



Cornell University
ILR School

Labor Research Review

Volume 1 | Number 23
*Confronting Global Power: Union Strategies for
the World Economy*

Article 2

1995

Privatization Bites

Andy Banks

This Article is brought to you for free and open access by DigitalCommons@ILR. It has been accepted for inclusion in Labor Research Review by an authorized administrator of DigitalCommons@ILR. For more information, please contact catherwood-dig@cornell.edu.

© 1995 by Labor Research Review

Privatization Bites

Abstract

[Excerpt] Many have perceived privatization as a local phenomenon, but in fact it is not local. It is an international granite column upon which the so-called "New World Order" stands. Within weeks after the election of Ronald Reagan to the U.S. presidency, two right-wing think tanks, the Heritage Foundation in this country and England's Adam Smith Foundation, produced a thousand-page document showing that the worldwide economic strategy of both the United States government and the British government would be a privatization strategy. Powerful international financial institutions, such as the International Monetary Fund and the World Bank, have made public sector "reform" the center-piece of their dogmatic four-pronged program of privatization, deregulation, free trade, and currency devaluation.

Keywords

privatization, globalism, global economy, consumption



Privatization Bites

■ Andy Banks

A generation ago the film *Easy Rider* was a metaphor for what the young people felt the world of adults had created for them. The recent film *Reality Bites* is a cinematic metaphor for the world that the 60's generation has created for today's youth. In the opening scene, Lalanya Pierce, played by Winona Ryder, is giving the valedictorian speech for the 1993 graduating class of the University of Houston. In it she describes the mess inherited from the *Easy Rider* generation whose 60's idealism turned to conspicuous consumption, and whose attentions turned from the freedom to run wild to the daily prison of a culture preoccupied with buying name brand running shoes.

The world's focus on consumption and commercial values has distracted us from the fulfillment of basic human and social needs. We are paying for our obsession with consumption and commercial values with an attack on social solidarity and a reduction in public services – including health care, education, and public transportation. Government policies around the world reflect – and exacerbate – our focus on commercial values; public services are being privatized and then cut out if they prove to be unprofitable.

■ When he wrote this article, Andy Banks was the Education Officer for Public Services International. He has recently taken a position with the International Brotherhood of Teamsters.

Many have perceived privatization as a local phenomenon, but in fact it is not local. It is an international granite column upon which the so-called “New World Order” stands. Within weeks after the election of Ronald Reagan to the U.S. presidency, two right-wing think tanks, the Heritage Foundation in this country and England’s Adam Smith Foundation, produced a thousand-page document showing that the *worldwide* economic strategy of both the United States government and the British government would be a privatization strategy. Powerful international financial institutions, such as the *International Monetary Fund* and the *World Bank*, have made public sector “reform” the center-piece of their dogmatic four-pronged program of privatization, deregulation, free trade, and currency devaluation.

SELLING OFF UTILITIES

Privatization means different things and takes on different forms in different places. In most countries outside the United States, privatization originally meant the sale of public enterprises such as the steel industry and utilities. Until recently, Great Britain had the most extensive experience with that kind of privatization, selling off most of its public sector assets, even though some of those assets had been making profits for the government. Britain temporarily reduced its national deficit with the funds it acquired from the sale of British Telecom and the gas, electric, and water utilities, but it has now acquired a more severe deficit because of the lost income from those enterprises.

Few such public enterprises – with the exception of water utilities – are left in the United States, and many of the states and municipalities that do still operate them are talking about selling them off. A more common kind of privatization in the U.S. is the contracting-out of public services. And this type of privatization is spreading around the globe.

THE GOAL: FEWER SERVICES?

Contracting-out work is done for many reasons. Usually, its proponents claim that private enterprise will be more competitive, more efficient, and more flexible in delivering the service in question. However, experience worldwide shows that a primary reason for contracting out a service is to make it easier to do away with that service a few years later.

In Miami, for example, where the county had been conducting a privatization “test” of public transport for years, the Miami Transport Workers Union, Local 291, demonstrated that the privatized transport

wasn't as efficient, wasn't as productive, and cost more to run than public transit. The real reason for the privatization, the union proved, was that the city didn't want to serve the Hispanic, African-American, and elderly communities which depended on the bus service. Privatization was only a means, first to give the service to contractors, and then to start cutting the service. (See "Apartheid in Miami" in *Labor Research Review* #10.)

THE PUBLIC SERVICES CHALLENGE

By and large, the public believes that privatization is more efficient, that it stops bureaucracy, and that it will reduce their taxes. In short, the public believes that the business and commercial values of the private sector are the values that we need in the public sector. These very widely-held beliefs have not been substantially challenged by trade unions and their allies.

Recently, however, public-sector unions around the world have begun to accept the challenge. At its 1993 quadrennial convention in Helsinki, Public Services International (PSI), a worldwide federation of 438 public-sector unions in 118 countries, kicked off a global campaign to make the case against privatization and for the public sector.

PSI makes a distinction between the terms "public sector" and "public services." Health care, public security, education and water quality, for instance, are public services even if, in particular cases, they are operated by private enterprises. The profit-oriented, commercial values of the business world are not appropriate for public services, no matter who runs them.

A RANGE OF STRATEGIES

Because of different laws, different cultures, and different customs, labor's response to privatization efforts in one country may not necessarily be the best response in another. But there are some general strategies and principles we can all use. Unions cannot afford to be defensive; we cannot afford to be simply against change in the public sector. We will not win this fight if we are forced to defend the indefensible. We cannot allow ourselves to be cast as having a stake in keeping a bad system the way it is.

Rather than unquestioningly defend the current state of public services, labor in some countries has begun to join and even lead the effort for reform of the public sector. But union-led reform must be a very different type of reform than that being mouthed by World Bank econo-

mists, neo-liberal ideologues, and some private sector “wannabees” hiding out in the comfortable ranks of upper-government management. Think of how many trade unionists have asked themselves, “Why the hell do they run this place this way? If they only asked our union members how to run it, the public wouldn’t be ticked off at us.” But usually we have kept these questions to ourselves, lest the enemies of public service use them as further justification to speed up the privatization process.

Today we must break our silence, mobilize our members, and find allies in the community to back our vision. In fact, we must do nothing less than take over the movement to reform the public sector.

When we’re asked, “What do you stand for?,” we in the public-sector unions have to say that we stand for effectiveness, efficiency, accountability, and working with and for the people. And that answer can’t be merely a public relations ploy. We have to reformulate the goals and missions of the unions based upon these ideals. Where we have actually seen this reformulation happen, it has been a good experience. In Britain, the trade union movement has gone through fundamental changes, under very difficult circumstances, and many believe the unions have come out the better for it.

In the Philippines, public-sector unions were outlawed until the end of the Marcos regime in 1987. Then a constitutional amendment legalizing public-sector unions was passed, but there was no law specifically sanctioning public-sector collective bargaining. Despite this setback, many young public-sector workers immediately started forming unions. There are now 300 different public-sector unions in the Philippines. Amazingly, stated in almost each of their constitutions and charters is the obligation for the union to promote good services to the public and to fight all forms of public corruption. Union members feel very proud that the public sector is so important to the building of their young democracy. They feel that, as unions, they have to promote public services and the quality of services to the people.

The very foundations of the unions are geared toward the public and the public knows it. Recently, a law forced powerful Filipino land barons to redistribute agriculturally-zoned lands to tenant farm families. To avoid the law’s intent, these land barons attempted to bribe top officials in the zoning agencies to rezone their farmland as “industrial.” In one such agency, public-sector union members bravely risked their lives by conducting a hunger strike inside their director’s compound until it was agreed to give the peasants their farmland.

The result of the union members commitment to the people is that they get very strong support from the public when they conduct union



Korean National Worker's Day rally and march.

campaigns for higher wages and better working conditions. They get support from community organizations and from churches; whole communities come out in support of their demonstrations. This style of unionism – with a greater social vision – has helped build strong public sector unions in South Africa, South Korea, Brazil, and Uruguay. The Uruguayan-public sector unions enjoy so much public support that they recently won a national electoral referendum banning privatization.

THE TRANSNATIONAL CONNECTION

Still another privatization agenda is that of the large transnational corporations – many based in the U.S. – which increasingly see public services as a major growing market niche in a rapidly closing world economy. It works like an old-boy network on a global scale. No longer do politicians give their supporters jobs; now they give them contracts. Transnationals receive lucrative public contracts in exchange for supporting the national ruling elite.

The real key to understanding the worldwide ground swell of public sector “reform” and privatization is understanding the current trends in the global economy. Since the 1970s, the nations of the world have had less and less power to determine their own economic future. More and more, that power has gone to multinational corporations because they can move capital. Trade agreements such as **GATT** and **NAFTA** have as much to do with the ease of moving investment capital as they do with trade. Furthermore, the power of the international institutions

– most importantly the World Bank and the International Monetary Fund (IMF) – have helped international capital set up a global economy. The importance of these institutions is not immediately visible to trade unionists in industrialized countries.

The IMF's primary task is to say how much a country's money is worth. The World Bank makes loans. Many Third World nations, of course, depend heavily on World Bank loans to pay off debts from previous loans. Working closely with the World Bank, the IMF will say that the World Bank should not lend a particular country money until that country devalues its currency to a level mandated by IMF economists. For the rich and powerful of that country, who have dollar accounts or have stashed their savings in Swiss banks, currency devaluation actually improves their fortunes. For transnational companies looking to buy up local utilities, raw materials, or labor, their currency (usually dollars, yen, marks, or pounds) will buy that much more on the local market. For the average citizen who holds the national currency, the devaluation can be devastating.

The IMF and the World Bank send in teams of experts, usually from among the Big Ten U.S. or U.K. accounting firms. These consultants get paid enormous sums – which come out of the loan to be made to the borrowing country – to declare that the borrowing country must restructure its economy. Often, they advise (as a condition of receiving the loan) that the borrowing country stop trying to produce everything it needs to sustain its population and to become, instead, a player on the export market by turning to such cash crops as cocoa and onions. They also advise that the borrowing country privatize its public sector.

THE WORLD BANK VERSUS UGANDA

Consider the case of Uganda, clearly one of the poorest countries in the world. Its dictatorships bled Uganda of much of its resources and racked up a substantial World Bank debt for the country.

After a popular uprising, a democratic government was installed which found itself inheriting the debts of the former dictators. The new government was forced to take out new World Bank loans to pay off the previous ones. To receive World Bank loans, the government had to agree to what the World Bank calls a **structural adjustment program (SAP)**. And because the World Bank declared that Uganda had too much of its resources in the public sector, a public services component was included in Uganda's SAP. The SAP forced Uganda to agree that 25 percent of its public sector workers – primarily health and education workers – would lose their jobs.

Structural adjustment is happening in country after country. Essentially, the World Bank says, "We have the money, and we know you need it, and if you want it, here is how you must spend it. You also have to cut the public sector, but we will help finance the transnational corporation's purchases of public enterprises."

One could almost say that structural adjustment killed the Finance Minister of Zambia, Gibson Chigaga in 1991. He had a heart attack at the Lusaka Airport, having just come back from negotiating a structural-adjustment program with the World Bank. He was told to sign the deal if Zambia wanted World Bank loans. He was under such stress that he had a heart attack before he could break the bad news to the press conference assembled at the airport. The public clinic at the airport no longer employed a doctor and his ambulance broke down on the ill-repaired road to the hospital four miles away – all of the public services that might have saved Chigaga's life were previous victims of World Bank mandated cuts. At least symbolically, he died of the World Bank's structural adjustment program.

World Bank philosophy holds that the public sector in the Third World was built up too much because there was no other source of employment. As a result, says the World Bank, the public services – including the telephone and electric utilities – in these countries are unreliable. They must be privatized.

Not surprisingly, AT&T and GTE are major proponents of privatization. They want to put the Third World utilities in the private hands of northern industrialized countries and create, for example, regional telephone networks. That's one of the reasons the World Bank uses the very effective weapon of structural adjustment programs: to force privatization and to make the movement of money and the achievement of the goals of multinational corporations much easier.

THE INVESTMENT THAT WASN'T

Yet structural adjustment often doesn't work the way it's supposed to. For example, the independent telephone workers' union in Mexico was supporting privatization – not because it was a bad union, or even a pro-government union; it wasn't (and still isn't). The reason the union supported privatization was that the telephone system in Mexico was so bad that the telephone workers knew there was no way the Mexican government, with its massive debt, could ever make the capital investment that was needed. The workers thought that if the investment were made the industry would produce more high quality jobs and Mexico would have a good phone system.

So, Mexico privatized its telephone system in a joint venture with Southwestern Bell and France Telecom. But the investment never happened, except in very small targeted business districts. It is often the case that privatization agreements which are supposed to increase investment and efficiency, only put important assets into private hands. These new privatized services often only benefit elite groups.

Of course, this form of privatization is also occurring in the industrialized countries. In Great Britain, the infrastructure and school systems of London, Manchester, and Liverpool are being degraded in the name of privatization.

STRATEGIES FOR CHANGE

Thus far, there has been a clear vision propounded by the business community and its two main spokespeople, Ronald Reagan and Margaret Thatcher, of how the world economy should be organized. That vision became the dominant vision because unions and their allies weren't providing a credible alternative. Risky as it is, we must come up with an alternative vision now.

Some of the calls for reform made against the public sector by those preaching privatization are valid. So the question unions have to ask is, "Do we move public services into private sector employment or do we reform them?" Governments can't just be allowed to cut services. How can reform be done correctly?

First of all, we have to establish a public campaign of fighting for the principles and values of public service. These principles and values are different from the commercial values of the private sector. We have to establish that the unions' fight is a fight over values. We, the unions, are the people who are pushing public service values.

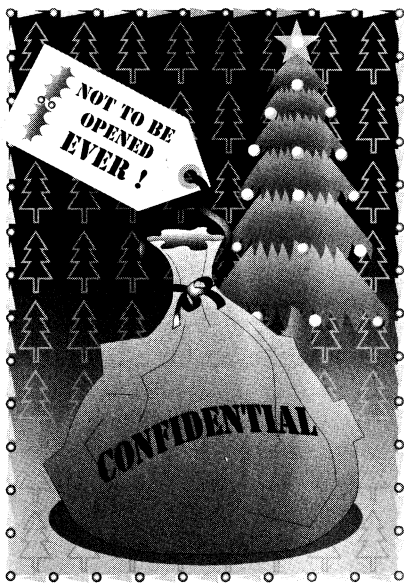
In Sweden, the powerful public sector unions have persuaded government officials to redesign public services. By mobilizing their members, these unions have tapped the insights and knowledge of front line workers in order to redesign important public services. These efforts have lowered costs, increased efficiencies, and provided more and higher-quality services. Unions in the U.K. have done similar things. In both instances, they have made the case for public service values; they've said, "We're going to take responsibility for proposing how to run this place." The reason business leaders look to privatization as a labor strategy is because they think labor is the problem. We have to demonstrate the much larger problems of mismanagement and greedy corporate leadership. Labor must show that the profit-oriented strategies and management philosophies of commercial corporations should not be

the standard used to judge the public sector. That is not to say that public services shouldn't be efficient, but they cannot be profit-driven. We have to counter the tide of commercialization that is converting public services to pay-for-service.

In the U.K., unions responded to a recent effort to privatize the data collection and clerical work of the tax collection department, Inland Revenue. The Conservative Party announced, "We're going to do some 'market testing' to see how tax collection would look in the market. We'll just have a trial period in which to contract out this service." They were going to try to save money by contracting out labor to companies that reduced costs through bad working conditions and low wages.

How could *tax collectors* get public support to fight privatization? As one tactic, the union sent out a beautiful Christmas card with a tree and Santa's sack, all tied up with a sticker on it. On the front, it said, "Confidential." Inside, it said, "Season's Greeting from the staff of your local Inland Revenue Service. Our seasonal promise to you is that, as always, we will *not* make a present to *anybody* of your private and confidential tax information..."

It was, of course, only one action in an ongoing campaign. Campaigning is now what the Inland Revenue union does. The union is trying to change the popular view of public services by saying, "We have public service values. Confidentiality of tax information is a public service value."



PRIVATIZATION BITES

In the film *Reality Bites*, Lalanya Pierce, in her valedictorian speech, rhetorically asks the sea of graduating seniors, "What can we do about this?" referring to the messed-up planet and bleak prospects that they will inherit from their parents. A strange murmuring hush drifts over the assembly waiting for her answer. Looking perplexed, Lalanya fum-

bles with her speech notes and finally proclaims “I don’t know.” The crowd greets this insight with a loud standing ovation.

Only a generation ago most valedictorians would have answered Lalanya’s question with an appeal to public-service values, most likely quoting JFK on asking what you can do for your country. But three assassinations, a war in Vietnam, and a plethora of Watergate-type scandals has turned once hopeful optimism into a sad youthful cynicism.

LRR FOCUS: Privatizing Lithuania’s Water

Perhaps nothing is more critical to the maintenance of public health than the supply of clean water. All of the lives saved through modern medicine account for no more than a drop in the bucket when compared to the number of lives saved through improved sanitation and the presence of a steady supply of clean water. So when commercial values begin to be applied to water treatment and distribution, as they were in Lithuania in the past few years, the implications are potentially deadly.

The state government of Lithuania recognized the critical nature of maintaining the nation’s water supply by fighting off an early effort at privatization in 1989. However, in 1992, the state transferred its authority over the water supply to the municipalities, without necessary funds or regulations. The French transnational company, Lyonnaise des Eaux, seized upon the opportunity to supply desperately needed funds to negotiate a joint venture agreement with the municipal government of Vilnius. Lyonnaise gained a controlling interest in the joint venture in exchange for an initial investment of \$500,000 USD. From this initial investment, Lyonnaise gained control of assets totaling \$250-350 million USD.

While the influx of new capital would have a positive effect in terms of funding necessary repairs, the negative implications from this privatization effort were bound to be much more profound. Water prices would inevitably rise, placing this necessity beyond the means of some segments of the society. This move to privatize would also result in the elimination of 40-50 percent of the water service jobs. Perhaps most importantly, the moral imperatives that guide a government’s decision-making processes would be replaced by the profit interests of a private corporation.

The effort to privatize such an essential service did not go unchallenged. The **international trade union secretariat** Public Service International (PSI), which has been engaged in an ongoing worldwide campaign against water privatization,

Today's global struggle over privatization is the major economic battlefield between public and commercial values. It's a struggle which must be led by trade unions, but must encompass the hopes, desires, and participation of much of the world – especially the part of today's youth. It is a struggle which will only be won by giving the next crop of valedictorians a viable alternative to commercialization and private interests, so they no longer have to say "I don't know." ■

recognized the need to mount a campaign against Lyonnaise and decided to take a pro-active role in the struggle. PSI provided their Lithuanian affiliate, the Trade Union Federation for Local Industry and Service Workers (TUFLISW), with the opportunity to learn from the union and industry experts in other countries, including the Czech Republic, Britain, and France. The union used these exchanges to focus their message and strategy, and to raise the status of Lithuanian unions and their proposals.

In 1994, the union organized the first public debate on the issue of water service privatization, with representatives from both the government and private employers attending. The union also passed a resolution entitled "Concerning the Lithuanian Water Industry Privatization." While the resolution acknowledged the pressing need to replace an antiquated and inadequate infrastructure, it stressed that privatization was not the proper means to this end. A better solution to this pressing problem would be for the national government to create a nationalized Lithuanian water industry development programme and subsequently guarantee its implementation through the necessary investment and credits.

Although the union has only been able to slow the privatization efforts of Lyonnaise in this case, a few hopeful signs have emerged that indicate an even more promising future. The political party that had initiated these privatization efforts was subsequently defeated at the polls. The fight against Lyonnaise also helped revitalize the national unions in Lithuania that are now fighting for the public's right to essential services.

Lithuania's move toward water privatization is not an isolated incident. Privatization of water, waste treatment, and electricity is a global phenomenon and requires a global strategy to combat it. PSI and its union affiliates are beginning to develop such a strategy. ■

– Marc Carbonneau