What is privatization and why does it matter?

With oil prices down, an aging population, and high unemployment, there is pressure on the government of Newfoundland and Labrador to find a silver bullet to address cost pressures or raise revenues. Privatization is being put forward as the magic formula. Advocates of privatization offer free-market competition as the path to economic and social success, with promises of cost savings, lower risk, greater efficiency, and more individual choice.

What is privatization?

Privatization is the whole or partial sale of public services and/or infrastructure. It can include the sale of assets, functions or the entire institution. Privatization takes several forms in Canada, including:

- full privatization: where a government enterprise is sold in full to private investors.
- publicly funded with services and management delivered privately, sometimes unknown to the consumer
- public funding of private services: government provides vouchers to consumers for the purchase of goods and services from private providers
- public private partnerships (P3s): full outside contracting, management and service delivery of traditionally delivered public services such as hospitals, roads, schools, and prisons. This can include private finance, design, building, operation and possibly temporary ownership of an asset.

Privatization Doesn’t Deliver on Its Promises

After decades of experimentation with privatization in different forms across Canada, the data is clear. On average it fails to deliver on its promises: in economic terms, in quality and access to services, in quality and quantity of jobs, and in transparency and accountability.

1. The Economics Don’t Add Up

P3s, the fastest growing type of privatization in Canada, are the reliance on private sector borrowing to finance the development of public infrastructure projects. However, governments have always been able to borrow money more cheaply than private corporations.

According to a University of Toronto study of 28 P3 projects in Ontario, P3s cost, on average, 16 per cent more than a traditional public contract. A recent Auditor General of Ontario report found that P3 projects cost the province an additional $8 billion than if they had been done under the traditional model.
Publicly owned SaskTel paid $497 million in corporate income taxes to the citizens of Saskatchewan between 2002-2007, compared to $1.2 million paid to Manitoba citizens by privately owned Manitoba Telecom Services (MTS) over the same time period.

2. Cost savings do not mean lower prices

Twenty years after privatization of telecom services in Manitoba, the cost of a basic phone with the publicly owned SaskTel is $8 less per month than from MTS.

In France, research found the cost of water under privatized water systems was over 16% higher than public sector water. In the UK, water prices rose by 40% more than other prices in 17 years after privatization, although operating costs had not changed.

3. Cutting corners means lower quality

Correctional facilities also suffer from privatization. Ontario opted to run a test case, privatizing one correctional facility and keeping another equivalent facility under public jurisdiction. In the performance evaluation of the two jails, the public jail had better security, prisoner health care, and reduced repeat offender rates although the privately run jail performed better economically.

4. Cutting corners means higher risk

Health care is a sector where there is huge pressure on government to control costs, particularly in Newfoundland and Labrador with the aging demographic.

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The High Cost of P3s

In British Columbia the province had to renegotiate a P3 agreement with P3 developer Mcquarrie Group for the twinning of the Port Mann bridge and provide an estimated $700 million in provincial financing to keep the project going. BC’s Auditor General also found that the costs of borrowing through P3s were nearly twice the cost of the province borrowing money for projects itself, noting that the weighted average cost of borrowing was approximately 4% and on the $2.3 billion that government borrowed through P3s it was 7.5%.

In Quebec, P3 project McGill University Health Centre’s initial cost estimate was $800 million. The total price tag has since risen to at least $1.3 billion, with private design-build contractor SNC-Lavalin seeking an additional $172 million from the province for unforeseen expenses.

The New Brunswick Auditor General also issued a report in 2012 critical of P3s. The report noted that the province used a P3 to contract a private partner to construct schools in Moncton and Rexton and to manage operations, maintenance and rehabilitation. The Auditor General found that instead of saving the province $12.5 million, it had actually spent $1.7 million more than it would have with traditional procurement.

As of 2014 Ontario owed almost $23.5 billion in liabilities and commitments relating to P3 projects. The Ontario Auditor General estimated that the province owed an additional $5 billion to P3 contractors to be paid when projects reach completion.

So why do politicians promote P3s? One reason may be that from a balanced budget perspective, P3 agreements stay off the books or are postponed for 30 years. The proponents of the deal today do not have to worry about the financial indebtedness that will come down the road.
In Manitoba, living in a for-profit long-term care facility increased the odds of dying in hospital or being hospitalized.

In an analysis of data for hospitals in the US, Dr. Philip Devereaux, a cardiologist at McMaster University, concluded that the death rate in for-profit hospitals was 2 per cent higher than in not-for-profit facilities. In Alberta the Health Quality Council of Alberta’s Long Term Care Family Experience Survey in 2012, found that on average, private and volunteer operated facilities offered poorer quality in terms of staffing levels, care of resident’s belongings, and assistance with daily living activities such as toileting, drinking and eating than publicly operated ones.

5. Cost cutting means lower quality jobs and deskilling

Privatization of correctional facilities in the United States was expected to create a 20 per cent cost saving. The actual cost reduction averaged 1 per cent and that was achieved mostly by cutting labour costs.\(^v\)

Higher risk and lower quality of services in health care are connected to lower staff wages and benefits; cutting the number of staff available to provide patient care; and reducing the level of required qualifications.\(^vi\)

6. Reduced Accountability, Increased Safety Risks

The Ontario privatization of municipal water testing was linked to the May 2000 bacterial contamination in Walkerton, Ontario, which led to the deaths of at least seven people and the serious illness of 2300.

In Alberta, third parties that provide services and facilities via P3 agreements are not accountable to the same standards as public ones. This means that important facilities like hospitals do not have to meet testing and reporting standards designed to regularly assess building conditions.\(^vii\)

7. Privatization does not transfer risk

Proponents claim that even where costs savings are not a reality, privatization transfers risk. However, with limited liability of corporations and the ability to declare bankruptcy, the public sector is still on the hook. If a P3 fails, taxpayers are left with the bill when the public sector has to step in to cover the remaining costs in order to complete the project or continue its operation.\(^viii\)


