The Hidden Costs of Infrastructure Privatization

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Infrastructure drives economic growth,[i] yet our nation's roads, bridges, transit, drinking water, wastewater, electricity, ports, and aviation facilities are $3.6 trillion in disrepair,[ii] jeopardizing future economic health. To address this crisis, policymakers have proposed a range of strategies from increasing public investment in infrastructure to implementing public-private partnerships (PPPs). One such proposal from a leading Trump economic advisor[iii] is to use taxpayer dollars to provide a significant subsidy to private investors in the nation's critical infrastructure. If enacted, the plan would trigger a privatization wave, taking infrastructure out of the public domain and generating a host of negative consequences for low-income communities, taxpayers, and workers. Meanwhile, state and local governments would sacrifice autonomy and long-term benefits for short-term gains. According to the Institute on Taxation and Economic Policy (ITEP), private parties will only invest in profitable areas, including ventures such as building new toll roads and water systems.[iv] As a result, these sectors are most susceptible to privatization.

This policy brief discusses some of the key concerns regarding infrastructure privatization, which is characterized by private ownership and long-term asset leases. Maintaining the nation's infrastructure within the public domain is of utmost importance to ensure strong project and labor standards, taxpayer accountability, and flexibility to achieve state and local policy objectives.

Privatization is Regressive

A Brookings Institution report underscores privatization and PPPs as financing tools, not new sources of funding.[v] At the end of the day, the public must still pay in the form of user fees such as highway tolls, bus tickets, and water utility rates. Unlike governmental entities, private investors can charge higher rates without having to respond directly to the public. For low-income households, higher rates translate to greater burden. According to the Food and Water Watch, for-profit water utilities charge households 60% more per year on average than publicly-owned utilities.[vi] After the City of Coatesville, Pennsylvania sold its water system rights to a private company, households saw their water bills double to roughly $700 per year.[vii] A city where 35 percent of residents live in poverty,[viii] as a result of skyrocketing utility prices, families have struggled to make ends meet. Water rates in Bayonne, New Jersey, jumped 28% after the city turned over its water system to a private equity firm and a private water company to manage it.[ix]

Privatization and Contracting Out Harms Workers

Cost savings from privatization and contracting out often accrue as a result of lower wages and fewer benefits for workers.[x] When an Ohio county signed a contract to privatize bus line maintenance and operations, bus drivers' hourly wage dropped from $14 to $10.50. Similarly, when the Kansas City International Airport contracted out bus operations, average hourly wages dropped from $17 to $11, while pension benefits were slashed.[xi] Water system privatizations have led to a loss of roughly one in three jobs.[xii] According to the Economic Policy Institute, state and local public sectors have provided equitable employment opportunities for women and people of color.[xiii] As a result of disproportionately representing a large share of the public sector workforce, women and African Americans are particularly vulnerable to the wage and employment impacts of privatization and contracting out.[xiv] Lower wages and higher unemployment simply shift burden back to the government to provide greater public benefits and services.

Privatization can Adversely Impact Taxpayers

Supporters of privatization argue that unlike government entities, private companies can charge a market-based rate for use of infrastructure without fearing political backlash. However, privatization often amounts to transferring a monopoly from public into private hands, potentially reducing transparency and public accountability. Inherent to most forms of infrastructure is limited competition; for example, it would not be economically feasible for multiple water delivery companies to build competing pipe systems to the same building, or for two interstate toll roads to run directly parallel to each other. This lack of competition may deter private entities from improving the quality of a service or keeping costs down.

State and local governments have turned to infrastructure privatization during times of budget austerity. Although the sale or long-term lease of an asset provides immediate cash, the public must forego future revenue. In 2008, for a lump sum payment of $1.2 billion, the City of Chicago entered into a 75-year contract with a private entity to lease the city's parking meters. However, it is estimated that Chicago drivers will pay nearly $12 billion in parking fees over the next 75 years. In some areas of the city, parking meter rates have increased fourfold. [xv] Even after a long-term lease takes effect, a state or local government may be required to make payments to the private operator. After the State of Indiana leased the 157-mile Indiana Toll Road, taxpayers were on the hook to reimburse the private entity $450,000 after the State temporarily waived tolls during a flood event.[xvi]

Privatization Limits Good Governance

To account for long-term unpredictability, privatization contracts often incorporate a number of clauses to guarantee private gain. Such clauses may obstruct government autonomy and jeopardize the public interest. A contract between the State of California and a private entity forbade the state to perform repairs and upkeep on non-tolled roads that were nearby to the privately-leased SR-91.[xvii] This negative externality resulted in the State of California purchasing the road back from the private entity. Chicago's parking meter contract includes a number of clauses that require the city to reimburse the private operator for lost revenue from closure of streets due to road repairs and community events. Such agreements may also result in a loss of control by state and local governments. In Chicago, planning for potential future projects on streets with meters – such as bus rapid transit, loading zones, bicycle lanes and improved streetscaping – is now severely restricted, adversely impacting the long-term public interest.[xviii]

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