The Threat of Privatization for the Emerging Generation

Brief by
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About the Roosevelt Institute

Until economic and social rules work for all, they’re not working. Inspired by the legacy of Franklin and Eleanor, the Roosevelt Institute reimagines America as it should be: a place where hard work is rewarded, everyone participates, and everyone enjoys a fair share of our collective prosperity. We believe that when the rules work against this vision, it’s our responsibility to recreate them.

We bring together thousands of thinkers and doers—from a new generation of leaders in every state to Nobel laureate economists—working to redefine the rules that guide our social and economic realities. We rethink and reshape everything from local policy to federal legislation, orienting toward a new economic and political system: one built by many for the good of all.

About the Authors

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Introduction

The 2016 election dramatically altered the balance of power at every level of American government. Beyond elevating the Republican Party, it shifted the balance between public and private control of government. While moneyed interests have greatly increased their influence in recent years, the threat that corporate power poses to the public good will reach unprecedented levels in the Trump era. Corporate executives are being appointed to high-level positions while retaining their private conflicts of interest. Important economic sectors regulated by the government, such as health care, will be left to the vicissitudes of the free market. And protections for historically disadvantaged groups will be removed in the name of personal freedom.

All of these phenomena fall under the banner of privatization, a process through which basic public goods such as water, education, and energy, are sold off to the private sector in the name of efficiency and cost reduction for taxpayers. A public good is a good or service that can be accessed by all members of a society, regardless of whether they directly paid for it. One of the core functions of government is to ensure the well being of the public through the provision of goods and services and the creation of laws and regulations. Often provision is done directly by government, but the private sector’s role in the provision of goods and services is not inherently corrosive. Thus, it is important to distinguish between the private sector overall and the trend of privatization in particular.

Privatization is founded on the theory that profit motives incentivize institutions to be more efficient and effective in providing good and services to the public, thus saving tax dollars while fulfilling the mission. However, this logic has not held up well in practice. Profit motives have encouraged institutions to raise prices while skimping on the quality and reach of service provision. For example, for-profit colleges confer low-quality degrees, often without accreditation, while charging their students exorbitant fees and tuition. Privately contracted prisons need to fill beds to make money from federal and state coffers, so they incarcerate as many Americans as possible.

The most potent danger of privatization comes from the lack of democratic control over the provision of public goods and services. Private firms are given responsibilities previously held by the democratically elected government without the regulations and processes that give the public a voice in decision-making. Thus, in today’s age, citizens have little knowledge or control over the basic services upon which their lives depend.

As this brief will demonstrate, the impacts of privatization will be deeply felt by younger generations. People under 35 are impacted by the rising costs of education, increasing incarceration rates, and the draining of living wage opportunities at rates that will set back our economic prospects for the foreseeable future. This is why we must take action now to tackle the effects of privatization in our own communities.

HISTORY

The post–World War II American economic landscape was characterized by a vast expansion of government programs, such as Social Security and Medicare. In response to these progressive gains, right-wing groups began to push the idea of privatization, portraying government services as inherently oppressive and inefficient. In the economic slowdown of the early ’70s, as city, local, and state governments began to see their budgets dwindle, privatization provided a supposedly cost-effective alternative to public services. Yet these government budget woes were themselves a result of the right’s privatization-driven austerity agenda, which intentionally gutted regulation, lowered tax burdens on corporations, and starved the government of the resources needed to serve the public, thereby damaging the image of government overall.

Though privatization was already a key part of the right’s ideological framework, some of its biggest gains came in the

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1990s, when President Clinton and the Democratic Party embraced the idea as well.\textsuperscript{viii} Clinton famously declared “The era of big government is over” in his 1996 State of the Union address.\textsuperscript{x} Widely held beliefs about government inefficiency, bureaucracy, and incompetence ultimately led to the desire to shrink its size and outsource its basic functions to private companies.\textsuperscript{x} Faced with three ways to provide public goods—public utilities, public-private partnerships, and the private sector—our government increasingly turned to the third way.

As a result, we now live in a vastly privatized world: 62 percent of all ICE immigration detention beds are operated by for-profit prisons;\textsuperscript{xi} 2.5 million children attend charter schools;\textsuperscript{xii} 2.4 million college students are enrolled in for-profit education.\textsuperscript{xiii} Even in elections, private sector experience seems to be valued over public sector experience. The Trump administration is being staffed with executives from companies like Goldman Sachs and Exxon Mobil; on the transition team alone, 70 percent of members had corporate affiliations,\textsuperscript{xiv} 14 percent were former lobbyists,\textsuperscript{xv} and 32 members of the team have made public statements in support of privatization.\textsuperscript{xvi} The administration’s proposed infrastructure bill, the Republican plan to repeal the Affordable Care Act,\textsuperscript{xvii} and the vast expansion of detention infrastructure—via prison privatization and immigrant detention centers\textsuperscript{xviii}—represent just some of the myriad opportunities for privatizers to cash in on $7.04 trillion of projected annual government spending at the federal and local level.\textsuperscript{xix}

We must look to history for guidance. Faced with a similar set of challenges in the 1920s, Progressive-era reformers sought a three-tiered solution: antitrust law (breaking up monopoly power), public utility regulation (government oversight over utility companies), and public options (providing a government-owned alternative to private services).\textsuperscript{xx}

Framing the issue as a question of public control provides a clear perspective on the nature of the debate.

**GENERATIONAL IMPACTS: THREE CASE STUDIES**

In 2016, the Roosevelt Institute’s network surveyed 1,000 young people in 160 colleges and cities about the top issues for them in the election and beyond.\textsuperscript{xli} Respondents ranked public education, economic justice, and human rights as the most important policy areas to be tackled after the election. These issue areas are also at the frontlines of how privatization is negatively impacting our generation. The following case studies are prime examples of how the threat of undue corporate power impacts young Americans in these three areas.

**Education: For-profit colleges**

Higher education has become an integral part of the social and economic mobility narrative in this country. American youth are told that they cannot succeed in the job market without at least one college degree. Yet, despite its growing importance to economic mobility, higher education has not become more accessible or affordable. This has created opportunities for private institutions to exploit students with sub-optimal degree options. A prime example is the for-profit college industry.

Undergraduate enrollment at for-profit colleges has ballooned by 217 percent from 2000 to 2014.\textsuperscript{xvii} For-profits have traditionally cloaked themselves in the language of consumer choice, making sweeping promises about the access and affordability they provided to students from nontraditional backgrounds and those seeking non-full-time, vocational, and...
job placement degrees. For example, in 2016, the top degree-granting institutions for black Americans at the bachelor’s degree level were two for-profit online universities: the University of Phoenix and Ashland University.xxiii

Yet, the outcomes of for-profit education both at the graduate and undergraduate levels have been disastrous. A 2012 congressional report found that “federal taxpayers spent over $30 million a year on for-profit colleges, even though more than half of the students who enrolled in the 2008-09 school year withdrew by mid-2010.”xxiv And to make matters worse, the report’s sponsors commented that such practices were “the norm,” not the exception. Moreover, by being called “private” colleges, for-profit schools obscure the manner in which they are propped up by vast federal subsidies. As noted by one Bloomberg columnist, “Current regulations allow for-profits to collect as much as 90 percent of their revenue from federal financial aid, and many come close.”xxv

The Trump administration is already taking measures to further deregulate the for-profit college industry. Secretary of Education Betsy DeVos is likely to repeal the gainful employment rule—an Obama-era measure that pegged federal dollars to colleges’ ability to ensure graduates entered the workforce.xxvi

Accountability, transparency, and regulatory structures for the for-profit education industry are sorely needed. As the “consumers” in this marketplace, students are uniquely positioned to organize for greater transparency in contracts, curricula, and government regulations. For example, Corinthian College graduates waged a national protest in 2015, refusing to pay back their debt to an institution that profited from failing them.xxvii Their action spurred the U.S. Department of Education to step up its oversight of colleges that receive federal funding. This shows that there are very tangible levers for students and young people to pull in order to fight the privatization threat in the field of higher education.

Economy: Financialization

Over the past few decades, the financial sector has grown to occupy an increasingly central role in our economy. The Roosevelt Institute defines financialization as the “increase in the size, scope, and power of the financial sector—the people and firms that manage money and underwrite stocks, bonds, derivatives, and other securities—relative to the rest of the economy.”xxviii Financialization has led corporations to focus on boosting stock prices rather than innovation, productivity and job growth. This has shifted the focus of economic activity away from the production of goods and services and toward the financial sector. In other words, we have moved from a focus on Main Street to a focus on Wall Street. Finance accounts for 25 percent of all corporate profits in the United States, but it only creates 4 percent of jobs.xxix

The emerging generation is directly impacted by financialization within the education system. Drastic cuts in funding for K-12 schools and colleges, coupled with decreased public investment, have led to lower-quality education and an increase in the student debt burden.xxx Increasingly, the private sector—largely banks and other financial intermediaries—has extracted wealth from colleges through the ways in which they borrow, fund new investments, and protect their savings. In a random sample from Forbes’ top 500 colleges and universities around the United States, 58 percent have or have had at least one risky deal on their books.xxxi These deals have cost schools hundreds of millions of dollars since the 2008 economic crash, coinciding with the profusion of student loan debt—making college less accessible and more expensive for many students.

These budget-draining deals are symptoms of the larger problem of the financialization—and privatization—of
education. Students within these institutions have the ability to hold schools accountable by examining where their school obtains their funding, what type of risky deals they’re potentially involved in, and who makes the decisions to enter into those deals. The Roosevelt Institute, in conjunction with the Refund America Project, has already seeded this work in a 2016 report, “The Financialization of Higher Education.” xxxii With the appropriate pressure, school administrations can change to prioritize students and college accessibility over banks and investors.

**Human Rights: Prison privatization**

The privatization of prisons presents a morally complex aspect of the threat of privatization. The system’s purported goals of providing justice, safety, and rehabilitation for inmates and society fall squarely under the purview of public control.” xxxiii Yet, faced with a rising rate of incarceration due to Reagan-era policies, the federal government had two choices: either alter the rules of sentencing and incarceration to place fewer people behind bars, or find ways to cut the costs of each prisoner.” xxxiv Political leaders opted for the latter by contracting out prisons to private companies. Many private contractors operate at both the federal and state level, housing about 7 percent of the state prison population and 18 percent of the federal population xxxv. Currently, 62 percent of persons detained by Immigration and Customs Enforcement (ICE) are kept in privately operated facilities. xxxvi This political choice disproportionately impacts young people of color: One in nine black men will be incarcerated between the age of 20 and 34. xxxvii

Profits in the prison industry have soared over the past few decades. Geo Group, a major contractor, saw total revenues of $1.84 billion in 2015 alone. xxxviii Meanwhile, the outcomes of service provision have been poor and, often, inhumane. A 2015 U.S. Department of Justice report found that private prisons “simply do not provide the same level of correctional services, programs, and resources; they do not save substantially on costs; and as noted in a recent report by the Department’s Office of Inspector General, they do not maintain the same level of safety and security.” xxxix The department also found incidents of starvation, prisoner abuse, and improper supervision. Outcomes like these can occur when there is no accountability for institutions that are supposed to protect and serve the public. The invisibility of prisons and prisoners, caused by the geographic obscurity of facilities and the lack of civil rights for the incarcerated, keep accountability and transparency out of reach.

Unfortunately, the Trump Justice Department is supportive of private prison contractors. In February 2017, the administration announced a reversal of President Obama’s moratorium on private contracts for federal prisons. xl Similarly, the administration’s plans to vastly expand the number of immigration detainees across the country rely on private prison contractors for their detention and incarceration. xli This move puts more taxpayer dollars back in the hands of profit-hungry companies.

Combatting the threat of prison privatization is not, however, out of reach. Young people, and students in particular, have the ability to organize around the issue. For example, many college campuses have invested parts of their endowments in private prisons, or have board members with fiscal ties to private contractors. The large sums of money that come through campus uses are a considerable boon to contractors’ operations. By fighting the construction of private prisons in their communities, proposing alternative places for colleges to invest, or advocating for more equitable and transparent college governance, students can weaken the influence of private contractors within the justice system.

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xxxiii It is important to note that public run prisons are also in need of serious reform.


Key Principles: A guideline for policies to promote the public good

The key objective for policymakers is not whether a public good or service involves private actors, but, rather, whether the public retains effective mechanisms for transparency, accountability, and control over the service. The privatization of government-owned property and services is not one-size fits all. With public oversight (though not without controversy), city, state, and federal governments have held publicly reviewable, competitively bid procurement contracts with private entities for everything from school lunches to construction supplies. Below, we outline a list of key principles we honor in the provision of any public good, whether publicly or privately held:

- **Accountability:** Unchecked private interests may take highly discriminatory actions against disadvantaged groups and distort the market for monopoly gain. Transparency and avenues for enforcing penalties for bad behavior are necessary for accountability.

- **Public Control:** Given the capture of many government bodies by officials beholden to corporate interests, it is imperative that policies empower average Americans to have real influence over the process of service provision and policymaking.

- **Equity, Affordability, and Accessibility:** Historical and current inequities must be factored into policies that promote the public good. Some solutions that appear beneficial on the surface may have a neutral or negative impact on marginalized groups.xlii

OUR CALL TO GENERATIONAL ACTION

Young people have the most at stake in the fight for public control. The social contract has failed our generation more than any other. Rising education costs, low job prospects, gridlocked government, and rampant discrimination have defined our American experience. If we are empowered to shape our institutions for the future, we will be in the best position to do so in a way that improves social and economic outcomes for all.

Given how widespread and deeply rooted privatization is, it will take collective action to reassert public control locally and nationally. That collective action will depend on a shift in an entire generation’s thinking about how to provide for the common good. We believe we are that generation.

People under 35 are the largest and most diverse demographic in the United States. If properly trained, organized and equipped, we have the ability to transform existing institutions and build new ones. We are also at the forefront of the most potent social movements today, from the fight for gender justice to the Movement for Black Lives. Our values of inclusivity, equity, and justice can and should be promoted for the betterment of our country.

While the discourse around privatization may be national, the place for action is very much local. Young people across the country have already begun to identify and tackle privatization threats in their communities. One of the most powerful fights of the last several years has been divestment campaigns against fossil fuels and companies profiting from international conflicts, as well as mass incarceration. xiii These movements are the precedent from which new campaigns to retake public control will evolve, spurred on by the privatization occurring under the Trump administration. New campaigns will be able to expand their activism beyond the campus into larger local communities.

At the Roosevelt Institute, we are investing in youth-driven campaigns that target and address privatization in our economic, educational, and justice systems. Over the coming months and years, we are directing our financial and training resources toward the incubation and growth of meaningful projects in these areas. By supporting local projects, we will build a national narrative and movement that promotes public power. And because we believe that who writes the rules matters, we want the people we support to be as diverse and forward-thinking as the emerging generation.

We recognize the shared threat of privatization and call for a shared fight against it. In the spirit of Franklin and Eleanor Roosevelt, our generation must champion the public good even when politicians threaten it. Because, in FDR’s words, “this generation of Americans has a rendezvous with destiny.”xliiv