Privatization and Downsizing

States' control over their domestic societies and economies is waning. For much of the 19th and 20th Centuries, states "grew." They took on more and more economic activities and social responsibilities. Some states, under Communism, assumed exceptionally large control over their societies, but states' growth trend proved nearly universal. From modest beginnings with tax and military authorities in centuries past, states later added postal services, police forces, water authorities and school systems. More recently, they added central banks and took control of many industries and financial institutions. And they offered social protections like unemployment insurance, pensions, public health services, universities, public transportation and much more.

According to data recently published by the World Bank, government spending in the world's richest states (OECD members) grew on average from less than 10% of Gross Domestic Product (GDP) in about 1870 to 20% by 1937 and 47% by 1995. (These figures include local governments as well as social security funds for pensions, health care and unemployment.) From 1937 to 1995, government spending in the United States grew from 9% of GDP to 34%, in the Netherlands from 19% to 54% and in Sweden from 10% to 69%. Though the Bank may be inclined to exaggerate the trend, the general pattern until recently was unquestionably sharply upward.

Increasingly, though, the pressures of global capital on the tax system has drained states' resources, reducing the funds available for social and economic programs. At the same time, powerful conservative ideology has gained the upper hand, persuading officials and parliamentarians that states are inefficient and private markets more cost-effective and consumer-friendly. And intense pressure from the World Bank, the International Monetary Fund and other multilateral financial and trade institutions has forced governments to cut social spending and privatize state companies.
In a frenzy of downsizing, governments have sold off thousands of public companies and privatized state services that represent very large economic sectors. Mexico, for instance, had 1,155 public sector enterprises in late 1982 when it signed a loan agreement with the IMF with privatization measures as a basic condition. By July 1996, only some 252 companies remained in state hands and some of those were already on the road to partial or complete privatization.

Since the mid-1980's, governments in nearly every country have downsized and privatized. Even major countries like Germany, Britain, France and the United States have followed this course. States have sold off manufacturing enterprises like steel, petrochemical and automobile companies as well as raw material extraction and refining corporations in fields such as coal, mineral ores, and petroleum. They have shed utilities such as electricity, telephones, gas and coal, as well as such core utilities as water supplies and postal services. They have privatized transport including state airlines, railroads and ocean shipping lines, as well as urban trolley and bus services. They have sold public housing and office buildings built by public authorities and privatized major financial institutions like banks, postal savings and mortgage lenders.

In many countries, governments have privatized public pensions and they have partially privatized health services too. In a few cases, governments have experimented with privatization of schools and the substitution of private mediation services for civil courts. More and more, public safety is insured by private guard services rather than public police. Governments are even experimenting with contracting out their prison services, social services, air traffic control, garbage collection, computer record-keeping and even tax collection. In the UK, the computer records of the Inland Revenue (tax service) and the county court system have recently been taken over by EDS, the giant US-based computer services company founded by Texas billionaire Ross Perot.

Along with these trends are parallel moves: to reduce or eliminate state regulation of private markets and to abolish (or radically downsize) public research and regulatory bodies that oversee workplace safety, food safety, environmental and public health, financial market probity, product safety and the like. The UK has closed its government laboratory on the environment, for example, while the US has scaled back its Occupational Safety and Health Administration. Radical free-market theorists, backed by corporate money, argue that near-total elimination of regulation would be best for "human freedom."

States are also beginning to charge fees for public services previously free -- like education and health care. An initiative by the World Bank has forced fee-based services on many poor countries, on the theory that fees provide more "consumer control" over public services at the local level. In practice, however,
fees often mean that the poorest people cannot afford these services at all. Consequently, after decades of progress, school enrollment percentages are beginning to fall in many countries.

States are even dismantling their own tax base -- creating a variety of new tax exemption opportunities for corporations and high-income individuals -- like tax-free zones, employment "incentives," reduced top-rates for income and capital gains; drastically reduced inheritance taxes and so on. These weaken the state's finances, forcing further cuts in public services to ordinary citizens.

Everywhere, now, the state is shrinking, often quite dramatically. Harvard political economist Dani Rodrik speaks of "receding government, deregulation and the shrinking of social obligations." And there can be no question that those at the bottom are paying a high price. But at the same time, states should not be idealized. And though privatization has often had negative results and led to the erosion of democracy, it has occasionally reduced costs and provided services more effectively than before. Telecoms and airlines may be cases where overall results have been positive.

In some cases, while citizen "consumers" may have benefitted, public workers have had to pay the price. Many have lost their jobs or been forced to accept pay cuts in post-privatization downsizing. Meanwhile, wealthy investors have made huge profits from privatization and the number of the super-rich has climbed dramatically in most countries.

In many cases, privatization has directly hurt citizen beneficiaries, especially the poorest. Privatization of public pensions, health services, water utilities and schools may be the most striking examples. Privatization in other sectors has led to greater unemployment, more economic instability, and a reduced capacity of the state to manage the national economy. Rising income polarization also seems to be a result of privatization.

For better or worse, states are now out of the picture in vast areas of life where they once were central. And public employment with its security and relatively good pay has withered. States and governments now have much less to offer their citizens as a payback for loyalty and an incentive for obedience. In the process, the mass public is dubious as to whether states represent "progress" and whether the benevolent state can eventually tame capitalism and overcome its worst excesses.

But ordinary people have not been passive observers in this process. As state-sponsored social protections have disappeared, citizens have mounted protest movements on a scale unknown since the 1930's: a million protesters in the
streets of Italy in 1994, a gigantic general strike in France in 1995, massive protests and wildcat strikes in Germany, Argentina and South Korea in 1996.

Public protests have also targeted the unprecedented wave of corruption and malfeasance that has engulfed even states previously known for the probity of their public officials. Or citizens have "voted with their feet" and turned their backs on states and their claims to allegiance. More and more, democratic elections have seemed merely contests of big money interests. Enormous public scandals rocked France, Italy, Spain, Japan and Britain in the mid-1990's, while criminality and mafia-style politics engulfed the former Soviet Union and most of the other states "in transition." Public cynicism and declining participation in elections resulted. Corruption and scandal even seriously tainted the judiciaries, the most respected and "non-political" branch of government. After a serious scandal in Belgium in 1996, public polls showed that less than 10% of the population still had faith in the courts.

Military & Police Apparatus

While state activities in most areas are on the wane, one area remains robust: the military and police forces. Worldwide, these budgets have declined only slightly from peaks in the mid-1980's. In fact, most of the decrease in global military spending can be attributed to the swift decline in the budgets in just a few countries -- the former Soviet Union and its Warsaw Pact allies. Some observers think that in the post-welfare-state future, military and police will be more important than ever as defenders of the status quo, and bastions against gathering public protests. Why else, they ask, would these instruments of official violence remain so enormous even though the cold war is over and few enemies are in sight? If military-dominated states are to be the pattern of the future, what will the taxpaying public think of states that increasingly appear as garrisons of privilege and enforcers of social austerity?

The Shadow of Transnational Capital

While states are downsizing, transnational capital is growing. As a result, states are shrinking in proportion to global banks, trading companies and manufacturing corporations. For many years, these corporations had enormous leverage over small states. United Fruit Company so dominated the countries of Central America, for example, that they were contemptuously dubbed "banana republics." But increasingly, private capital looms over middle-sized and larger states, too. In 1995, General Motors had corporate sales greater than the GNP of Denmark, and Toyota had a turnover greater than Norway's. Wal-Mart (a US-based discount-store chain) was bigger than the economies of 161 countries and Mitsubishi loomed larger than Indonesia, the world's fourth most populous country. The power of capital over state decision-making was stunningly
demonstrated in 1992, when speculator George Soros "broke" the Bank of England and single-handedly forced a devaluation of the pound sterling, winning a profit of more than $1 billion for himself at the expense of taxpayers in the world's fifth richest state.

Whither the State?

What are nation-states today and what is their future? National history insists that the nation is eternal, but every sober person knows otherwise. Nations are recent inventions, and they sometimes last just a few short generations. When nations come apart (Soviet Union, Yugoslavia) their parts can come apart too (Bosnia, Chechnia). Minorities can be at risk in small nations as well as large ones; nations are engines of war and intolerance; patriotism is all too often the "last refuge of scoundrels." Still, even as nations weaken, nothing commands such fierce loyalties, such willingness for self-sacrifice, such a sense of belongingness. But however disturbing, revived forms of nationalism may possibly be the last gasp of a long historical era.

Will nations-states disappear or reemerge strengthened and in new form? No simple and glib answers are possible. One thing is certain: the future of nation-states will greatly influence the future of the United Nations. If states continue to weaken, citizens may have to search for new forms of social protection, new sources of identity, new forums for public debate and democracy. Perhaps the UN (or some other global institution) will one day fill some of those needs.