

## **Municipalizing Democracy**

Selling or leasing public assets to business corporations (privatization or corporatization) is on the rise at state and municipal levels. The reasons driving this trend:

- worsening budget deficits by state and local governments,
- imminent need to upgrade long-deteriorated infrastructure; and
- increasing pressure by investors who've seen huge losses from housing and other risky investments seeking safe and stable returns

Privatizing/corporatizing roads, airports, water and sewer systems, and other public assets by national or transnational corporations has many negative consequences:

- loss of public jobs,
- rising rates,
- declining service, and
- exporting of income from local communities to shareholders and CEOs of foreign corporations.

Another negative consequence is the loss of control, of self-governance, of democracy. Keeping public utilities public gives citizens power:

- the power to inspect the books of public utilities or departments,
- the power to hold accountable the director of a public utility or service department,
- the power to pressure city officials to control rates, retain jobs, improve service,
- the power to directly create laws via citizen initiatives to control rates, retain jobs, improve service.

Attempts to privatize/corporatize public assets is happening in Ohio. The latest example is a proposal by the Mayor of Akron to lease the city sewer system (see reference in article below). Akron's financial advisor is the investment firm of Morgan Stanley corporation (also referenced in article below) -- which stands to gain millions from the scheme. Morgan Stanley corporation is one of one of several investment firms (including Goldman Sachs) who see privatization/corporatization as a financial safe haven in these economic turbulent times. It's where money can be made — that is, off the backs of ratepayers and users.

The record of privatization/corporatization of public utilities from a local perspective has been poor. According to Food and Water Watch:

- **Atlanta** canceled its contract with United Water corporation after 4 years of terrible service,
- **Ft. Wayne, IN** decided to take over its water and sewer system from a corporation after it hiked its rates 75%,
- **Stockton, CA** has just won back its water/sewer system after a judge determined privatization would have serious environmental impacts,
- **New Orleans** dropped its privatization plan after studying the idea for 5 years and spending \$5.7 million (by contrast, Akron spent less than 3 months studying the issue with no public hearings),
- In **Newark, NJ**, the city council voted down privatization,
- **Felton, CA** has taken back its water system after a corporation took it over and wanted a 74% rate hike,
- Foreign corporations ship profits out of communities to investors and wealthy CEOs.

The above indicates not only the problems of privatization/corporation but how democratic citizen resistance can stop or reverse the trend. Akron citizens have launched an initiative to "let the people decide" and "keep public utilities public" in response to the Mayor's plan.

Citizens to Save Our Sewers and Water (Citizens SOS), which AFSC helped organize, has gathered sufficient signatures from registered voters to qualify for the November ballot. The initiative which would change the city charter or constitution calls for any sale, lease or transfer of any public utility to be without force until and unless the proposal is approved by Akron voters (the current system allows a transfer with only city council approval). Citizens SOS is also gearing up to oppose a separate ballot measure by the Mayor that specifically calls for privatizing the city sewer system. More information about the initiative and Mayor's plan is at [www.AkronOhio.net](http://www.AkronOhio.net).

The citizens of Akron are responding both reactively and proactively to privatization/corporatization:

- by organizing against the specific immediate threat to handing over a public asset to a foreign corporation, and
- by organizing to change the city charter to prevent any transfer of a public utility without direct public approval.

This is what "municipalizing" democracy is all about!

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<http://www.globalresearch.ca/index.php?context=va&aid=9736>

Wall Street to privatize US infrastructure

<<http://www.globalresearch.ca>> Global Research, August 3, 2008

Reuters

Roads, airports on the block as budgets tighten

Fri Aug 1, 2008 12:37pm EDT

By Jonathan Stempel

NEW YORK (Reuters) - Cash-strapped U.S. state and city governments are likely to sell or lease more highways, bridges, airports and other assets to investors desperate for stable returns after being frazzled by the credit crisis.

The trend is set to pick up speed given worsening budget deficits in state capitals and city halls nationwide.

It will also be welcomed by Wall Street bankers hoping to help create and market so-called "infrastructure" transactions at a time many debt markets remain paralyzed, and after major U.S. stock indexes fell into bear market territory.

"When you are nervous about everything else, you put your money in a toll road," said John Schmidt, a partner at the law firm Mayer Brown LLP in Chicago. "That's the logic of infrastructure. Returns are stable and predictable. You won't get fabulously rich, but you'll get stable cash flow."

The latest enthusiasm for at least partially privatizing infrastructure assets came on July 30 from New York Gov. David Paterson, who is trying to plug a budget deficit caused in part by lower tax revenue as Wall Street retrenches.

"We're just looking at ways to be more efficient and that's why I used the term public-private partnerships -- trying to find some creative solutions," Paterson said. "The reason I'm avoiding taxes is because I think taxes are addictive."

Bankers and others in the industry say there is pent-up demand from dedicated infrastructure funds and public pension funds to invest in hard assets -- perhaps \$75 billion to \$150 billion of equity capital -- but not enough supply.

"Economic conditions are tough, and are going to be very harsh on the performance of state budgets in 2008 and 2009," said Greg Carey, co-head of infrastructure banking at Goldman Sachs Group Inc (GS.N: <http://www.reuters.com/stocks/quote?symbol=GS.N>)>Quote, <http://www.reuters.com/stocks/companyProfile?symbol=GS.N>)>Profile, <http://www.reuters.com/stocks/researchReports?symbol=GS.N>)>Research, <http://reuters.socialpicks.com/stock/r/GS>)>Stock Buzz).

"States are looking for long-term solutions in running businesses. A public-private partnership is a tool in their toolboxes."

A high-water mark came in May, when a group led by Spain's Abertis Infraestructuras SA (ABE.MC: <http://www.reuters.com/stocks/quote?symbol=ABE.MC>)>Q

uote,  
<<http://www.reuters.com/stocks/companyProfile?symbol=ABE.MC>>Profile,  
<<http://www.reuters.com/stocks/researchReports?symbol=ABE.MC>>Research,  
<<http://reuters.socialpicks.com/stock/r/ABE>>Stock Buzz)  
and Citigroup Inc  
(C.N:  
<<http://www.reuters.com/stocks/quote?symbol=C.N>>Quote  
,  
<<http://www.reuters.com/stocks/companyProfile?symbol=C.N>>Profile,  
<<http://www.reuters.com/stocks/researchReports?symbol=C.N>>Research,  
<<http://reuters.socialpicks.com/stock/r/C>>Stock Buzz)  
agreed to pay \$12.8  
billion to lease the Pennsylvania Turnpike for 75 years. The  
total could  
reach \$18.3 billion, including promised improvements.  
Legislators must  
approve the lease.

Other transactions have included the \$1.8 billion lease of the  
Chicago  
Skyway toll road bridge in 2005, and a \$3.8 billion lease of  
the Indiana  
Toll Road the next year. Chicago Mayor Richard Daley is  
preparing to lease  
Midway Airport this year.

For Wall Street, infrastructure can be a bright spot at a time  
of deep job  
cuts and expected declines in bonuses.

"We've seen an unprecedented number of headhunters  
recruiting for positions  
on the buy and sell sides," said Rob Collins, head of  
Americas

infrastructure banking at Morgan Stanley (MS.N:  
<<http://www.reuters.com/stocks/quote?symbol=MS.N>>  
Quote,  
<<http://www.reuters.com/stocks/companyProfile?symbol=MS.N>>Profile,  
<<http://www.reuters.com/stocks/researchReports?symbol=MS.N>>Research,  
<<http://reuters.socialpicks.com/stock/r/MS>>Stock Buzz).  
"Infrastructure  
investing can be counter-cyclical to economic trends."

John Ma, the other Goldman infrastructure chief, added:  
"We're very  
committed to this space. Our business activity has increased  
dramatically,  
even this year."

#### ALTERNATIVE TO TAX HIKES

According to the nonprofit Center on Budget and Policy  
Priorities, 29 U.S.  
states plus the District of Columbia may face a combined  
\$48 billion of  
budget deficits in fiscal 2009.

But politicians might be loathe to cut spending or raise taxes  
at a time  
mortgage debt, \$4-a-gallon gas and rising food prices leave  
consumers -- of  
whom many vote -- dispirited. Tapping public debt markets  
might also be too  
costly.

Meanwhile the American Society of Civil Engineers estimates  
\$1.6 trillion  
is needed over five years to raise the often aged U.S.  
infrastructure to  
"good" condition.

Pennsylvania Gov. Ed Rendell in July called for the United States to establish a capital budget to pay for such repairs. It was a year ago August 1 that the Interstate 35W bridge in Minneapolis plunged into the Mississippi River, killing 13.

Critics say some infrastructure transactions are short-term budget fixes that deprive governments of steady cash streams from taxpayer-funded assets. There is also the risk that private operators won't do their jobs well.

Advocates of privatization say entities might do better managing assets than a government answering to voters.

Politicians could also get a boost if they can take credit for reinvesting sale or lease proceeds in needed projects.

"The argument for a public-private partnership is the private sector is a lot smarter about paying attention to costs, and because it has skin in the game will be more attentive to maintaining an asset over its life," said Joseph Giglio, a privatization expert and professor at Northeastern University's College of Business Administration in Boston.

"Elected officials often shortchange funding of maintenance because they don't want to increase user fees or taxes to pay for it," Giglio added.

"Their election cycle is four years. They can pass it on to someone else's watch."

Collins, who also advised Pennsylvania on the turnpike, said infrastructure can also go beyond roads and airports. He said Morgan Stanley is advising Akron, Ohio, on exploring the leasing of its wastewater system, and Indiana on the possibility of private management for its state lottery.

"Lotteries have infrastructure characteristics in that they have stable cash flows and high barriers to entry," he said. "They could even attract private equity investment because they are self-financeable and require minimal capital expenses."

## BIG NAMES

At Goldman, Carey and Ma replaced Mark Florian, who is moving to First Reserve Corp, a private equity firm specializing in energy, a person close to the matter said.

Goldman itself raised a \$6.5 billion infrastructure fund in 2006, and is reportedly trying to raise a \$7.5 billion fund.

Morgan Stanley raised a \$4 billion fund in May. Global Infrastructure Partners, a joint venture between Credit Suisse Group AG (CSGN.VX: <http://www.reuters.com/stocks/quote?symbol=CSGN.VX>)> Quote,

<<http://www.reuters.com/stocks/companyProfile?symbol=CSGN.VX>>Profile,  
<<http://www.reuters.com/stocks/researchReports?symbol=CSGN.VX>>Research,  
<<http://reuters.socialpicks.com/stock/r/CSGN>>Stock Buzz)  
and General  
Electric Co (GE.N:  
<<http://www.reuters.com/stocks/quote?symbol=GE.N>>Quote,  
<<http://www.reuters.com/stocks/companyProfile?symbol=GE.N>>Profile,  
<<http://www.reuters.com/stocks/researchReports?symbol=GE.N>>Research,  
<<http://reuters.socialpicks.com/stock/r/GE>>Stock Buzz),  
raised a \$5.6  
billion fund the same month. Private equity firm Carlyle  
Group CYL.UL last  
year raised a \$1.15 billion fund.

And Kohlberg Kravis Roberts & Co KKR.UL, which is  
preparing to go public,  
in May lured George Bilicic from Lazard Ltd (LAZ.N:  
<<http://www.reuters.com/stocks/quote?symbol=LAZ.N>>Quote,  
<<http://www.reuters.com/stocks/companyProfile?symbol=LAZ.N>>Profile,  
<<http://www.reuters.com/stocks/researchReports?symbol=LAZ.N>>Research,  
<<http://reuters.socialpicks.com/stock/r/LAZ>>Stock Buzz),  
where he led  
power, energy and infrastructure efforts worldwide, to run  
its own  
infrastructure investments.

Two of the largest specialists in the area are Australian:  
Macquarie Group  
Ltd (MQG.AX:  
<<http://www.reuters.com/stocks/quote?symbol=MQG.AX>>Q

uote,  
<<http://www.reuters.com/stocks/companyProfile?symbol=MQG.AX>>Profile,  
<<http://www.reuters.com/stocks/researchReports?symbol=MQG.AX>>Research,  
<<http://reuters.socialpicks.com/stock/r/MQG>>Stock Buzz)  
and Babcock & Brown  
Ltd (BNB.AX:  
<<http://www.reuters.com/stocks/quote?symbol=BNB.AX>>Q  
uote,  
<<http://www.reuters.com/stocks/companyProfile?symbol=BNB.AX>>Profile,  
<<http://www.reuters.com/stocks/researchReports?symbol=BNB.AX>>Research,  
<<http://reuters.socialpicks.com/stock/r/BNB>>Stock Buzz).

Schmidt, the Mayer Brown partner, said if the Midway transaction succeeds, other airports could also go private, perhaps leading to "lower and more predictable landing fees and terminal rentals for airlines, which certainly aren't flush."

That, he said, could bring the value of roads, bridges and airports that could be privatized to half a trillion dollars.

(Additional reporting by Joan Gralla in New York and Elizabeth Flood Morrow in Albany, New York, editing by Dave Zimmerman)

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**AFSC/RELATED RESOURCES ON DEMOCRACY AND CORPORATIONS**  
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Creating Democracy workshop

An introductory, participatory workshop on how to change laws and assert citizen authority and power.

<http://www.afsc.net/PDFFiles/CDWorkshopFlyer.pdf>  
<<http://www.afsc.net/PDFFiles/CDWorkshopFlyer.pdf>

The Spirit of Change

*By What Authority*, published by the Program on Corporations, Law & Democracy [POCLAD], Spring 2008

<http://www.afsc.net/PDFFiles/BWAArticle.pdf>

This is What Democracy in Ohio Looks Like: Ohio's Democratic/Self-Determination 'Infrastructure'  
[updated, March 2008 ] 16 pages

<http://www.afsc.net/PDFFiles/InfrastructureNovember07.pdf>

Occupying Bush's State of the Union (January 2008 article)

Controlling Blackwater and Other Corporations (September 21, 2007 letter to editor)

<http://www.afsc.net/PDFFiles/092107PDLTEIraqContractorsGC.pdf>

Honor Democracy in Iraq (September 13, 2007 letter to editor)

<http://www.afsc.net/PDFFiles/091307ABJLTEIraqGC.pdf>  
<<http://www.afsc.net/PDFFiles/091307ABJLTEIraqGC.pdf>

Corporatization of Everything Local (April 2007 Ohio House of Representatives Testimony on Senate Bill 117)

A U.S. Constitution with DEMOCRACY IN MIND

*Second of two articles on the U.S. Constitution* Spring, 2007

*By What Authority*, published by the Program on Corporations, Law & Democracy [POCLAD]

<http://www.poclad.org/bwa/Spring07.htm>  
<<http://www.poclad.org/bwa/Spring07.htm>

The U.S. Constitution: Pull the Curtain  
*First of two articles on the U.S. Constitution* Winter 2007  
*By What Authority*, published by the Program on  
Corporations, Law & Democracy (POCLAD)  
<http://www.poclad.org/bwa/Winter07.htm>  
<<http://www.poclad.org/bwa/Winter07.htm>

Nature not the only source of closings (February 2007  
article)  
<http://www.afsc.net/PDFFiles/022007ClosingsGColeridge.pdf>

Employee Free Choice Act (February 2007 talk)  
<http://www.afsc.net/PDFFiles/EmployeeFreeChoiceCole.pdf>

Will changed faces result in changed policies? (November  
2006 article)  
<http://www.afsc.net/PDFFiles/110806PostElectionEditorial.pdf>

Globalization is a choice (November 2006 article)  
<http://www.afsc.net/PDFFiles/112006ABJLTEGlobalization.pdf>

Closing the Circle: The Corporatization of Elections (Article)  
from *By What Authority*, a publication of the Program on  
Corporations, Law & Democracy [POCLAD], Summer, 2006  
<http://www.poclad.org/bwa/Summer06.htm>

Asking the "Rights" Question: Human beings, corporations,  
and self-governance, *Quaker Eco-Bulletin* (Nov-Dec 2005  
article)

CorpOrNation - The Story of Citizens and Corporations in  
Ohio. DVD

<http://www.afsc.net/Products/CorpOrNation.html>

Citizens Over Corporations, A Brief History of Democracy in Ohio and Challenges to Freedom in the Future. Booklet

<http://www.afsc.net/Products/COCBooklet.html>

Defying Corporations, Defining Democracy: A Book of History and Strategy

<http://www.poclad.org/resources/defying.html>

Resources for Educators

<http://www.afsc.net/educatorresources.html>

Other resources on Corporations and Democracy

<http://www.afsc.net/neoresources.html>

AFSC webpage on Corporations and Democracy

<http://www.afsc.net/ejcorpdem.html>