**Privatization: Adverse Impact**

However, some economists point to the adverse effect of privatization. They offer following arguments:

**No Welfare State:** The concept of welfare state may get defeated with the Privatization of economy. Private sector would not care about the society as its main objective is to earn profits.

**Less Social Development:** Government or Public sector companies also keep doing social work simultaneously. In case privatization happens, it will result in fewer funds for society because private companies have no obligation to do social work.

**Unemployment:** Privatization will also result in retrenchment of employees. In private sector enterprises there is emphasis on performance which indirectly results in work pressure and meeting deadlines or targets and individuals who have been doing work for years without much pressure find it difficult to adjust to new setting and many end up resigning from their service.

**Long Term Risk:** Risk of short term gains is prominent in private companies. There are decisions to start ventures which result in short term benefits but may not be good for long term.

### 1. Your services get worse

Public services involve caring for people. But private companies make a profit from public services by cutting corners or underinvesting.

There is a conflict between making a profit and taking the time to care. For example, private care workers often can't stop for a cup of tea with an older, vulnerable person they are caring for - because they're only allowed 15 minutes for their visits.

### 2. Privatisation costs you more

You pay more, both as a taxpayer and directly when public services are privatised.

Have you noticed how your water bills, energy bills, train and bus fares keep on rising in real terms? And did you know that the US privatised health system costs double what we pay for ours?

In a privatised service, profits must be paid to shareholders, not reinvested in better services. Interest rates are higher for private companies than they are for government. Plus, there are the extra costs of creating and regulating an artificial market.

### 3. You can't hold private companies accountable

If a private company runs a service, they are not democratically accountable to you. You don't have a voice.

Contracts to deliver public services are agreed between private companies and government behind closed doors. There is very little transparency, public accountability or scrutiny. The companies are not subject to Freedom of Information requests because of ‘commercial confidentiality’.

When private companies fail to deliver, the public has no powers to intervene and government (local and national) doesn’t always have the time or expertise to force them to keep their promises.

### 4. You don't get a democratic voice

When we go to the shops, we all make our own individual decisions about what we want. Public services are different – they give us a chance to come together to decide what kind of society we want to live in.

For example, we might want clean, green energy for our future – but the private companies control the energy ‘market’ and often invest in dirty energy, without giving us a say.

### 5. Privatisation creates a divided society

Public services are important to meet everyone's basic needs, so we can all be part of the community.

Schools and hospitals are not optional extras. We all need and rely on public services - they are universal. That means they need to be accessible and high quality for everyone.

Privatisation often goes hand in hand with encouraging richer people to pay more and opt out of the services we all use. This leads to division, making it harder to provide excellent public services for everyone.

### 6. Public services are natural monopolies

Privatisation was introduced because of a belief in free markets and consumer choice. But public services are often what economists call ‘natural monopolies’.

For example, when you take the train, you don’t really have a choice about which one to use. There’s no real competition. Facebook is another, relatively new ‘natural monopoly’. If all your friends are using it, it's difficult for you not to.

Private monopolies often become the worst of all worlds. You don’t have consumer power because you can’t go elsewhere. But you don’t have power as a citizen to make the service better through democratic accountability.

### 7. Privatisation means fragmentation

When lots of private companies are involved in delivering a public service, this can create a complicated, fragmented system where it’s not always clear who’s doing what. Our railway is a prime example of the chaos this causes.

Private companies don’t necessarily have much incentive to work together and share information. This makes it difficult to provide an integrated service.

Privatisation is fragmenting our NHS and the cost of the internal market is at least £4.5 billion a year.

### 8. Private companies cherry pick services

Private companies cherry pick the profitable bits of a service so they can make as much money as possible.

For example, bus companies will only run services in busy areas, so rural communities lose out unless government steps in with a subsidy. It's more efficient to run public services in public ownership so that profits can be reinvested across the whole network as needed.

### 9. Privatisation means less flexibility

Councils and government departments are responsible for meeting the needs of the public – but privatisation means less flexibility for changing circumstances.

If an outsourcing contract with a private company needs changing, government must pay more to make changes or improvements, add in extras or to opt out.

And selling off public assets (like student loans) or public land (like school playing fields) means we the public have fewer options and resources for delivering the services we’ll need in the future.

### 10. Privatisation is risky

Look what happened [when Carillion failed](https://www.theguardian.com/business/2018/jan/15/carillion-fallout-deepens-as-workers-face-pay-being-stopped-in-48-hours). If private companies are running our public services and are too big to fail, the public has to pick up the pieces when things go wrong.

**Privatization may not be suitable for important infrastructure**

Even though privatization implies many important advantages, there are also serious downsides related to it.

One problem with privatization is that it might not be suitable for important infrastructure projects.

For instance, there are some institutions like power plants or other facilities that should still be owned by the government instead of private corporations in order not to lose control over those important facilities which are crucial to assure a high quality of life for the local population.

**Energy supply may be threatened**

Another downside of privatization is that our energy supply may be threatened in case private companies will own the energy supply system.

For instance, energy companies could decide to raise energy prices significantly and the general public would have no choice other than to pay those prices in order to assure their electricity supply.

Hence, if we want to privatize our energy supply, governments have to make sure that are strict regulations in place that prevent energy production companies from exploiting the general public.

**Access to medical equipment may no longer be guaranteed**

Not only energy is crucially needed in order to assure a stable economy, also the supply with medical equipment is crucial so that people who get sick can be treated in hospitals in an appropriate manner.

However, if we privatize too many companies in the medical sector, chances are that there might be shortages in the supply of medical equipment, which may translate into serious health issues for many people.

Thus, the medical sector is another industry that should not be privatized in order to protect the general public.

**Education levels may become lower**

Education is crucial for success in all parts of our daily life.

Hence, it is crucial that we guarantee a high quality of education in our schools and in our universities.

Therefore, it may be quite questionable to privatize those institutions since the quality of education would no longer be assured by the government but would rather lie in the hands of private education facilities.

Another problem with the privatization of education facilities is that only children from rich parents would get the opportunity for good education while the general public may not be able to afford this kind of education for their kids.

Consequently, privatizing the educational sector might not be a good idea for all of those reasons mentioned before.

**Harmful if the business has a monopolistic character**

While product prices can actually become lower through privatization of companies that are subject to fierce competition, the opposite may be true for natural monopolies.

For instance, if an airport is privatized, the airport will often have monopolistic power since many people in a specific region will have to rely on this single airport.

In turn, this airport can dictate prices and chances are that through privatization, the prices for flights may significantly increase over time.

**May not be feasible due to regulatory restrictions**

Whether privatization of public companies makes sense or not has to be evaluated on an individual basis.

In some cases, those privatizations may also not be feasible since they might violate local laws.

In such a case, even though the privatization of companies might make sense, it will not be possible to do so.

Moreover, the whole planning processes as well as the privatization of companies often take quite a long time since plenty of bureaucratic work has to be done in the whole process.

This also implies that privatization can also be quite costly for the government due to many restrictions and laws that have to be taken into account before privatizing a company becomes possible.

**Public companies may be sold too cheap to private corporations**

In many cases, private corporations and investment funds know way better how to negotiate and what a company is worth compared to public servants who will be responsible for selling those companies to private corporations.

In turn, this may also lead to a state where public companies are sold at a quite cheap price.

Consequently, this can be considered to be quite bad for the taxpayer and therefore, selling those companies at a rather cheap price may not be in the interest of the general public.

**One-time payment instead of multiple dividend payments for governments**

Another issue of privatization is that governments will only get a one-time payment when they sell a publicly owned company.

Yet, in case the government wasn’t selling this company, the government would get dividend payments into perpetuity.

Therefore, governments have to decide whether the one-time payment is sufficiently high to compensate for the lost numerous dividend payments in the future.

If those decisions are not made in a correct manner since government employees may not have sufficient knowledge to valuate those companies in a proper manner, chances are that plenty of money will be lost due to those transactions.

**Insufficient regulation**

In some cases, there might also be far too little [regulation](https://environmental-conscience.com/government-regulation-pros-cons/) in place.

In case there is only insufficient regulation in the respective sector, privatizing companies in this sector might not be a good idea at all since those companies may have too much freedom to operate in a manner that is not beneficial for the general public at all.

Hence, before privatizing companies, governments should make sure that sufficient regulation is in place to ensure a positive outcome for the local population.

**Responsibilities may become unclear**

Especially in a market with plenty of interconnections and interdependencies, the privatization of companies may lead to serious problems since the responsibilities of companies may become unclear.

In turn, there may be plenty of disputes and lawsuits regarding which company is responsible for which service.

In the worst case, this might lead to serious shortages regarding the supply with important goods.

Therefore, making sure that every party knows their responsibilities is crucial before privatizing public companies in order to avoid several unpleasant surprises and confusion.

**Fragmentation of public infrastructure may lead to serious problems**

Another downside of privatization is that it may lead to the fragmentation of important public infrastructure.

For instance, while the distribution of energy might still be carried out by the government, the production of energy might be privatized, which is often referred to as electricity deregulation.

In such a case, there is a serious danger for power shortages since if the energy production companies are not able to produce energy for various reasons, the general public may not be supplied with energy and also many production processes of companies may collapse.

Therefore, in those important industry branches, the fragmentation that might occur due to privatization should be avoided at all costs.

**Public vs. private interest**

While public corporations are often meant to act in a manner that benefits the general public, private corporations may solely have the goal of profit maximization in order to please their shareholders.

However, profit maximization often also implies the excessive pollution of our environment since negative externalities are not properly internalized.

Hence, in order to protect our environment from various forms of pollution and to guarantee a livable future for the next generations, we may want to refrain from privatizing public companies.

**May need the foundation of additional supervisory departments**

Privatization may also imply the need to found additional departments in order to supervise the privatized companies in a sufficient manner.

This also includes employing additional employees.

In turn, this also leads to significant administrative costs since those additional workers have to be paid by taxpayers’ money.

Hence, the additional administrative costs that are related to the privatization of companies may be another argument against privatizing public firms.

**Some people may lose their jobs**

Most private corporations act in a profit-maximizing manner and therefore, also some jobs may be lost through privatization.

If a private company comes to the conclusion that some workers are no longer needed, the company will quite often simply fire those workers.

In contrast, in publicly owned companies, there is not too much pressure for profit maximization and therefore, workers may still be employed, even though those workers might not be urgently needed.

Thus, privatization may also [lead to job losses](https://environmental-conscience.com/unemployment-types-causes-effects-solutions/) for a significant number of people in the long run.