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The Public Good, Bad Policies, and Tough Times: When Profit and Public Interests Collide

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KEY TAKEAWAYS

- Privatization of public services converts tax dollars into private wealth and has been a long-standing policy trend in the U.S.
- Decades of privatization of the public good have created or exacerbated several crises which have negatively impacted American health and wellbeing. Recent examples include the Texas power outages, the Pacific Gas and Electric fires in California, and the U.S.'s response to COVID-19.
- The failure of privatized systems to adequately respond to crises that they have helped to create has eroded public trust in government.
- As the U.S. emerges from multiple overlapping crises, restoration of the public trust must be a priority.

The recent Texas blizzard, which left millions without power and is responsible for at least 70 deaths, is just the latest in a long line of failures wrought by privatization of the public good - a system designed to maximize corporate profits while providing minimal benefits or protections to public health. As we see time and again, when calamities, such as infectious disease pandemics, natural disasters, and severe weather strike, privatized systems fail to respond adequately. This brief highlights just a couple of recent examples, describes how these failures undermine public trust and erode democracy, and ends by providing suggestions for how we can rethink policies to value people over profits instead of valuing profits over people.

What is Privatization?

Privatization is the transfer of public enterprises and functions (e.g., goods, services, and resources) to private ownership, management, and control. Such public goods include health, emergency, and social services, public spaces, transportation and utility infrastructure, and other common pool resources derived from taxpayer-funded initiatives for things like basic research, national parks, and water. Privatization also includes the use of private contractors to manage the distribution of public services. All, or part of public institutions, spaces, or services may be privatized. For example, public university housing may be owned by private corporations. Prisons and jails may be operated by private entities through companies whose stock can be purchased. The construction, maintenance, and operation of infrastructure or services may involve public tax investment or tax expenditures. For example, over the past couple of decades sports stadiums have been partially funded through taxes, while most profits from them go to private investors. Together, these forms of total or partial privatization of public services and spaces effectively converts taxpayer investments into private profits that benefit a few rather than the community-at-large.

What are Public Goods, and Why do they Matter for Health?

The public good is defined as free or low-cost services and benefits that have broad positive impacts on communities and its residents. Public schools, social programs, and publicly funded research all benefit society. The cost of these programs and institutions are diffused through taxes. The average taxpayer enjoys a large return on investment. For example, taxes that fund public education positively impact everyone in society by enhancing knowledge, skills, and civic mindedness. Research laboratories provide technological, medical, environmental, and industrial discoveries that benefit both the public and private sectors. Parks and national forests are managed and protected with taxpayer funds for everyone to enjoy. Publicly financed roads get workers to their jobs and enable truck drivers to get products to consumers. County hospitals provide health care when residents are sick or injured. Community centers provide meeting space and recreation opportunities for community members. Fire, police, and emergency medical services save lives. Safety and health are also protected through the public good via food inspection, public health departments, water treatment, and consumer protection.

The Consequences of Privatizing Public Goods

There is a long tradition of public/private partnerships in the U.S. These partnerships can be useful in raising enough capital to get projects off the ground. However, over the past three decades, privatization has increasingly benefited corporate shareholders and business interests at the expense of local taxpayers and public health and safety. Sometimes this expense is a loss of return on tax investment. Sports venues, for example, often fail to benefit local businesses in the ways promised by politicians and investors. Secondary consequences to residents and communities include increased traffic or property damage from fan behavior. Subsidized industries may damage local ecosystems through pollution or excess water use. For-profit prisons may undertrain or underpay local workers. Public infrastructure might be poorly delivered or unevenly distributed. A prime example is the case of the U.S. internet, which lags behind other OECD countries in both speed and access.

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Unlike publicly funded institutions and services, private businesses and service providers have little accountability to local communities, workers, consumers, and taxpayers. Taxpayers do not get a say in how private profits are spent, even when those private profits are generated through taxpayer subsidies. Conversely, cities and taxpayers are often on the hook for debt remaining on loans for new facilities that were subsidized by public funds, even when profits to the corporation itself are high. For example, the NFL may generate billions in corporate profits in one season, but a city experiencing de-industrialization may struggle to generate taxes to cover their financial obligation for their new NFL stadium. During economic downturns, these kinds of financial obligations to private entities shift funding away from public programs that protect and promote public health, like after school care, homeless shelters, or community initiatives, in order to pay private debtors. These public systems that were created to protect individuals from poverty and illness or to educate children are often the first to be cut when states and local municipalities face economic shortfalls. Access to public services become restricted, qualifications to receive benefits are tightened, and the public good becomes underfunded and over scrutinized. Portions of these services that are sold off or contracted out to private companies generate private profit and further drain funding and benefits from the tax base.

Tax breaks for private industries is another example of how private benefits corrode public systems. Most Americans are unaware that most of their taxes are used to subsidize private corporations. For decades, states and local governments have been in a race to the bottom in offering corporations larger and larger incentive packages to attract corporate headquarters, warehouses, and production facilities. Citing the promise of jobs and economic growth, large corporations are offered massive tax credits and grants. A recent example was when New York City and Arlington, VA provided over $2 billion in subsidies to retail giant Amazon to locate their new headquarters in these cities. More often than not, these corporations fail to create the jobs that were promised, and nearly all of the economic benefit is redirected to corporate CEOs and shareholders rather than workers and communities.

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The attitude and practice of valuing profits over people has prevailed in the U.S. for the last forty years, leading to death, misery, frustration, and anger. Decades of privatization has left the public sector in shambles. So, when viruses spread, or when natural or humanmade disasters strike, years of bad policy are quickly exposed. The weakened state of public systems is laid bare, while simultaneously highlighting the ways private profits have taken precedence over benefits to the citizenry.

Blizzards, Fires, and Pandemics: When Privatization Harms Public Health

Texas's Independent and Deregulated Power Grid Fails during a Blizzard

The February 2021 Texas blizzard, which left millions without power, clean water, and heat, is the latest example of privatization gone awry, endangering the health and wellbeing of Texas residents. This crisis was predictable. In January 2020, an article published in Environmental Research Letters warned, that the "compounding effects of climate change in Texas will necessitate greater investment in peak and flexible [energy] capacity."[1] In fact, it had been noted that the current grid would struggle under both extreme heat conditions and extreme winter conditions. Failing to weatherize coal and fuel plants appears to be among the chief causes of the blackouts. Almost a decade has passed since federal inspectors recommended upgrading capacity.[2]

To understand what went wrong in Texas, we need to understand its power grid management. Texas maintains an independent and deregulated power grid managed by the Electric Reliability Council of Texas (ERCOT) and their partner Oncor Energy. The Texas model is unique in its deregulated production and distribution of electrical power.[3] Texas has deliberately sought a separate energy grid to avoid federal regulations and create a market with "free-floating" electricity costs based on demand. According to the Houston Chronicle, these free-floating prices reached $9000 per kw/h[4] during the blizzard "due to demand" on the grid. This is an astronomical sum that would equate to roughly one hundred thousand dollars a year for the average household. The outlandishness of this rate provides a glimpse into the demand-driven independent grid model of ERCOT and highlights how dysfunctional such demand-based systems become in extreme conditions. Despite the blackout and days without electricity, Texans were told by the Public Utilities Commission of Texas that the fees during this time would be raised. Yet many families went days without access to electricity or heat, and blackouts caused water system contamination and loss of water services. As power was restored, burst pipes thawed and flooded homes and businesses. Roads remained dangerously frozen, hampering deliveries, and creating shortages of food and other goods. Many communities have no access to potable water and remain under boil water advisories, which may be difficult or impossible without electricity. Most distressing, the crisis has resulted in at least 70 deaths, including children who died of hypothermia in their beds.

Pacific Gas & Electric's Shoddy Infrastructure Sparks Fires

Texas is not alone in its troubling history with privatized power companies. In California, Pacific Gas and Electric (PG & E) knew that their aging infrastructure was a danger to residents. According to the New York Times, some electrical towers were almost 100 years old at the time of the Camp Fire that destroyed the town of Paradise, CA in 2018. Last summer, PG & E pled guilty to 84 counts of manslaughter in that case.[6] The wildfire was caused by damage to power lines due to high winds, sparking fires in unseasonably dry summer weather. Like the Texas blizzard, climate extremes and unprepared privatized systems collided, setting off a dangerous and deadly event. Also similar to the Texas case, this was not the first time PG & E faced scrutiny for shoddy upkeep. In 2016, PG & E was found guilty of obstructing an investigation into a gas pipeline explosion that killed eight people.[7] PG & E has a long history of such failures as a result of seeking profit while putting health and safety at risk. Perhaps the most famous litigation against PG & E was the 1996 direct arbitration settlement for $330 million dollars for poisoning the ground water of Hinkley, California, a case which was brought by 633 plaintiffs including Erin Brockovich, whose story was made into a movie.

The U.S.'s Failed Response to COVID-19

The U.S.'s response to the COVID-19 pandemic is another example of the failure of multiple systems to protect public health. For example, early in the pandemic, when shortages of personal protective gear were emerging, the Trump

Administration refused to enact the Defense Production Act since it would infringe on private industry.[8] And despite years of publicly funded research that created the mRNA vaccine, the private market retains the sole proprietorship of production and distribution.[9] It should come as no surprise, then, that we are dealing with vaccine shortages and chaos with distribution. The private sector has certainly been helpful in getting vaccines to market, but we should ask ourselves whether a life-saving public good like vaccines should be profit-based. Furthermore, private corporations and service providers are being leveraged to mandate vaccines rather than the government. Employers, airlines, concert venues, and other establishments have the legal right to force employees and customers to receive the vaccine to retain their employment or use their services.[10] The private sector should play a role in public health. However, relying exclusively on the private sector is terrible policy for one simple reason - it is not always profitable to protect public health. Public health and private sector profits are often at odds. In one example, we described in a previous brief how the University System of Georgia faced a contractual obligation to maintain privatized housing census quotas despite concerns for student health during the pandemic. From private companies failing to protect workers from coronavirus exposure at warehouses, meatpacking plants and residential health care facilities to large corporations taking advantage of paycheck protection program loans that were intended for smaller businesses that needed it more, the COVID-19 pandemic has highlighted the many ways corporations often profit at the expense of public health.

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Maximizing Profit, Devaluing Life, and Undermining Trust in Government

Saving lives, protecting the environment, and creating robust social systems while also providing meaningful employment and educational opportunities and equitable access to basic public goods and services is a tall order for any nation. However, what distinguishes civil societies from failed states is in how governments respond to challenges that threaten the wellbeing of ordinary people and in the attitude government leaders take toward citizens that may be facing hard times. Values upon which democratic institutions must rely do not necessarily align with the values that drive private interests and profit-seeking.

When private interests and the public good clash, widespread damages often ensue. The worst outcomes involve death and deprivation and ecological and economic damage. Risk, damage, debt, and destruction are often publicly borne, while profits and benefits are privatized. These are egregious violations of the public trust by government leaders, who are often complicit in privatization schemes. When the U.S. government allows private interests to run roughshod over citizens' health and safety, it is conceding that the value of human life is secondary to profit. In these instances, the government is essentially entrusting the power of life and death to private business interests, allowing the private sector to determine whether lives and health are worth protecting. While many Americans probably overlook this transference of power, whereby the public concerns are placed into the hands of private interests, they do sense the unfairness when the private sector denies services, cuts off power, or charges exorbitant prices and excess penalties for goods or services that are essential for modern living. The fact that such intentional deprivations are often protected under the law exacerbates the sense of unfairness. When this happens repeatedly, the contract between the government and its citizens becomes strained, distrustful, and dysfunctional.

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As we saw with recent events at the U.S. Capitol, frustration with the government is at an all-time high. Distrustful citizens become prey to conspiracy theories and even violent extremism.[11] People who are distrustful of government also reject public health information[12] and become susceptible to misinformation.[13] Yet, corporations are consistently let off the hook for their role in creating and stoking this distrust. This creates a misattribution of blame, where corporations are rendered innocent, and government, politicians, and the public sector are blamed for failure. And in many ways, the government is to blame - our government officials' failures to reform campaign financing and lobbying laws, and its promotion of the private sector as a national project that fuses patriotism and profit-seeking as "the American way", accelerates privatization, justifies profiteering at the public's expense, and erodes public trust and political engagement.

Repairing the Damage

As Texas digs out from the February 2021 blizzard, and as the nation slowly emerges from the COVID-19 pandemic, Americans must consider what type of country they want. Research shows that conservative state policies that underfund public welfare systems and generally allow private corporations to operate freely to maximize profit are associated with higher mortality rates.[14] From an exorbitantly expensive for-profit healthcare system controlled by third-party insurance companies to environmental deregulation and failure to increase minimum wages, privatization of public goods has tangible negative effects on human health. The recent events summarized above highlight how private profit works against the public good. The government must enact equitable policies and forms of economic and political relief that can rebuild trust. Restoration of the public good is a place to start. In the cases of Texas and California, this could include restoring public management of the electrical grid, and enacting justice-based energy initiatives, even if these are antithetical to profit. State and local leaders must also recognize that the corporate subsidy race-to-the bottom strategies they have been using to attract business investments for decades have not been successful in stimulating long-term economic growth. Instead, these strategies pilfer the local tax base and undermine public health and wellbeing. At the national level, campaign finance and lobbying reform, a more equitable tax structure that requires corporations to pay their fair share, and reinvestment in our environmental and consumer protection agencies are important steps.

Time is of the essence. We have already seen some of the consequences of deep-seated American anxiety and despair, including rising drug overdose and suicide rates, declining life expectancy, the rise in conspiracy theories, and violent extremism. We have seen overt rejection of the fundamentals of democracy by politicians who openly promote conspiracy theories because they are unhappy with the will of the people. We have seen overt disregard for the plight of citizens by politicians themselves, such as Ted Cruz going on vacation while Texans freeze to death, Donald Trump tossing paper towels to hurricane survivors, and former First Lady Melania Trump visiting child detentions centers with a jacket that says, "I Don't Care, Do You?"

The country is at a turning point. History demonstrates that overt decadence by the ruling class is a precept to violent upheaval. Trust in government is at a low point, and privatization is literally and figuratively killing and impoverishing Americans. When corporations are left to decide whether it is more profitable to save a life or let a person die, only tragedy and inequity can result. The failures of private entities to adequately respond to crises are increasingly clear. However, these recent crises also present opportunities to begin rebuilding trust between government and citizens by enacting policies that protect the public interest over private profits.

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