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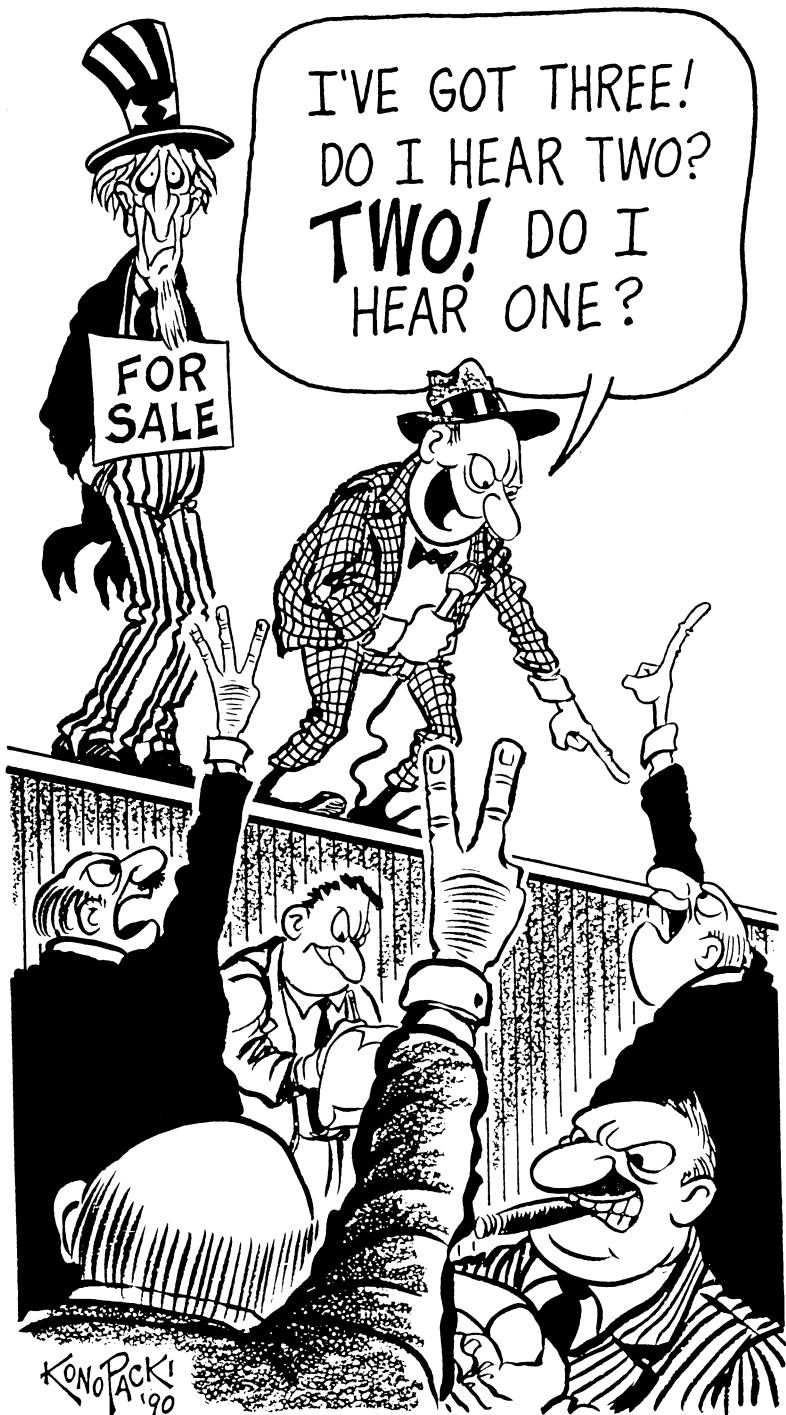
Privatization: Selling America To the Lowest Bidder

Abstract

[Excerpt] Elected officials and citizens are now learning in hundreds of communities that privatization is not the way to improve the quality and efficiency of public services. Cities such as New York and Phoenix, where privatization proliferated in the early 1980s, are now bringing work back "in-house." And in the federal government, despite a massive privatization campaign waged by the Reagan Administration, resistance by agency directors has resulted in a job loss of only 0.7% of all nondefense federal jobs. (The job loss rises to 2.1% if civilian defense department jobs are included.) A recent report by the U.S. Government Accounting Office concludes that privatization of federal employees' jobs is neither cheaper nor better.

Keywords

privatization



I'VE GOT THREE!
DO I HEAR TWO?
TWO! DO I
HEAR ONE?

FOR
SALE

KONO PACK
'90

Privatization: Selling America To the Lowest Bidder

■ *Al Bilik*

Several years ago the Bethel Park School District in Pennsylvania voted to contract with ServiceMaster, a \$1.5 billion multinational corporation, to provide custodial and maintenance services to city schools. The School Board took this step because it believed it would save money. Within days, 25% of the district's unionized janitors got pink slips from the city, only to receive job offers from ServiceMaster to do the same work at half the wages. ServiceMaster cut other costs as well, including preventive maintenance on expensive city equipment.

By the time the ServiceMaster contract was up for renewal, Bethel Park had discovered the real costs of contracting out: dirty schools, destroyed equipment, and low morale among poorly-paid workers. The school district dropped the contract, having learned the hard way that contracting with a profit-making corporation raises costs while weakening public control over service delivery.

This story is not an isolated example. The 1980s saw an explosion in contracting out of public services. Everything from garbage collection to data processing, and even such quintessential public services as the administration of prisons and welfare programs,

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has been put on the auction block to the lowest bidder.

To be sure, many public managers in the 1980s were faced with a real dilemma: how to deliver quality services with less money. Then along came the right-wing, anti-government ideologues with a simple solution: let the private sector do it, and competition will promote greater efficiency. Many pragmatic government managers innocently bought this argument, despite warnings from unions and others that privatization is not the quick-fix wonder drug its proponents claim.

Today, a decade later, many public managers and citizens have learned from painful experience that public sector unions were right. Cost savings are often illusory; quality of service declines; corruption takes root; the disadvantaged are further isolated; and in a most fundamental way, the very democratic nature of our public services is sacrificed to the marketplace.

Indeed, contracting out, or privatization as it is sometimes called, poses a double threat to U.S. workers and communities.

First, privatization undermines wage and benefit standards for all U.S. workers. Public sector contracting, with its emphasis on temporary and part-time employment, is nothing more than a corollary of the private sector's move toward a contingent (part-time, temporary, leased) workforce. The privatization advocates themselves document this trend. For example, a 1984 study prepared for the privatizers at the U.S. Department of Housing and Urban Development (HUD) notes that contracting out is cheaper because "contractors tend to use part-time labor wherever possible and are very likely to use the least qualified personnel." Other studies document that contractors pay lower wages and benefits, provide fewer vacations and sick days, and make extensive use of part-time and temporary personnel. The results: quality of service declines when the cord of commitment is severed between employers and employees.

Second, privatization subverts the democratic character of public services. The goal of private enterprise—to make a profit—is antithetical to the fundamental goals of public programs—to deliver services equitably, honestly, and cost efficiently.

These arguments are not mere rhetoric. Elected officials and citizens are now learning in hundreds of communities that privatization is not the way to improve the quality and efficiency of public services. Cities such as New York and Phoenix, where privatization proliferated in the early 1980s, are now bringing work back "in-house." And in the federal government, despite a massive privatization campaign waged by the Reagan Administration, resistance by agency directors has resulted in a job loss of only

0.7% of all nondefense federal jobs. (The job loss rises to 2.1% if civilian defense department jobs are included.) A recent report by the U.S. Government Accounting Office concludes that privatization of federal employees' jobs is neither cheaper nor better.

The Case Against Privatization

Proponents of privatization center their arguments on the question of cost because often the numbers on the balance sheet indicate that it is cheaper to contract out. Why? Does the private sector worker have a better work ethic? Are private sector work procedures more efficient? Does competition insure lower costs?

Privatizers would like us to believe this is the case, but the facts show otherwise. The private sector has no magic wand. Their "savings" are achieved through substandard wages, inadequate benefits, creative accounting methods, and a host of questionable business practices that earn profits simply by cutting corners on quality and placing a large burden on their employees. Unions and others are becoming increasingly sophisticated at pointing out the costs to taxpayers that do not show up on a contractor's bid.

Hidden Costs of Privatizing

Administrative costs: Though not on the contractor's bid, many of a government's administrative costs continue or increase under a contracting-out arrangement. An additional layer of bureaucracy may be necessary to deal with the bidding process, to administer the contract, and to monitor the results. Training and supervising contractor personnel are often added to the jobs of those still employed by the public agency. And in many cases, a contractor's bid is low simply because it does not include the cost of the public equipment and facilities being used.

The cost of regaining the service if the contractor leaves is another hidden cost. For example, the Corrections Corporation of America (CCA), a private firm with 11 major prison operation contracts, typically requires governments, upon cancellation of a contract, to reimburse the company for money spent to acquire or improve facilities. This makes it quite costly for the government to bring the service back in-house if CCA performs unsatisfactorily.

Cost overruns: Frequently a contractor will "low-ball" or underbid to receive a new contract, in anticipation of raising its rates once it has become established. Cost overruns in the Department of Defense are legendary. Examples in state and local government

have also cost taxpayers millions of dollars.

In Lansing, Mich., an electrical contractor hired by the state to help restore the Michigan Capitol increased its estimate by nearly \$70,000 after it had been awarded the job. By that time, it was too late for the state to reconsider without starting the bidding process all over again.

A New York City Transit Authority study of progress in its Station Modernization Program found that while the contracted work was \$27 million over budget and more than two years behind schedule, the station improvement programs staffed entirely by public employees were on schedule and within budget.

Private Monopolies Crop Up: True competition for contracts is more often the exception than the rule. In many cases, once a company has the contract and has acquired all the expertise, training, and equipment required to do the job, it is very costly for the jurisdiction to switch to another contractor and begin again. Knowing it has a lock on the contract, the company can increase its rates or perform sloppy work.

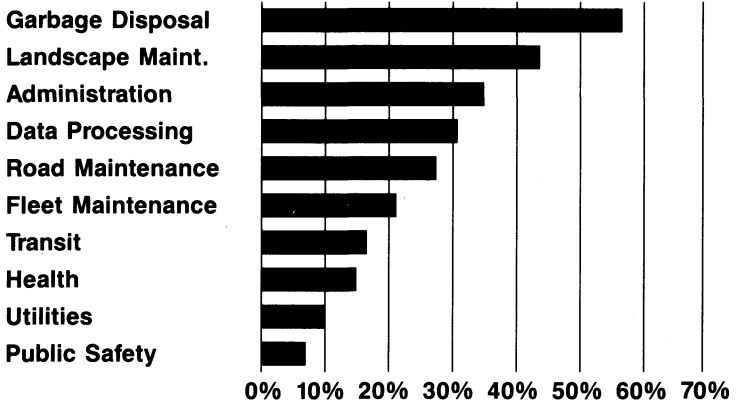
A 1989 report on private transportation systems by the Economic Policy Institute demonstrates that once a local or state transportation authority has signed a contract with a private firm, the relationship becomes one of contractual monopoly rather than intense competition.

Contractors Pad Contracts to Ensure Profits: Contractors who submit artificially low bids to gain a contract often make up the difference by adding certain prerequisites to their contracts. For example, ServiceMaster pads its janitorial contracts by insisting that only ServiceMaster-brand cleaning supplies and equipment can be used. Local community merchants don't have a chance to compete, thereby losing business while profits flow to ServiceMaster. Rural Metro, a private fire fighting company operating in 50 communities in five states, required Sun City, Arizona, to guarantee an 8.5% profit, pay a \$50,000 annual management fee, and reimburse for all fire fighter training (on top of city training costs).

Negative Impact on Communities: Contracting with private companies is nothing more than income shifting from workers and community members to big contractors. The local economy loses—both from exported profits to out-of-state corporations and from reduced wage-and-benefit expenditures. In fact, economists have identified a "Negative Income Multiplier" through which a community actually loses \$2.40 in reduced consumer purchases for every \$1 of wages lost to a local economy. In addition, communities lose tax revenues as wages and jobs are cut and tax-

Chart 1

City Services Contracted Out Percent of Responding Cities



Source: Touche Ross, *Privatization in America*, 1987 (1,086 cities responded to survey).

payers must shoulder new expenses, including the unemployment compensation due to laid-off workers and the high costs of providing public health services to workers who have lost health insurance as a result of contracting out their jobs. In effect, the contractors are passing many costs of doing business onto the taxpayer so that their companies are sure to make a profit.

Quality of Service Declines

Common sense tells us that when the final goal of a project is simply to maximize profits, there is an overwhelming temptation to dilute quality in order to increase the return. This is exactly what is happening. A recent Public Employee Department publication, *America . . . NOT For Sale*, contains overwhelming evidence from hundreds of communities that the quality of service suffers at the hands of contractors who hire inexperienced transient personnel at low wages, skimp on contract requirements, and provide inadequate supervision.

Wackenhut Corporation's private security business provides proof of the maxim that you get what you pay for. No less an authority than the Federal Aviation Administration (FAA) concluded that Wackenhut's security lapses at Dulles International Airport in Washington, D.C., were due to high turnover rates, poor pay, and minimal training. Employees working for Wackenhut

failed to recognize pistols in almost 25% of the spot security checks done by the FAA.

With an unhappy, low-paid, or poorly trained workforce, even a routine food service contract can create a crisis. Contracting out food services by schools, prisons, hospitals, and other public institutions is now common. So is the result: poor quality food. Oklahoma, for example, decided to save money by contracting out food services for 1,399 inmates at two corrections facilities. The food was so bad that inmates at one facility burned down the prison in protest. The contract was immediately canceled. The cost of poor food quality affects more than the bottom line on a balance sheet. Medical experts confirm that when school children are not fed well-balanced meals, learning performance suffers.

Corruption

Contracting out and corruption tend to go hand-in-hand. Payoffs, kickbacks, price-fixing, collusive bidding, and charges for work never performed are common companions of contracting out. The recent HUD scandal demonstrates this all too well, and at a \$4 billion cost to the U.S. taxpayer.

There is a history to these scandals. After countless muckraking stories of fraud, political corruption, and unreliable services flooded the newspapers in the early decades of this century, the public revolted and insisted that government hire workers directly to collect garbage, construct and maintain roads, provide public transportation and other services.

Greed is only partially the reason that corruption and contracts go hand-in-hand. It really boils down to the basic principle of public service versus private gain. Peter E. Voss, former vice chairman of the U.S. Postal Service Board of Governors, received a four-year jail sentence for kickbacks and expense fraud schemes in connection with his efforts to privatize parts of the Postal Service. He attributed his legal difficulties to having applied his "training as a businessman to activities of the Board. . . I'm used to being involved in intricate business deals. . . I did not think of the total ethics of the situation."

This question of ethics manifests itself in many forms. One of the most disturbing elements of contracting out is the extent to which it undermines other social goals, such as equal employment opportunities for women and minorities. Federal, state and local governments have provided greater employment opportunities for women and minorities than the private sector has; when public jobs are privatized, women and minorities suffer most. In Los Angeles County, for example, a 1983 statewide commission found

that Blacks and Chicanos experienced more than 90% of the layoffs resulting from contracting out, even though they represented only 47% of the county workforce.

Isolation of the Disadvantaged

“Cutting service to unprofitable areas” means stopping services to poor neighborhoods which rely on public services the most. Contractors save money, but low-income taxpayers don’t get the public services for which they pay. *All* Americans, not just the rich, have a right to expect their government to provide quality public services.

Postal workers are quick to point out that if the postal monopoly were repealed, private firms would rush to serve profitable routes like Beverly Hills or Manhattan, while the unprofitable, poor or rural areas would be left unserved. This has already happened in public hospitals and transportation systems. The Economic Policy Institute transportation study cited earlier shows that private transportation vendors are achieving their “savings” through reductions in service, especially to rural and poor communities. In a similar way, tightened admissions requirements at privatized hospitals keep out poor and minority patients with no insurance. Privately-run Habersham County Hospital in Georgia, for example, was cited by a grand jury for failing to meet its obligation to care for the poor; in one incident, hospital employees chased a woman in labor into the delivery room to demand she pay her bill.

Undermining the Democratic Character of Public Service

Declining services, rising costs, discriminatory practices, corruption, and influence peddling—all these are the logical results of contracting out. But the dangers to the public are even greater. The privatization of public service is fundamentally altering the democratic nature of our nation’s heritage. This point cannot be emphasized enough.

Privatization leads to a loss of public control and a decline in citizen participation in government. The public domain requires public disclosures, but private firms have far less obligation to conduct open proceedings or to make known the reasons for their decisions. Public managers know this. A 1989 Touche Ross survey of state governments noted that one of the biggest impediments to privatization is loss of government control.

When Boston University was negotiating to run the Chelsea School District in Massachusetts, the university, a private institution, demanded exemption from state laws requiring open

meetings and public records. The university also insisted that it could not be held liable for any lawsuits brought against the district.

Public administration is essential to public services. It's integral to our system of checks and balances. Whereas privatization relies on the motives of private gain, democracy depends on the capacity to assert collective interests over those of the few. When corporate greed replaces need as a cornerstone of public policy, government loses its sense of purpose and compassion. It is through our public programs and services that we are bound together as a society, each citizen with a responsibility to others.

Winning the Fight Against Privatization

More and more public sector unions are discovering that these arguments win the public over when we mobilize against threats of privatization. Public employees and their unions have always known that there is a substantial difference between the rhetoric and the reality of contracting out. Now that others are learning that lesson, it is important that public workers join together with the community to provide government a renewed sense of purpose and a vision of what we want government to be.

Fighting privatization is not just in the special interest of labor unions. Sure, public employees are interested in stopping contracting out because they may lose their jobs or see wage and benefit standards decline. But public employees are also interested in stopping contracting out because they are community members; they too are taxpayers, and they too depend on quality public services. They want effective and efficient government no less than anyone else.

Unions are often in the critical position to be the first to identify and then warn against the dangers of privatization. The early warning signs that precede privatization efforts take many forms, including attacks on public services and public workers, so-called efficiency or cost comparison studies, severe budget problems or tax limitation measures, and increasingly, the promotion of "public/private partnerships."

But union leaders need not wait for these tell-tale signs to initiate strategies and to join with others in the community to protect against privatization.

Unions have pursued many successful strategies to fight contracting out of public services. Some rely on traditional trade union remedies—strong contract protections, legislative solutions, and legal remedies. More and more, unions are using strategies that

win the *public campaign* against contracting out through a combination of careful research and skillful organizing of community support. And finally, many public sector unions are taking a proactive approach to the entire problem, by joining as active partners with public managers, through labor-management committees, to improve public management of government services.

Contract Protections

Unions across the country have taken preventive action by bargaining strong contract language to protect against contracting out. Clearly, the best contract language includes straightforward prohibitions against contracting out. Other unions have negotiated language that includes guarantees that contracted work will not affect the employment of bargaining unit members; provisions for advance notice and full disclosure of contracting decisions; requirements that agencies demonstrate that contracting will produce substantial savings and that all costs must be accurately reflected in cost analysis studies. Some unions have negotiated the right to bid on any bargaining unit work that is proposed for contracting.

These preventive measures have paid off for many public workers. When Racine, Wisconsin, moved to replace seasonal workers with contract employees, for example, the union contested the decision as a violation of the contract, which says that "there shall be no layoffs or reductions in hours due to any contracting-out of work." An arbitrator ruled in the union's favor, and all affected employees were reinstated with full back pay plus interest.

Courts and arbitrators have generally ruled in favor of unions that insist that the *decision* to contract work out is a mandatory subject of bargaining. In states with public employee bargaining laws modeled after the National Labor Relations Act, the *impact* of contracting out must also be a subject of bargaining.

Legislative Strategies

Many public sector unions and state federations have successfully lobbied for state laws that restrict the contracting out of state services. Public employee unions have joined with others to pass laws that require contractors to meet the same standards of efficiency, disclosure and fairness required of public agencies. For example, unions have won prevailing wage legislation that requires contract workers be paid at the same rate as public employees; certification, licensing and affirmative action requirements for contractors; and procedures to ensure accurate cost comparisons

and an opportunity for unions to bid on contract proposals.

A 1988 Rhode Island law provides a model. It removes a major incentive to hire contractors by stipulating that "wages paid private sector employees be based upon the prevailing rates for such employment in the state" and also requires contractors to pay health and welfare benefits.

The Public Campaign: The Role of Research

Research can be a powerful tool to fight contracting out. Who knows better than the workers in an agency the true costs of getting the job done? Unions that use members' expertise to document the gaps and errors in contractors' bids can produce powerful testimony at public hearings and press conferences.

The federal government, through Office of Management and Budget Circular A-76, requires that a cost-analysis study precede every agency request to contract work. Many unions have gotten involved in the process, working to ensure that accurate costs are included, while at the same time producing their own analysis to appeal errors in the agency's study.

Unions have also won many fights against contracting out by providing public managers, elected leaders and community members with much-needed information on the past history and financial background of potential contractors. *America . . . NOT For Sale* profiles 14 large corporations with a record of environmental abuse, outstanding court cases, discriminatory hiring practices, non-compliance on contracts, and other dubious distinctions. For example, Waste Management Inc. and Browning Ferris Industries, the two leading waste disposal contractors, have been cited in hundreds of communities for illegal dumping, environmental violations, and other health hazards. This knowledge makes swift allies among the public and often turns the tide against the contractor with managers or elected officials.

Increasingly, unions are using this research to join with other groups to fight together against privatization. Coalitions have sprung up among unions and churches, senior citizens groups, minority organizations, environmental activists, neighborhood associations, parents, academics and many others to help fight against contracting out. When Los Angeles County, for example, threatened to privatize a public health center, concerned workers and community members joined together to keep their services public.

Improving Public Management: LMCs

Good government is much more than simply transferring

Chart 2

State Services Contracted Out

Percent of Responding State Agencies Contracting Out One or More Functions



Mental Health



**Parks/Recreation,
Employment
Security**



**Corrections,
Higher Education,
Medicaid**



**Courts, Energy,
Other Public Works**



**Data Processing,
Environmental
Protection, Bridges,
Welfare**



**State Police,
Vehicle Registration,
Airports**

Source: Touche Ross, *State Government Privatization in America*, 1989
(31 states responded to survey).

responsibilities to the lowest bidder. Responsive and efficient government depends on creative and innovative public management. Public employees, often with many years of experience and untapped ideas, must become active players in a campaign to improve our government.

Public sector labor-management committees (LMCs) are an important vehicle to achieve this end, and as such, serve as a proactive alternative to contracting out. In city after city, state after state, and agency after agency, workers and managers are sitting down together and working out ways to bring the public the services they want efficiently and cost-effectively. A recent public television program, *Working Together*, produced by the broad-based State and Local Government Labor-Management Committee, highlighted examples of how labor-management cooperation improves public services.

In New York state a joint labor-management child care advisory committee has established 38 on-site centers for the care of 2,400 children of public employees throughout the state. In Jackson County, Oregon, the roads maintenance division worked with their union and devised a plan to improve road maintenance at reduced costs.

In Dade County, Florida, the teachers' union and public school administrators instituted a school-based management program that is a national model. And in Phoenix, Arizona, "partnership teams" have been so successful in improving efficiency and quality that many previously privatized services are returning to the public sector.

KPMG Peat Marwick, an accounting firm with close ties to state and local governments across the country and a former sponsor of the Privatization Council, recently began promoting labor-management committees as an alternative to contracting out. In the words of Jack Miller, KPMG's National Director of Government Services:

Labor and management teamwork helps provide quality public service. It means involving employees in decision-making and listening to what they have to say because they often come up with the right solutions. It means investing in employees through career development, education, and cross training. And it ultimately results in strategic long-range planning—in short, doing away with short-term solutions to long-term problems.

When public employees are legitimately involved in determining their work environment and the quality of their product, good things happen. Successful labor-management cooperation actually results in the increased job satisfaction, improved productivity, and more cost effective work that the privatizers always promise but never deliver.

Conclusion

From the beginning, public employee unions have recognized privatization for what it is—an attempt by a handful of right-wing ideologues to undermine America's system of public services by convincing frustrated, gullible, and even greedy politicians to turn the operation of vital government services over to a few powerful, profit-hungry corporations. We are grateful today that community members and government officials are joining with our unions to find creative solutions to problems and to ensure that quality public services will be delivered by career public workers. ■