



# SERVICES

## Privatized Public Services Deliver Less

**T**he public pays for public services whether they are delivered by private corporations or in the traditional way. Taxes pay for medical care whether it is delivered through a private clinic or a public hospital. Taxes pay for municipal services whether the city contracts out to private corporations or provides the services in house. Taxes and fees (fares) pay for public transit whether the transit system is publicly or privately operated.

Public services operate in the interests of the public, and their objectives are to provide accessible, high-quality, effective services for users while managing the cost to taxpayers of those services.

Private corporations have profit as their only objective, and that makes a difference. Corporations that say they can deliver public services for less have to cut costs. To do this they may cut staff, cut wages and benefits, cut corners in public safety, and ultimately deliver less service.<sup>1</sup>



**PRIVATIZATION:  
NOT AS ADVERTISED**

We all depend on public services every day, from **infrastructure** such as transit, water, electricity, roads, and sewers to **institutions** like hospitals, universities, schools, and libraries to **services** like long-term care, public health, child care, social housing, planning, emergency services, safety standards, and more.

Some governments and corporations call for the privatization of public services and infrastructure, suggesting that privatized services will cost less and be more efficient. CIPP has prepared a series of fact sheets to explain what privatization of public services means, why it is a bad idea, and what the alternatives are.

## Lower Wages

Often, corporations that privately deliver public services make their profits by paying people less. Child care workers are paid less in the private sector than in the public sector, even though the centres receive the same package of public funds.<sup>ii</sup> Medical lab workers are paid less in the private sector than in the public sector, even though the tests are paid for out of the same public budgets. Cleaners are paid less by private contractors than by public institutions. Public funds are channelled into private profit rather than decent pay, benefits, and pensions for local residents.

Analysts of American health care services note that private ownership causes a net loss to society given the profits realized by shareholders—in effect, taking money from lower-wage, mostly female health care workers and giving it to investors.<sup>iii</sup> Researchers in the United States have documented how the downward spiral in wages hurts the economy of the whole community.<sup>iv</sup>

Unions in Canada are concerned that one of the government's motivations for a 2016 law allowing the conversion of secure defined-benefit pension plans into insecure target-benefit pensions for employees of crown corporations is to reduce employee costs and make the public corporations more attractive to private buyers.



## Fewer Staff

Corporations also maximize profit by cutting back on staffing. For example, not only are long-term care workers in for-profit institutions paid less than those in the public system, but “one of the principal mechanisms for generating profit is reducing staffing levels, which results in inferior quality of care.”<sup>v</sup>

## Cutting Corners

Private corporations will scrimp in ways that diminish service, or even subvert it, to maximize profit. When they opened, the bathrooms in both new Montreal public-private partnership (P3) hospitals were not accessible to people in wheelchairs because the doors were not automated. One of the hospitals had no signage on the walls—nothing to direct patients where to go.<sup>vi</sup> The failure of the Phoenix payroll system is another glaring example. Designed for the federal government by IBM, one of the world’s biggest IT companies, it often couldn’t process changes in pay, such as a promotion, an absence, or even maternity leave. Similarly, the social welfare processing system that Accenture designed for Ontario in the 1990s couldn’t deal with changes to welfare payments.

Public-private partnership contracts are very rigid, constraining the service provided under their auspices. If something isn’t spelled out in the original contract, it isn’t covered. Ontario’s Auditor General found that P3 hospitals in Ontario weren’t realizing the savings they had expected because “they are paying higher-than-reasonable rates to the private-sector company for carrying out maintenance work considered outside of the AFP [alternative financing and procurement] agreement.”<sup>vii</sup> The private operator had the monopoly on the work. In Alberta, P3 schools found themselves in the same position.<sup>viii</sup>

Sometimes private contractors cut corners in occupational health and public health to save money. For example, the Nova Scotia

Auditor General found that for several years developers operating P3 schools had not completed fire safety checks or staff background checks.<sup>ix</sup>

Priorities may get skewed away from providing good services and toward maximizing returns from the contract. In Saskatchewan, teachers and students are not allowed to open the windows on the new P3 schools for the first year, regardless of whether the air conditioning system works properly. The reasons have nothing to do with best learning conditions for students and everything to do with the private operator setting benchmark costs for the heating, ventilation and air conditioning system.<sup>x</sup>

Private companies also seek to maximize their profit in public services by reducing service capacity, delivering a narrower service, delivering service only to easy-to-reach recipients, and taking on only the revenue-generating part of the service.





## Loss of Local Accountability, Transparency and Control

When public services are delivered by for-profit corporations, elected governments and their departments or ministries lose control and the public loses accountability. Secrecy is invoked to protect business interests.

Local governments want their public procurement and other initiatives to contribute to the triple bottom line of local economic development, environmental sustainability, and social equity. They want to encourage local businesses, particularly small businesses established by members of equity-seeking populations, to become suppliers in order to help them succeed. But big privatization deals and P3 conglomerates of international corporations don't leave any room for making public procurement socially and environmentally responsible. Smaller and newer local businesses cannot compete.<sup>xi</sup>

Often the big international corporations find democratic accountability inconvenient. In Toronto in 2019, Sidewalk Labs, Google's sister company, responded to a request for proposals for a 12-acre development with a proposal for a 190-acre development. Even more astounding, this plan was accompanied by a proposal for a change in governance over the area to appointed bodies that the

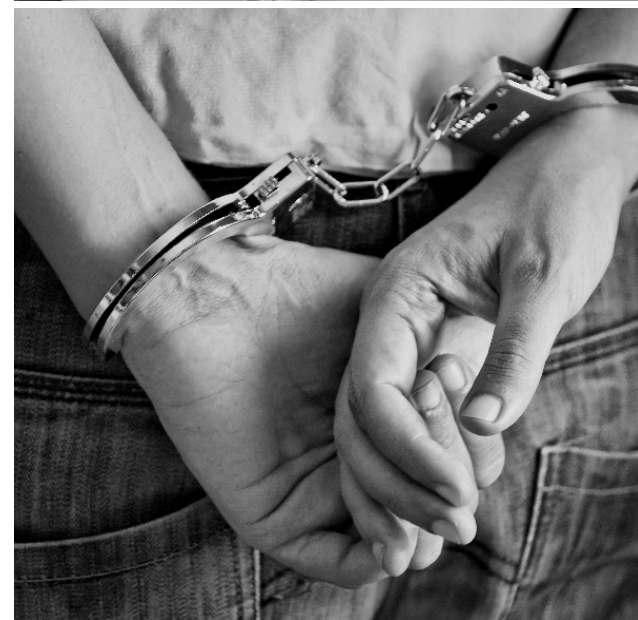


private company would dominate. One of the world's biggest companies proposes to take over control—but not financing—of public services for an area where hundreds of thousands of people are expected to work and live, taking it away from elected, accountable politicians and organizations. Corporate control over every aspect of life would no longer be in the realm of science fiction.

## Profiting from Services to Vulnerable People

Social investment bonds (SIBs), social investment financing, and social impact financing are relatively new mechanisms for involving private for-profit investment in the delivery of social services through pay-for-performance contracts.<sup>xii</sup> Companies insert themselves in projects such as reducing the incidence of first nations children going into government care, or reducing the proportion of young men who return to jail after a first incarceration, or successfully housing individuals who have mental illness. The theory is that the investor will only make a profit if they successfully meet performance targets. The concern is that they will have to select the easiest-to-serve clients to achieve those targets. The objectives, and even the programs, are not new, only the involvement of the profit motive in the delivery of social services to vulnerable populations.

After almost 10 years of experience there still aren't many published evaluations, and there is very little empirical evidence that SIBs achieve any of their objectives.<sup>xiii</sup> In essence, they add expensive middlemen—investors, lawyers, consultants—to the cost of delivering needed social services. SIBs cost more than direct public services because the government guarantees a profit on the private investment, on top of program costs.



(PROFITING FROM SERVICES TO VULNERABLE PEOPLE / CONT'D)

Two of the first big SIB projects had the objective of reducing recidivism rates, one in the small city of Peterborough in the United Kingdom and one in New York City at Rikers Island Prison. The UK project involved providing more services and interventions to men coming out of short-term incarceration than had previously been provided publicly. The program worked, reducing recidivism by about 9%, so the contract with the private firm was cancelled, the investors were bought out, and now the government provides those services directly. In the United Kingdom, the government has heavily subsidized the “investors,” and very little private capital was ever involved or at risk.

In New York City the project involved providing specialized counselling to young offenders at Rikers. It was fairly quickly determined to have no effect on recidivism, so the program was cancelled.

“The failure of the Rikers experiment to achieve the project’s intended outcomes raises more questions than answers, particularly with regard to the potential of SIBs to address complex social problems and serve vulnerable communities. Goldman Sachs lent \$7.2 million to New York City to fund the project to reduce recidivism among the 3,000 16- to 18-year-old males detained at Rikers Island, of whom half return to jail each year. An 8.5 percent reduction in the rate of recidivism would have triggered repayment, and greater than 10 percent reduction would have led to a profit for Goldman—between \$500,000 and \$2.1 million, depending on rate of reduction.



In addition to Goldman, the complex and potentially costly structure included an intermediary managing organization, an independent evaluator, and a service provider. Bloomberg Philanthropies guaranteed \$6 million, or 83 percent, of the SIB loan, substantially reducing Goldman Sachs’ risk.”<sup>xiv</sup>

There is no obvious reason why either of these initiatives had to involve profit-making firms.<sup>xv</sup>

Canada’s federal government has created a Social Finance Fund intended to “give charitable, non-profit and social purpose organizations access to new financing to implement their innovative ideas, and ... connect them with non-government investors seeking to support projects that will drive positive social change.”<sup>xvi</sup> Non-profit and charitable organizations have always needed to seek donations from the private sector. Requiring them to develop opportunities for private investors to realize profits diverts them from offering services and puts them at risk financially. ■



## Public services for the common good

**T**he existence of public services isn't an arbitrary arrangement. Public services are public precisely because the private sector—the market—would not or has not provided those services in the way they need to be available. Public services have the public interest as their objective, including the accessibility, quality, and effectiveness of services for users and the cost of the services to taxpayers. Private corporations have profit as their objective. That makes a difference. Public dollars pay for these services and infrastructure no matter who delivers them. Corporations that say they can deliver public services for less have to cut costs to do so. They may cut staff and wages, cut corners in public safety, and ultimately deliver less service.<sup>xvii</sup> ■



# Notes

<sup>i</sup> In the Public Interest. *Cutting Corners: How Government Contractors Harm the Public in Pursuit of Profit*. (2016 Washington DC) [http://www.inthepublicinterest.org/wp-content/uploads/ITPI\\_CuttingCorners\\_April2016.pdf](http://www.inthepublicinterest.org/wp-content/uploads/ITPI_CuttingCorners_April2016.pdf)

<sup>ii</sup> Canada. Child Care Human Resources Sector Council. *What Factors Influence Wages and Benefits in Early Learning and Child Care Settings?* [http://www.ccsc-cssge.ca/sites/default/files/uploads/Projects-Pubs-Docs/Factors\\_Wages-Benefits\\_Eng.pdf](http://www.ccsc-cssge.ca/sites/default/files/uploads/Projects-Pubs-Docs/Factors_Wages-Benefits_Eng.pdf)

<sup>iii</sup> Steffie Woolhandler and David U. Himmelstein. "The high costs of for-profit care". CMAJ. 2004 Jun 8; 170(12): 1814–1815. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC419771/>

<sup>iv</sup> Daphne T. Greenwood. *The decision to contract out: Understanding the full economic and social impacts*. Colorado Centre for Policy Studies. University of Colorado. (2014). <https://docs.google.com/viewerng/viewer?url=https://community-wealth.org/sites/clone.community-wealth.org/files/downloads/paper-greenwood.pdf> and In the Public Interest. *Race to the Bottom: How Outsourcing Public Services Rewards Corporations and Punishes the Middle Class*. (Washington DC 2014). <https://www.inthepublicinterest.org/wp-content/uploads/Race-to-the-bottom.pdf>

<sup>v</sup> Margaret J. McGregor and Lisa A. Ronald. *Residential Long-Term Care for Canada's Seniors Nonprofit, For-Profit or Does It Matter?* Institute for Research on Public Policy. (Montreal, Quebec 2011) <https://irpp.org/research-studies/residential-long-term-care-for-canadas-seniors/>

<sup>vi</sup> Aaron Derfel. "Montreal superhospitals: More washroom woes, this time at the CHUM". Montreal Gazette, October 30, 2018. <https://montrealgazette.com/news/local-news/montreal-superhospitals-more-washroom-woes-this-time-at-the-chum>

<sup>vii</sup> Ontario. Auditor General. *Annual Report 2017*. (Toronto 2017) p. 573 [http://www.auditor.on.ca/en/content/annualreports/arreports/en17/2017AR\\_v1\\_en\\_web.pdf](http://www.auditor.on.ca/en/content/annualreports/arreports/en17/2017AR_v1_en_web.pdf)

<sup>viii</sup> CUPE Research. *Private profit, public loss: The community impact of Alberta P3 schools*. Canadian Union of Public Employees (CUPE). (2013) <https://cupe.azureedge.net/sites/cupe/files/p3albertaschools-full-en.pdf>

<sup>ix</sup> Nova Scotia. Auditor General. "Chapter 3: Education: Contract Management of Public-Private Partnership Schools." (2010) p. 31. <https://oag-nb.ca/sites/default/files/publications/2010%20-%20Feb%20-%20Ch%2003%20-%20Education%20-%20Contract%20Management%20of%20P3%20Schools.pdf>

<sup>x</sup> David Baxter. "Windows must remain closed for at least one year at new P3 schools." Global News. September 11, 2017. <https://globalnews.ca/news/3735968/windows-must-remain-closed-for-at-least-one-year-at-new-p3-schools/>

<sup>xi</sup> Pierre J. Hamel, Public-Private Partnerships (P3s) and Municipalities: Beyond Principles, a Brief Overview of Practices, pp78ff

<sup>xii</sup> David Macdonald. Behind the Numbers: Social impact bonds: the anti-philanthropy (2012) and Behind the Numbers: Social Impact Bonds: Everyone's profiting except at-risk indigenous women. (2019) Canadian Centre for Policy Alternatives. (Ottawa) <http://behindthenumbers.ca/2012/11/21/social-impact-bonds-the-anti-philanthropy/> and <http://behindthenumbers.ca/2019/01/10/social-impact-bonds-everyones-profiting-except-at-risk-indigenous-women/>

<sup>xiii</sup> Alec Fraser, Stefanie Tan, Mylene Lagarde and Nicholas Mays. "Narratives of Promise, Narratives of Caution: A Review of the Literature on Social Impact Bonds". Social Policy and Administration: an international journal of policy and research. Vol. 52, Issue 1, January 2018. pp. 4-28.

<sup>xiv</sup> Donald Cohen and Jennifer Zelnik. "What we learned from the failure of the Rikers Island social impact bond." Non-profit Quarterly. August 7, 2015. <https://nonprofitquarterly.org/what-we-learned-from-the-failure-of-the-rikers-island-social-impact-bond/> Emphasis in original.

<sup>xv</sup> Hannah Murphy. "Social impact bonds: On the margins". Financial Times, September 24, 2018. <https://www.ft.com/content/ddf55a2e-7472-11e8-bab2-43bd4ae655dd> and David Floyd. *Social Impact Bonds: An Overview of the Global Market for Commissioners and Policymakers*. Centre for Public Impact, a BCG Foundation. (2017) [http://socialspider.com/wp-content/uploads/2017/04/SS\\_SocialImpactReport\\_4.0.pdf](http://socialspider.com/wp-content/uploads/2017/04/SS_SocialImpactReport_4.0.pdf)

<sup>xvi</sup> Canada. Employment and Social Development Canada. "Backgrounder: The social finance fund." (2018) <https://www.canada.ca/en/employment-social-development/news/2018/11/backgrounder-the-social-finance-fund.html>

<sup>xvii</sup> In the Public Interest. *Cutting Corners: How Government Contractors Harm the Public in Pursuit of Profit*. (2016 Washington DC) [http://www.inthepublicinterest.org/wp-content/uploads/ITPI\\_CuttingCorners\\_April2016.pdf](http://www.inthepublicinterest.org/wp-content/uploads/ITPI_CuttingCorners_April2016.pdf)