

Economic Essay: Negative Factors of Privatization

The basis of economics is not entirely on the study of economic trends, or on the efficient use of scarce resources to satisfy unlimited wants, it is also based on using this information to best meet the needs of society. If indeed this is true, the prospect of the privatization of our most important industries is counter-productive to the needs of society. It is like giving our most important social services and programs to the hands the private sector, which cares more about profits and shareholders (who provide their investment capital) than they do about the people. There are several instances both in Canada and around in the world when privatization of essential industries has been attempted, and has failed miserably to deliver the same productivity, reliability or high standards that the government usually provided. The quality of the service doesn't rise, only the prices do. With the rising prices also come higher costs to businesses as well as inferior services for workers, all signs leading to a struggling economy in the future. Due to the growing trend of privatization in Canada, it is evident our government cares more about attracting investment/business to Canada, rather than on the needs of society.

The most important issue of privatization in Canada is the one that deals with health care and the issue of whether we should "clip the U.S. recipe" and switch to a private health care system. With an article from the Toronto Star ("We won't clip U.S. recipe") as well as an article from CUPE's 2002 Annual Report on Privatization, the topic of health care is indeed a controversial one. Due to a rising demand for new technology, medicine and better service, the Canadian government has to come up with a solution that doesn't involve the privatization of our health system into a two-tier health care system similar to the one in U.S. In private hospitals in the States and here in Canada, the level of service has decreased drastically despite all the extra costs consumers are forced to pay. Where does all that money go? Certainly not to reinvestment in the hospitals, as seen by 20-30% shortages in hospital beds, supplies and support staff from when it was publicly handled. It goes to the private companies charged with providing citizens health care that is supposedly more "efficient". In a two-tier health system, the public funded hospitals experience even more drastic shortages, not being able to service the needs of the population. In addition to providing poorer health care with additional costs, the private hospitals are often prone to fraud as companies scam money out of the system. These crimes only serve to drive costs up even higher. When you suddenly have to pay for health care, you'd now think twice before going to the doctor. With a price being put on people's health, people will start to deteriorate because they can't afford to go to the doctor. That means an unhealthy labour force and less productivity on the job due to inferior health. Companies suffer as a result of less supply, less investment and less profits. The economy of Canada is also affected, as foreign investors will be discouraged to move to Canada when health care is no longer publicly provided. Less foreign investment means less economic growth. While private health care systems are often the most expensive, they are also the most inefficient and unpopular.

In the article "Rising power bills give consumers nasty shock" from the Globe & Mail, it shows an example of the negative effects of privatization that happened recently across Ontario when the provincial government split the energy service between public and private. With the energy being pumped out by the private sector, many people have had to pay a large increase in their hydro/electric bills over the summer, averaging 30-40% from when it was handled by the government. Before the Conservatives opened the market to private competition, electricity costs 4.3 cents a kWh. The average since May has been at 5.6 cents a kWh. There were even points during the summer in which prices skyrocketed to \$1 a kWh, more than 20 times that of normal pre-competition price! On top of the inflated price of electricity, consumers are also paying additional amounts for the transmission/distribution of power, as well as a special levy to pay off the debts of the old Ontario Hydro. With the rise in prices, the service has not improved. In fact, electricity is even scarcer in the private sector due to a record low rainfall, needed for hydroelectric energy. The negative implications in the economy are seen as businesses, the largest market users of electricity are also being forced

to pay more for their energy. That means more production costs for businesses and less output. With less supply, the price of consumer goods would skyrocket. Businesses would take a cut in profits, leading to less investment and even a loss of jobs. All of this is damaging to an already fragile economy. Ever since the privatization of energy in the market, we've had to pay more money for the same service, all of the profits going to the companies and their shareholders.

In CUPE's annual report, the privatization of the water supply in the U.K. was discussed. Despite promises of lower costs and more efficiency, the privatization has only led to higher costs as well as lower water quality. As of right now, the U.K. is in a drastic situation regarding the cleanliness of its water supply and over-flooding. These were never issues when the government was still in charge of the water. However, once the government handed it over to the private sector, only the companies and their stockholders have seen any good come out of it, in the form of profits and dividends. With the major increases in water bills, you would think that this revenue was used to reinvest in cleaning up the water supply. Instead, the quality of the water has worsened substantially as underground pipes continue to leak and sewage treatment plants in need of serious maintenance. However, all the funds go to the pockets of the companies while citizens are forced to live with unsanitary water conditions. The money isn't even used to clean up the water supply, or provide better quality water at cheaper prices for the consumer! Add that to the fact that a rising water table in the U.K. has led to floods and the water issue is seriously becoming a national problem. The negative effects on the economy are even more startling. As people are forced to pay more for their own water, that means they have less money for spending. Less consumer spending leads to less economic growth. Also, unsanitary water conditions would eventually lead to degradation in health. God forbid this could lead to an incident like Walkerton, also caused by the irresponsibility of private companies. As I mentioned above, poorer health of employees leads to less productivity and less profits for businesses. When the water is contaminated, residents, tourism and businesses are driven away from the area. The people would have trouble selling the property when the water there is unsanitary. The economy of that area, like the one in Walkerton, will falter, as the population of that area would drastically decrease. There would be no businesses or consumers there. Money will have to be spent to clean up the water (through gov't loans) while the losses due to death and illness can never be replaced. All the while, the private companies and its stockholders are cleaning up from the suffering, poor water quality and degradation of health as a result of privatization of water supply.

Privatization is like a plague in our society that often results in more costs and less service for the consumer, no matter what industry is being affected. Privatization, whether with hydro, health care, or water supply, has done more for the profits of faceless corporations than to the people it has served. In incidences around the world, people have suffered and economies have faltered due to the "efficiency" of privatization. Perhaps the largest casualty of privatization is due to public services and programs, which are meant to help the struggling population. It has simply meant higher costs for an inferior service. It is the private companies who benefit while others businesses, citizens and the economy as a whole that suffers. The government must stop offloading its responsibilities to a private market that cares more about dividends than people. Privatization is slowly but surely strangling the economy of labour, technology, businesses and even foreign investment.

ECONOMIC ESSAY

NEGATIVE EFFECTS OF PRIVATIZATION

BY JUSTIN LIM AND MIKE VISCONTI

TO MR. BIANCHI

OCTOBER 3, 2002