth that has also received Koch funding, also pushes privatization. Heritage fellow **Ron Utt**, a former economist at the U.S. Chamber of Commerce, was appointed by Ronald Reagan “to lead his administration’s efforts to promote the transfer of some federal government functions to the private sector.” Among those proposals were selling Amtrak’s northeast corridor (sound familiar?) and the

Bonneville Power Administration. Earlier this year, Heritage complained that the TSA’s decision not to expand a program that allows airports to privatize their security forces “makes no sense.” Unlike Reason and Cato, Heritage is not a libertarian institution, but a major partner of congressional Republicans and of the Religious Right political movement; it claims “traditional

values” as part of its mission and promotes right-wing economic and social policies as “**indivisible.**” These are just a few examples of Heritage’s long-standing privatization agenda.

Wall Street & Corporate America

Another major push comes from the deep pockets of Wall Street and corporate America. In “The Government Consulting Industry: A Landscape Map,” a 2009 paper for the Center on Policy Initiatives, Lee Cokorinos **writes** that “pressure for privatization of government assets, procurement practices and services” has migrated beyond the think tank world and “is now driven largely by the



There’s good reason investors want in on public assets like toll roads: “Most assets are monopolistic in nature and have limited competitors, creating the opportunity for stable, long-term investment returns,” says Quadrant Real Estate Advisors. “Infrastructure investments are attractive to many investors because they are part of essential services and offer predictable cash flows,” writes an analyst for onwallstreet.com.

‘public sector practice’ divisions of mega-consulting firms” that employ the seductive rhetoric of “public private partnerships.”

“Infrastructure funds” are hot among banking and financial firms, both in the United States and abroad, as the privatization push is a global phenomenon. This is especially true as the recession robs state and local governments of tax revenues, leaving them scrambling for money. “The privatization of government assets in the United States is becoming a reality as states and municipalities engage in innovative ideas to fund new infrastructure and attempt to save money in maintaining their current infrastructure,” **says** the Alpine Global Infrastructure Fund.

MSNBC’s Dylan Ratigan **reported** last year that “On Wall Street, setting up and running ‘Infrastructure Funds’ is big business, with over \$140 billion run by such banks as Goldman Sachs, Morgan Stanley, and Australian infrastructure specialist Macquarie.” Last spring, the Wall Street Journal **reported** that the Blackstone Group would spin off its global infrastructure fund, which had raised \$350 million toward its \$2 billion target in two years.

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Most Americans are unaware of the number of foreign “sovereign wealth funds” that are buying up American assets.

The public often has little hint that a familiar Wall Street firm may only be the face for deals that sell American infrastructure to investment firms controlled by foreign governments. In his 2010 book “Griftopia,” the Rolling Stone Magazine’s Matt Taibbi describes sovereign wealth funds this way:

Imagine the biggest and most aggressive hedge fund on Wall Street, then imagine that that same fund is fifty or sixty times bigger and outside the reach of the SEC or any other major regulatory agency, and you’ve got a pretty good idea of what an SWF is.

Taibbi describes the selling of America’s infrastructure assets to sovereign wealth funds as part of “an almost frictionless machine for stripping wealth out of the heart of the country, one that perfectly encapsulates where we are as a nation.”

At the federal level, a group of business and anti-government groups calling themselves the “Business Coalition for Fair Competition” **urged** Congress last summer to include provisions in all the 2012 appropriations bills that would prevent any reduction in outsourcing, or “competitive sourcing” in the language of the George W. Bush administration. Appropriations bills, says the group, should be “free of damaging language that inhibits the ability of federal agencies to contract with the private sector, including small business.”

And finally, **thanks to the right-wing majority on the U.S. Supreme Court**, corporate America now has a virtually unregulated ability to invest unlimited funds in electing public officials who share their hostility to the public sector. That completes the corrosive loop between public officials and the private contractors that benefit from huge infusions of taxpayer dollars.

The Religious Right

Religious Right political groups have long been at the forefront of the effort to privatize public education and divert public school funding into religious academies and to companies that service homeschoolers. They have also backed privatization of family-related services.

For example, years ago the Family Research Council **called for** the privatization of all adoption services. Religious Right leaders are also embracing the broad anti-public-sector economic agenda of the corporate right. Influenced by Christian Reconstructionist **notions** of limited “jurisdiction” for the role of government and by notions of “biblical economics,” some Religious Right leaders claim a grounding in the Bible for drastically limiting the government’s role in society.

Religious Right “historian” and GOP activist **David Barton** is the latest in a long line of right-wing Christian advocates who have argued, for example, that according to the Bible, taking care of the poor is a responsibility of the church, not the government. According to Barton, minimum wage laws, collective bargaining, and progressive taxation are similarly counter to Jesus’ teachings.

Corporate America is happy to embrace the notion that its economic policies come with a divine mandate. Americans for Prosperity President Tim Phillips and anti-tax activist Grover Norquist attended the Freedom Federation summit at Jerry Falwell-founded Liberty University last spring, where speakers **put a religious and moral gloss** on Norquist’s shrink-the-government priorities. Last March, the Family Research Council’s Tony Perkins **tweeted** his

support for Wisconsin Republicans' union-busting: "Pro-family voters should celebrate WI victory b/c public & private sector union bosses have marched lock-step w/ liberal social agenda."

It's worth noting that there has been strong religious resistance to efforts by right-wing leaders to claim that their economic agenda is grounded in Christian values. For example, in April, more than 90 faculty and administrators at Georgetown University, a Jesuit institution, **challenged** Republican Budget Chair Rep. Paul Ryan's claim that his budget, which slashes social spending and cuts taxes for the wealthy, reflects Catholic principles.

CONCLUSION

Budget deficits and resistance among lawmakers to raising taxes are leading to dramatic cuts in government spending that can diminish Americans' quality of life and force those who can least afford it to rely on private, profit-making alternatives. Writing in Salon, Alyssa Bettistoni calls this "the creeping threat of backdoor privatization."

At the same time, what we could call front-door privatization – in which government officials sell off public infrastructure, public jobs and control over public policy to the highest bidder or to politically connected insiders – threatens to rob American communities of their assets and their futures.

Anti-government ideologues and predatory investors are rushing to take advantage of state and local officials' recession-induced financial stresses to privatize essential public services and valuable public assets and infrastructure at terms most favorable to investors, not taxpayers and American families. The threat is not only to taxpayers' pocketbooks in the short term and over ridiculously long contract terms, but also to public accountability and democratic governance.

Americans must be vigilant in shining a spotlight on proposed deals and their potential consequences, and persistent in demanding that public officials answer important questions about accountability and the public interest. By asking the right questions and refusing to let them go unanswered, individuals and community groups can stop specific privatization proposals and help mitigate the damage from predatory privatization efforts.

WHAT CAN I DO?

Privatization proposals are going to be a fact of life for the foreseeable future, especially in states with right-wing legislatures and governors who are telling their citizens that privatization is essential to saving money. But individuals and community organizations can help to minimize the damage by asking the right kinds of questions – and getting local reporters or public officials to do the same. It is possible to identify especially weak or dangerous provisions and hidden costs in privatization proposals and call on policy-makers to improve accountability provisions or reject deals that are not in the public interest.

Additionally, the group In the Public Interest has published **“A Guide to Evaluating Public Asset Privatization,”** which identifies policy pitfalls and hidden costs of privatization and gives individual activists and legislators an extensive checklist of questions about the process of asset privatization and the substance of privatization proposals.

QUESTIONS TO ASK ABOUT PRIVATIZATION PROPOSALS

The group In the Public Interest has resources that can help individuals and community groups develop a case against privatization proposals, mobilize action on a local level and engage the media. Here are **questions** you should insist that policymakers answer before voting on any privatization proposal:

1. Does the contract limit our democratic rights?

Buried deep in the contracts and long-term private highway or parking lot leases are so-called “non-compete” clauses and “compensation clauses” that limit or eliminate our ability – for decades – to make public decisions to improve our cities, our transportation systems and many other public services. Sell off the highway, and the contract could prevent the building of mass transit that could compete with the private road operator – decades.

2. Will we still have the “Right to Know”?

The public often loses the right to know important details about public services when private contractors take over. Conservatives across the nation are publishing lists of “high paid” government workers as another tactic to turn voters against government. It’s public information, and the public does have the right to know. Privatize the health department, the library or the prison, and the public loses its “right to know” – the CEO’s salary (and a lot more) becomes private and confidential.

3. Are there perverse incentives that could work against our public policy goals?

Private companies are focused on growing revenue, increasing market share and healthy “Return on Investment” for owners or shareholders. That’s fine for the company that makes your breakfast cereal, but privatization means that the goals of private interests may take precedence over the public good. For example, prison contracts are based on the number of full prison beds. So more people in prison is good for business – but may not be good for society.

4. How will we hold the contractors accountable to the public?

When public agencies don’t have enough staff to regularly monitor the contracts, the public loses. Anyone who contracts for services – whether Boeing subcontracting the manufacture of jet components, a city contracting for tree trimming in public parks or a family hiring a contractor to expand the size of its kitchen – knows that if you don’t watch the contractor closely, you get cost overruns, missed deadlines and mistakes.

5. Do we have a Plan B?

Contractors that fail to deliver cost taxpayers millions when contracts have to be canceled. Legal fees and overtime for public workers or backup contractors to fix problems add up. And, once a public agency downsizes the frontline workers who know how to do the work, it takes time to re-create an in-house team with experience and expertise.

6. Will all the outsourced jobs have health care benefits?

Privatization proponents frequently promise cost savings that come from turning jobs with health benefits into ones that don’t have health care. That’s irresponsible and simply shifts costs to someone else – usually the taxpayers or local hospital emergency rooms.

7. If a private company thinks it can make money owning our parking lots, why can’t we?

Desperate for cash, cities and states are selling off assets and programs that are actually moneymakers. Former California Governor Arnold Schwarzenegger proposed selling and leasing back state buildings that were free of debt, and local governments are selling landfills and privatizing recycling programs that generate revenue for cash-strapped cities and counties.

8. What are the limits on the private contractors' ability to raise fees, tolls or rates?

Public officials think that they don't get blamed when the private contractor raises rates. They're wrong. Private companies take over and raise rates to meet their financial projections. The result is that we pay higher fees, and the private company gets the money. If we have to raise rates, local governments should keep the money and fund libraries, parks or other public services.

9. 50 years? 75 years? You're kidding?

Indiana received \$3.8 billion from a consortium made up of the Spanish construction firm Cintra and the Macquarie Atlas Roads (MQA) of Australia in exchange for the right to maintain, operate and collect tolls for the following 75 years. That's a long time, and a lot could change – from where we live and work, to how much we drive and much more – all of which could significantly impact revenues and profits. Is this the next generation's bubble and bailout? Beware of financial projections that predict an unknowable future.

10. Have you read the contract? (The devil is always in the details.)

Contracts often have provisions that impact things we all care about – from environmental protection to neighborhood services and everything in between. Take the time and read the contract – because once it's signed, it's too late to change. Ask Chicago.

It's important to raise questions as soon as a privatization proposal emerges. It can be difficult to reverse even harmful privatization plans once legal contracts have been signed. And it is getting increasingly difficult to hold corporations accountable. Last May, in a 5-3 decision written by Justice Clarence Thomas, the U.S. Supreme Court "weakened the government's ability to recoup money from contractors defrauding the government," **according** to the Project on Government Oversight. Justice Ruth Bader Ginsburg, in her dissent, said the decision "severely limits whistleblowers' ability to substantiate their allegations before commencing suit."

However, it is possible to stop bad privatization proposals. Last year, voters in Northampton County, Pa., **rejected** privatization of a county nursing home by a margin of nearly three to one after a vigorous public education campaign by local citizens and labor groups concerned that privatization would diminish the availability and quality of care for low-income residents.

Last year a group of advocates launched a **campaign** calling on investors to divest their holdings in private prison industry stock. According to a news report, earlier this year, the United Methodist Church Board of Pension and Health Benefits voted to withdraw nearly \$1 million in stock from two private prison companies, the GEO Group and CCA.

Advocates can also get behind legislation introduced last year by Illinois Sen. Richard Durbin (S.1230) to help ensure that the federal government gets paid back for its investment in transportation assets that are auctioned off. Oregon Rep. Peter Defazio has introduced a companion bill in the House of Representatives (H.R.2350). The bill would also include other protections for the public interest:

- Provide a clear process for investors, other stakeholders and the public alike.
- Make transparent the anticipated effects for user fees and workers at these assets.
- Ensure plans for adequate maintenance and operation.
- Create rules for assets to revert to public control in the event of bankruptcy.
- Eliminate conflicts of interest.
- Assess whether a proposed transaction creates better public and financial benefit than a similar transaction would using public financing.
- Ensure that the nation's interstate commerce, public health, environment, or homeland security will not be adversely impacted.

“DESPERATE GOVERNMENT IS OUR BEST CUSTOMER”
– HEAD OF A FINANCE COMPANY SPECIALIZING IN INFRASTRUCTURE PRIVATIZATION

- IN 2009, THE CITY OF CHICAGO SOLD REVENUES FROM THE CITY’S PARKING METERS FOR 75 YEARS. THE CITY ACTUALLY HAS TO PAY INVESTORS WHENEVER A STREET IS CLOSED FOR REPAIRS OR A STREET FAIR; THE COMPANY CLAIMS CITY TAXPAYERS ALREADY OWE IT ALMOST \$50 MILLION.
- REPUBLICAN OFFICIALS ACROSS THE COUNTRY ARE PUSHING TO PRIVATIZE PRISON OPERATIONS EVEN THOUGH PRIVATE PRISONS OFTEN COST TAXPAYERS MORE. THE MULTIBILLION-DOLLAR PRIVATE PRISON INDUSTRY HAS A POWERFUL INCENTIVE TO KEEP PEOPLE LOCKED UP AS LONG AS POSSIBLE – AND SPENDS MILLIONS TO LOBBY STATE LEGISLATORS.
- SOME OPERATORS OF CYBER SCHOOLS AND CHARTER SCHOOLS ARE RAKING IN FUNDS EVEN THOUGH EVIDENCE SHOWS THAT STUDENTS IN ONLINE SCHOOLS DO MUCH WORSE THAN THEIR TRADITIONAL COUNTERPARTS. ONE COMPANY THAT HAS BEEN SUCCESSFUL IN GETTING GOVERNMENT MONEY HAS A 2 PERCENT SUCCESS RATE UNDER THE STANDARDS OF THE NO CHILD LEFT BEHIND LAW.
- INDIANA TURNED OVER ITS TOLL ROAD TO FOREIGN FIRMS FOR 75 YEARS. FINE PRINT IN THE CONTRACT REQUIRED TAXPAYERS TO REIMBURSE THE COMPANY WHEN OFFICIALS WAIVED TOLLS FOR SAFETY REASONS DURING A FLOOD. A DEAL THE STATE OF VIRGINIA MADE WITH PRIVATE PARTNERS FOR NEW HIGHWAY TOLL LANDS MEANS THAT THE MORE EFFECTIVE VIRGINIA IS AT ENCOURAGING CARPOOLING, THE MORE IT WILL HAVE TO REIMBURSE THE PRIVATE COMPANY.

LEARN HOW TO ASK THE RIGHT QUESTIONS THAT COULD PREVENT YOUR CITY COUNCIL OR STATE LEGISLATURE FROM MAKING YOU AND YOUR COMMUNITY A VICTIM OF PREDATORY PRIVATIZATION.

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