The Privatization of Risk

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The Hurricane Katrina disaster shocked Americans, at least briefly, into recognizing profound social inequalities. The coincidence of race and poverty was a national embarrassment, yet charitable responses far outstripped any effort to change social structure.

An especially inept government response made clear that though officials had been spending billions on preparedness and homeland security, they had not achieved either. The same officials who said that intelligence was so important that government data collection should override privacy safeguards also ignored the data that clearly predicted a storm disaster and demonstrated the inadequacy of levees and emergency plans alike.

Some analysts of the inept response to the Hurricane Katrina disaster have concentrated on outright corruption, such as preparedness funds allocated on the basis of pork barrel politics rather than actual assessment of risks, or relief efforts designed more to enrich corporations with government connections than to deliver services to the suffering. But beyond the corruption is a much more explicit policy: privatizing risk. This policy makes individuals bear the brunt of hardships that are predictable in the statistical aggregate without creating effective mechanisms to share the burden, let alone reduce the risk.

Failure to respond effectively to Hurricane Katrina shares roots with proposals to privatize Social Security and the substitution of user fees and private purchase regimes for public provision of services. Inadequate public assistance to move the sick and elderly from New Orleans hospitals, like earlier inadequate investment in levee repair, reflects a widespread pattern: the reduction of public provision of public goods in favor of reliance on private markets or just plain tax cuts. Social institutions built over generations are being systematically unfunded and dismantled. In other words, the inadequate government response stemmed not only from incompetence but from policy.

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Privatization is policy in a host of other domains:

- It is no accident that state funding for some of America's greatest public universities has shrunk to as low as 8 percent of their costs (and no accident that their students increasingly come from wealthy families, forcing ordinary middle-class students to branch campuses).
- It is no accident that laws have been changed to encourage universities to treat the work of their scientists as private intellectual property rather than public knowledge, even when federal government grants pay for its production (or when the primary beneficiaries of the policy change are a small number of relatively rich universities).
- It is no accident that the same government that appointed the notoriously incompetent Michael Brown to head the Federal Emergency Management Agency also appointed strikingly ideological Michael Powell to head the Federal Communications Commission. Powell sought to overturn restrictions on concentration of media ownership. But allowing national and international companies to buy up local stations cut the number of reporters available when disaster struck and ruined a federal system that relied on locally operated radio stations to broadcast civil defense warnings.
- It is no accident that flu vaccine is in short supply or that the U.S. government wants to impose user fees on essential health services, even imagining it can treat epidemic diseases through private fee-for-service (or for drug) medicine.
- It is no accident that the government avoids dealing with the clearly demonstrable fiscal crisis of Medicare and the collapse of more and more private pension schemes while it promotes what it calls a reform of Social Security. Shifting to personal accounts and individual investment decisions is less a reform, however, than a rollback of a public safety net for old age (and ironically, it comes even when all serious empirical analyses indicate that Social Security does not face the funding crisis that Medicare does).

The early twenty-first century has seen a concerted effort to limit protections and privatize risk, to roll back public provision of public goods, and to restructure public communications on the basis of private property rights rather than any broader conception of communicative rights. These are all pronounced trends in the United States. But they aren't unique to the United States. Preference for private property over public institutions has become a global policy.

Indeed, marketization of social institutions was pioneered in the 1970s by Margaret Thatcher's government in Britain. It is linked to both fiscal and legitimacy crises in welfare states. It has been recommended to the developing world by the World Bank and IMF, and it has been advanced abroad by both the prominence of the American model and the direct policy interventions of the U.S. government and some U.S.-based businesses.

Marketization affects the distribution not only of wealth but also of risk. We cannot eliminate risks, but public policy choices shape the extent of risk. For example, technological systems—like levees and pumps around New Orleans, or nuclear power plants, or the Internet—can never be risk free, but they can be designed with different provisions for safety and with recognition that, in Charles Perrow's phrase, they make accidents normal—even though specific occurrences and, especially, their timing are more or less unpredictable.[1] Thinking of disasters merely as unpredictable emergencies naturalizes them, obscures human responsibility, and impedes dealing with basic causes.[2]

Investing in safer technologies—or a more peaceful world order or a healthier population—may reduce risks. Acting to reduce risks is a first important step, and it works best when we recognize disasters are products of human—and socially organized—causes as well as natural events. Preparedness, by contrast, focuses on response, a second step, when abstract risks turn into actual disasters. We prepare to provide immediate assistance—with ambulances and emergency rooms, fire departments and civil defense alerts—and to meet longer-term needs. And in this regard, it is worth noting that we either prepare or fail to prepare not only for mass catastrophes, like floods or bombs, but also for individual catastrophes, like car crashes or severe illnesses. But, though preparation obviously makes sense, the jargon of preparedness is often manipulated to advance other agendas. It may detract from dealing with deeper systemic problems; it may produce politically useful anxiety; it may focus attention on only those risks politicians find it attractive to confront.

Despite attempts to minimize risks, disasters will occur. Despite preparation to respond, people will suffer. This raises the third crucial step in thinking about risk: considering ways to share the burdens disasters create. From the availability of public health services to the workings of private insurance (largely tied to employment in the United States), efforts to share the burdens of risk are inseparable from the shifting relationships of public and private domains in modern life.

1. Charles Perrow, *Normal Accidents*, rev. ed. (Princeton, N.J.: Princeton University Press, 1999). For another example of how the probabilities of accidents are embedded in organizational design, see Diane Vaughan, *The Challenger Launch Decision: Risky Technology, Culture, and Deviance at NASA* (Chicago: University of Chicago Press, 1997).

2. Craig Calhoun, "A World of Emergencies: Fear, Intervention, and the Limits of Cosmopolitan Order: The 2004 Sorokin Lecture," *Canadian Review of Sociology and Anthropology* 41 (2004): 373–95.

Managing risks is also one of the basic reasons for the development of social institutions. It is basic to traditional notions of community, family, and collective responsibility. Religious charities have aided the victims of misfortune without necessarily managing vulnerability. Members of medieval craft guilds created funds to sustain each other in the face of market crises. As the Bible tells us, Joseph advised Pharaoh to set aside grain against a coming dearth, and the wisdom of this policy saved people throughout the region and enhanced Egypt's standing.

The basic issue is that while whole populations bear risks, only some of their members bear the actual loss and suffering—whether from hurricanes or earthquakes or wars. Wealth often shapes who suffers most, both by reducing damage (as better-built housing may do) and by improving response (as having a cell phone or insurance may do). Thus, one can buy mitigation of risk and harm as private property. And, indeed, risks create market opportunities—from selling insurance to rebuilding damaged buildings. But private property is, of course, very unequally distributed, and it is far from clear that defenders of private property actually want the loss and suffering from disasters to be as unequally distributed as this fact implies.

Through most of history, individuals and families bore the risks of earthquake, fire, flood, famine, plague, and pestilence without effective state action. The development of public institutions that could more effectively share the burdens of these risks is among the great achievements of the modern era, especially the twenty-first century. But the achievement is not merely threatened—it has already begun to be undermined.

Moreover, cuts in state safety nets are not being remedied by effective private or civil society actions. On the contrary, private pension funds are collapsing and corporations are sometimes cynically using bankruptcy practices to avoid providing health care and other benefits to retirees—and sometimes to active workers. These actions may or may not be necessary to keep companies alive and benefit other stakeholders, but they reveal that private provision for risk is in trouble at the same time as its public counterpart. As many as one-fifth of Americans lack health insurance for some or all of every year.

The privatization of risk results not only from reductions in programs explicitly designed to share risk but also from weakness in the provision of other public goods. Historically, just as states expanded their help for those on whom collective risks fell as personal hardships, they also expanded support for such other public resources as transport networks, power systems, hospitals, and schools. Recent cuts in public financing for these resources exacerbate vulnerabilities to risks—for everyone, but especially for those not able to purchase private market substitutes for public goods.

Of course, the effort to provide public goods and manage risks on a scale commensurate with large populations also entailed unprecedented interventions into what had commonly been considered private life or the affairs of families, communities, churches, and charitable institutions. There were questions not only about the right to request government action, but also about the right to opt out.

The nineteenth and twentieth centuries, then, saw the expansion of markets based on private property, the growth of giant corporations based on limited liability and relative autonomy, the expansion of the state as a supplier of public goods, and, sometimes, the treatment of the distribution of risks as an issue demanding public action. While there were new kinds of risks—from railroad accidents to nuclear power plant failures—it is not clear that human life actually became more risky. Certainly people lived longer. But with the decline of older ideas of fate and the rise of statistical thinking, a new consciousness of risk developed. As Ulrich Beck has argued, this may have been abetted by the possibility that humanity could destroy itself and the world—notably through nuclear disaster.[3] In any case, demand grew for the successful management of risk, which usually meant mitigating harms rather than changing the structural conditions that exacerbated risks and unequally distributed actual loss and suffering. Recently, this has extended into the development of a global industry of humanitarian assistance that seeks to manage emergencies and their repercussions.[4]

In the late twentieth century, finance markets became ever more central to capitalism (in general) and to managing risk (in particular), while at the same time gaining partial autonomy from earlier state regulation. Instruments were created for trading risk and for trading on market fluctuations. Since the marketization of risk is generally a tactic most effective for those with large amounts of capital, however, policy debates have surfaced over whether the state should play a central role in managing risk for most of the population or transfer more of its resources—and the population's—to markets.

The reallocation of risk is a basic lens for analysis of change in the welfare state, as Jacob Hacker has shown.[5] But the issues are not limited to state insti-

3. Ulrich Beck, *The Risk Society* (London: Sage, 1992).

4. Calhoun, "World of Emergencies."

5. See Jacob Hacker, *Divided Welfare State: The Battle over Public and Private Social Benefits in the United States* (Cambridge: Cambridge University Press, 2002). Also see, by the same author, *The Great Risk Shift* (Oxford: Oxford University Press, forthcoming).

tutions for risk management. The pension funds under such huge stress today are organized on private-property bases to provide a collective good. But many have collapsed; more have curtailed benefits. And while corporations and well-off individuals turn to the markets for financial instruments intended to manage risk, these may create new risks—as when, for example, the algorithms governing hedge fund investments take the liquidity of financial markets as a given, not as a variable.

How much we rely on private markets and public funding to reduce risks, to prepare to respond, and to distribute these costs has implications for gender, race, and regional disparities, and, indeed, for future generations. Risks, needs for responses, and costs are also redistributed internationally. Market policies and practices are prominent: risk analyses shape international investment and inform arbitrageurs seeking to profit from currency fluctuations. Armed conflict is a source of risks as well as an influence on preparation and on who will share costs. Equally important are policies on environment, health, and other human security issues.

For example, pandemic diseases, from avian flu to AIDS, pose dramatic risks. The twentieth-century growth of public health as a field—and a vision—was driven in considerable part by efforts to eradicate or control earlier pandemic diseases. Like the Hurricane Katrina disaster, they involve combinations of natural and human causes, and minimizing the harm they do is largely a matter of social organization. If there were an AIDS vaccine tomorrow, the obstacles to distributing it would be political, economic, and institutional—like the obstacles to acting effectively on the knowledge that New Orleans was vulnerable to hurricanes. The absence of effective public health care systems is a central factor in the pandemic in Africa. Likewise, the weakening of public health care systems in Russia and elsewhere is among the reasons the pandemic is spreading to a new wave of countries. In some settings, such as China, growing corporate provision of health care and decline in government health care services is creating a two-tier system that challenges government legitimacy and takes on new significance with the high cost of AIDS treatment. Internationally, control of antiretroviral drugs as the private intellectual property of pharmaceutical companies is hotly contested and just as hotly enforced by some powerful governments, including the United States.

Of course, nature continues to produce disasters, even if they are never purely natural and always abetted by human factors, like production of greenhouse gases that cause global warming, and human failures, like suspended investments in levee repair. Although there was much less loss of life when Hurricane Katrina struck the U.S. Gulf Coast than when the tsunami hit Asia nine months earlier or an earthquake rocked Pakistan one month later, the pattern of vulnerability in all three disasters was similarly shaped by poverty and inequality—and at the international level as well as within nations. In each case, effective response was a matter of the combined capacity of government and civil society, but where the former was lacking, the latter was only a partial solution. Civil society, moreover, is not necessarily egalitarian. In each case, not only were women disproportionately vulnerable to both the disaster and to exploitation in its wake, but they also shouldered a disproportionate burden of caring for other victims.

In the aftermath of Hurricane Katrina, there was ample evidence of Americans' vaunted willingness to engage in acts of private charity. Individuals made sacrifices, and religious and other organizations raised resources and often used them effectively. Americans responded with care to those who seemed wounded by events beyond their control. But Americans have yet to respond with similar care to the wounds suffered by the social institutions that could be providing care equitably and effectively, let alone with an interest in changing the structural inequalities that unfairly distribute risks.

Behind the specific questions of the privatization of risk, of course, are broader questions about the future of the public sphere. What public goods will be provided by governments through taxation, what public goods will be granted by private philanthropy or organizations in civil society, what will be supplied by market actors, and what will not be provided? These are not just basic questions for social science. They are questions for a broader public discussion, and they bear on the very project of a public culture.