



B R I E F L Y

Unions representing government employees have vigorously fought proposals allowing private firms to bid for their work. But in Indianapolis, unionized city workers have won most of the bidding contests.

Given the right conditions, these workers have shown they can make city services more efficient and effective.

Indianapolis Mayor Stephen Goldsmith has demonstrated that competition for city contracts is the key to greater efficiency and high quality. The issue is not public versus private; it's monopoly versus competition.

Contract-bidding is one form of privatization, which involves shifting functions, in whole or in part, from the government to the private sector.

Privatization is no simple matter. Pitfalls are many. Governments considering it would do well to learn from the experience of those that have tried it.

Unions Can Win in Privatization

Indianapolis Mayor Stephen Goldsmith has drawn national attention by making many of his city's employees compete for their jobs. But far from folding under the pressure of competition, city workers often have held their own against private firms bidding against them, Goldsmith said during a recent visit to Seattle.

The key to solving the problem is to introduce competition, Goldsmith said, though that alone is insufficient. It's also necessary to free city workers from stifling work rules and domineering managers ignorant of what's going on in the field, as well as to train them how to compete for contracts.

Goldsmith ranks among the nation's most celebrated mayors, having successfully introduced market tools to the city of Indianapolis.

The Washington Research Council first examined the use of such techniques in 1993, in its publication, *Competing for a Change: Market Approaches to State Government*. The Council emphasized that competition, not privatization, was the key to quality improvements and cost control. The Indianapolis experience provides striking evidence of the power of competitive strategies.

Of the 85 services Indianapolis has put up for bid, city workers have won 25 percent and retained some responsibility for another 20 percent. And workers belonging to the American Federation of State, County and Municipal Employees union local claim to have won about 80 percent of their bids.

Contrary to what many believe, city workers are not "inherently inferior," Goldsmith said. The monopolistic and bureaucratic system in which they work is what makes them inefficient. The public system, not public employees, is the problem.

The union, according to its director, asked Goldsmith to "eliminate many of the bureaucratic restrictions and structure that had prevented efficient public services in Indianapolis."

Competition evidently has worked well for Indianapolis. Since election to office in 1991, Goldsmith claims to have reduced government spending and city bureaucracy, erased counter-productive regulations and identified \$400 million in savings. He's put the savings to work by adding more police officers and launching a \$1 billion infrastructure improvement program.

Goldsmith talked about his experience during a June 22 conference, *Building a Competitive Environment in Local Government Services*, organized by the Washington Institute Foundation and held at Hyatt Regency in Bellevue. The conference, co-sponsored by the Washington Research Council, explored various aspects of putting government services up for competitive bidding or contracting them out to private firms, two forms of what commonly is known as "privatization."

108 S. Washington St., Suite 406

Seattle WA 98104-3408

PH 206-467-7088

FX 206-467-6957

www.researchcouncil.org



Privatization involves shifting functions and responsibilities, in whole or in part, from the government to the private sector. Contracting out, a common approach, is simply the act of hiring businesses or nonprofit organizations to provide goods or services previously provided by the public sector.

Once thought unrealistic, contracting-out now is sweeping the country, said Washington Institute Foundation president Richard Derham. The conference, he said, aimed to discuss how to do it, not why to do it.

But organized labor questions why government should do it, despite union contract wins in Indianapolis and other parts of the country. Pat Thompson, a lobbyist with the Washington State Council of County and City Employees, said his union opposes contracting-out. Union pamphlets available at the conference highlighted the risks government assumes when contracting with private firms and doubted whether contracting-out saves taxpayers money, improves service quality and increases efficiency.

One, “Five Faulty Assumptions Behind Privatization,” asserts that private firms often low-ball initial bids to win contracts and then raise prices, and that to make profits, contractors often sacrifice quality. It’s faulty, the union declares, to assume that contracting-out will save taxpayers money and improve service quality.

Derham said these are challenges, not faulty assumptions, to making privatization work well.

Conference speaker Robin Johnson, director of the Illinois Center for Competitive Government, in previously writing about competitive bidding, agreed that low-balling can pose problems, but said there are remedies: “A prequalification process can prevent these (low-balling) practices and help in avoiding the selection of a firm with a conflict of interest or one which is financially unstable. Selection can also be made based on performance criteria where the low bid would not necessarily be accepted. In fact, some cities have adopted a two-tier bid process that first seeks qualifications from prospective bidders through a request for qualifications, followed by a request for proposals.”

Derham said privatization, of which contracting-out is but one form, is neither simple nor easy. Without thought and planning, it can go wrong. Indeed, the idea of the conference was to help local governments do it right.

From what conference speakers said, contracting-out may never get off the ground unless labor is appeased. If the only goal is to save money, unions will foment intense political opposition, Johnson warned.

Attempts to contract-out are sure to fail if they’re done in secret from employees, the public and the press, he added.

Chris Vance, a Metropolitan King County Council member, said that if contracting-out is to have a chance of succeeding, city workers must participate in shaping it. Washington has a strong union tradition and culture that cannot be changed over night, he said. “It must be a collaborative process.”

Saving money certainly is one reason to contract-out, but Adrian Moore, director of privatization and government reform at the Reason Public Policy Institute, Los Angeles, said there are many others as well: decreasing unit costs, increasing services, improving service, increasing accountability and control,

and freeing managers to concentrate on such critical governmental tasks as improving education and reducing crime. (The Institute runs a website devoted to privatization: www.privatization.org)

Lawrence Prior, former San Diego County chief executive, said a good way to forestall potential political opposition is to choose a service that the public and press are beating up government about, and then spend the savings on something, such as help for kids, that the public and press are crazy about.

Dr. Frederico Cruz-Urbe, director of the Tacoma-Pierce County Health Department, observed that he has spent a lot of his time talking to others about what he's doing. Contracting-out, he explained, requires selling and political savvy.

Despite hot criticism, the Health Department farmed out medical treatment to 13 clinic sites. During 1997, the first year of contracting-out, the department saved \$650,000 and cut the equivalent of 109 full-time positions. But critics couldn't complain, because contract clinics treated nearly twice as many patients.

Even without political opposition, privatization can founder, Moore said. To prevent that from happening, he urged, it's vital to learn from the experience of governments that have done it. Virtually every government service, including police, has been privatized somewhere, he said.

Moore offered tips for making privatization work:

- In choosing vendors, refrain from simply choosing the low-bidder. Procurement selection must include quality and non-cost factors, such as experience.
- Entrust privatization to a leader, someone who takes ownership of the process and makes sure it's done right.
- Create a specialized unit staffed with in-house privatization experts who, for example, know how to structure and monitor contracts.
- Contracts should include performance agreements that identify outcomes and how they're measured. (Said Prior, "If you can't measure it, you can't manage it.")
- If you're unsure about what to measure, get the bidders to include performance measures in their responses to your request for proposals. That way, you can tap into the market's creativity.
- Make sure a contract clearly spells out everyone's rights, so it can be easily terminated.

In Indianapolis, the union at first fiercely fought Goldsmith, who had made a campaign promise to slash the city's payroll by 25 percent during his first year in office. "Eventually, we developed some common ground with the mayor's office, and as a result, received an offer by the city to establish a level playing field," union director Stephan Fantauzzo later said in a published interview.

"On the positive side," he noted, "I think the Indianapolis experiment has gone a long way toward eliminating two myths. One, that the private sector is always more efficient than the public sector, and two, that public employees are inherently lazy. What we've demonstrated on a consistent basis is that we



can win four out of every five bids, and in the process allow employees to have greater control of their destiny.”

The union has laid out its principles for bidding, including these:

- Competition for providing a public service is but one means of achieving the end of efficiency, and other measures should be considered as well
- Bidding should result in no loss of jobs.
- The union must be part of the process from the outset.
- The bidding team is not responsible for indirect administrative overhead costs.
- Upper-level management must get out of the way of employees.

Skip Stitt, once Goldsmith’s deputy, now a consultant, told conference participants that the winning union teams have enjoyed comparable pay, benefits and pensions, with no layoffs of line employees, while the city has seen dramatic reductions in grievances and accidents, along with \$419 million in savings.

Last year, in a *Policy Review* publication, Goldsmith wrote an article, “Can-Do Unions,” in which he said unions have little to do with government problems of inefficiency, high costs and low quality.

“Public employees are an easy scapegoats,” he said, “but when union workers are given the freedom to put their own ideas into action, they can be as innovative, effective and cost-conscious as the private-sector counterparts – and they can prove it in the marketplace.”

It’s competition, not privatization, that improves government service, Goldsmith said. “Public employees in Indianapolis were not failing because they were unionized – they were failing because they were monopolized.

“Not only were they under pressure not to respond to customers,” Goldsmith said, “but they were actually forbidden to do so.” There were two reasons for that: “the lack of a market prevented public employees from discovering what their customers wanted or even what a reasonable price for their services might be,” and “the morass of bureaucratic rules in city government that substitute for the demands imposed on private companies by customers.”