May 31, 1988

PRIVATIZATION IN AMERICA'S CITIES: LESSONS FOR WASHINGTON PART I

INTRODUCTION

The seeds of virtually every major political reform movement in United States history can be traced to the halls of local government. The Progressive movement of the first two decades in this century, for example, began in Wisconsin. It mobilized grass-roots support for such issues as direct election of senators, child labor laws, and women's suffrage, eventually prompting Congress to consider them. Similarly, the civil rights movement of the 1950s and 1960s attracted the attention of federal lawmakers only after a series of demonstrations and marches in the deep South successfully overturned local segregation ordinances. Most recently, the tax revolt movement of the 1970s started as a grass-roots effort in several California towns to cut back city hall. California's Proposition 13 referendum, passed in 1978, and Massachusetts' Proposition 2 1/2, passed one year later, transformed the local tax rebellion into a national crusade. These successful state and local tax limitation efforts prepared the essential political groundwork for the federal Economic Recovery Act of 1981: the largest tax cut in American history.

Today, a new political movement is gaining a firm foothold in the nation's cities. Potentially it could leave an even more lasting imprint on the way American government functions. This reform idea is privatization, the transference of government functions to the private sector. In just two decades, the growth of privatization has been stunning. In 1972, local government contracts with private companies to provide basic municipal services, such as garbage collection and street maintenance, already amounted to a healthy

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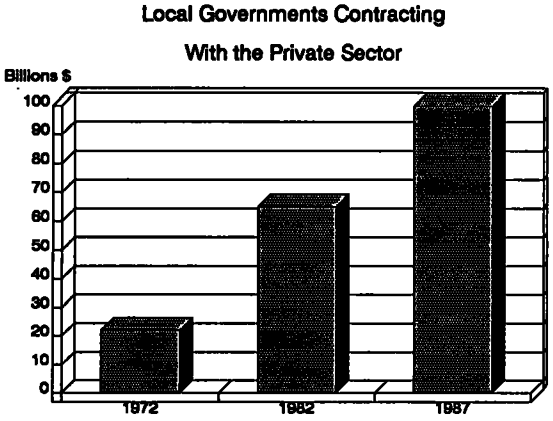
This study examines local government experiences with privatizing municipal services. Part II, scheduled to appear this summer, will deal with privatizing social services.



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$22 billion. By 1982, this had soared to $65 billion, and by last year, U.S. cities awarded over $100 billion in such contracts.

Many experts believe that even this is only the beginning of privatization's acceleration. Touche Ross and Co., a "big-eight" accounting firm, estimates that by the year 2000 the U.S. public sector could have done $3 trillion worth of business with the private sector.[1]

This local privatization revolution encompasses far more than traditional municipal services. Scottsdale, Arizona, for instance, contracts its fire protection to Rural Metro Corporation, a for-profit private company. Farmington, New Mexico, has privatized its local air traffic control operations. Hamilton County, Tennessee, has a privately run county jail. New York City has contracted out the management of its public golf course. Dallas has turned to the private sector for its bus system. And San Diego, California, has a private ambulance service. The reason these and other cities turned to privatization: better service quality and cost reductions of typically 20 percent to 50 percent.[2]

The local privatization revolution even has spilled over into such social services as hospitalization, drug treatment, and legal aid for the poor. In 1986, over $1 billion in local funds went to support voluntary organizations to deliver human services.

Improving Service to Public. Nor is the privatization explosion confined to contracting out government functions. Many jurisdictions now even are selling public assets. This not only helps raise revenue to fund government operations, but also allows sophisticated private management and financing techniques to be used, improving the service to the public. Between 1982 and 1987, one of every four localities sold at least one publicly owned asset to the private sector.[3] Among them: unused lands and mismanaged public facilities, such as county hospitals and transit systems. One of the largest and most ambitious local privatization initiatives in U.S. history is now under serious consideration in Anchorage, Alaska. This October, city residents will vote in a referendum to sell the city's wastewater treatment plant, electric utility company, and local telephone system for a minimum price of $1 billion.

The form of privatization with the most promising future may be the private financing and operation of basic local government infrastructure — including bridges, roads, hospitals, and sewage treatment plants. Interest in such privatization is hardly surprising.

1 "Cities and Counties Going Private to Save Money," *The Washington Times,* August 19, 1986, p. 10A.
2 For a review of studies on the cost savings from contracting out, see Stephen Moore, "How to Privatize Federal Savings by Contracting Out," Heritage Foundation *Backgrounder* No. 494, March 13, 1986.
3 Touche Ross and Co., "Privatization in America: An Opinion Survey of City and County Governments on Their Use of Privatization and Their Infrastructure Needs," 1987.

States and cities face at least a $120 billion price tag through the year 2000 to fund necessary improvements in their infrastructure. Most cities openly confess that they will lack the money for this. Several innovative cities and counties thus have begun to explore private financing of new capital investments. A recent example: a just-approved 15-mile private highway artery in fast-growing Fairfax County, Virginia. This $150 million dollar project will be built without a penny of taxpayer funds. Instead, a private development firm has agreed to finance and build the road, recouping its investment by collecting tolls.

The American system of federalism permits the states and cities to serve as public policy laboratories for the federal government. On the issue of privatization, Uncle Sam certainly has much to learn from lower levels of government,[4] where innovative partnerships between the public and private sectors are flourishing.

Regrettably, however, Congress so far shows little interest in reproducing this bipartisan local privatization movement at the national level. But with enormous federal deficits, and hence the need to reduce the cost of federal services while maintaining or increasing their quality, federal lawmakers cannot for long ignore the privatization lessons from America's heartland.

WHY LOCAL GOVERNMENTS TURN TO PRIVATIZATION

The accounting firm Touche Ross and Co. last year comprehensively surveyed U.S. cities and counties to measure their reliance on privatization. The survey's overall conclusion: "Nearly 80 percent of the [over 1,000] respondents believe that privatization will represent a primary tool to provide local government services and facilities in the next decade."[5]

Turning to Private Financing. Contracting out was the most popular form of privatization. Some 96 percent of local governments indicate that they have plans to contract out at least some services over the next two years. Table 1 shows the fourteen services most commonly contracted out, as measured by the percentage of cities that have awarded contracts during the past five years. Garbage collection, vehicle towing, and janitorial services are the activities most often delivered by private contractors. But private finance of infrastructure is of growing importance. Table 2 indicates the percentage of cities that have privatized various types of infrastructure. About four out of ten cities plan to turn to private sources of finance for major infrastructure repair or expansion in the next two years.

Not surprisingly, the Touche Ross survey finds that saving money is the primary motivation for privatization. This is cited by 74 percent of the local governments responding to the Touche Ross study as an advantage. Yet one-third contract out because of "higher quality service."

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4 "State and Local Initiatives for Privatization: Lessons for Washington," *The Privatization Review*, Summer 1987, pp. 8-44.

5 Touche Ross and Co., *op. cit.*

Table 1
Percentage of Cities Contracting Out Services

Accounting, Payroll	36
Airport Operations	11
Buildings or Grounds	43
Data Processing	31
Elderly or Handicapped Services	12
Fleet or Vehicle Maintenance	21
Health Care, Emergency Services	16
Recreation, Parks, Convention Halls, Stadiums, or Cultural Activities	19
Solid-Waste Collection or Disposal	59
Street Cleaning and Snow Removal	29
Traffic Signals or Street Lighting	32
Transit or Transportation	17
Utilities (including meter reading)	10
Vehicle Towing or Storage	45

Source: Touche Ross, 1987

Table 2
Percentage of Cities Privatizing Capital Facilities

Housing	11
Municipal Buildings or Garages	19
Roads, Bridges, or Tunnels	34
Solid-Waste or Resource-Recovery Facilities	22
Stadiums, Convention, or Recreational Facilities	10
Street Lights	30
Telecommunications	11
Waste Water, Sewers, or Treatment Plants	30
Water Mains or Treatment Facilities	22

Source: Touche Ross, 1987

Local officials in this and other surveys frequently identify other less obvious benefits to privatization. Among them:[6]

◆◆ Private sector firms typically possess more specialized competence in providing a service, leading to improved service performance.

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6 Many of the advantages of privatization are discussed more fully in "State and Local Initiatives for Privatization: Lessons for Washington," *op. cit.*

◆◆ Privatization accelerates the adoption of new technologies and capital equipment. Often these are unavailable to government agencies, and government procurement procedures delay direct acquisition of such equipment.

◆◆ Private firms often can take advantage of economies of scale in service delivery by performing an activity to more than one locality. This is a common practice of private vendors who contract with small towns in California.

◆◆ The performance of private contractors can serve as a yardstick to measure the output and service quality of an in-house government agency.

◆◆ Competition from private contractors can spur in-house worker and management productivity improvements.[7]

These multiple benefits of privatization are not ivory-tower theories. They are being demonstrated convincingly by the thousands of U.S. cities that have privatized facilities and services over the past decade. The documented privatization successes in pioneering local jurisdictions — Los Angeles County, Phoenix, Arizona, and Auburn, Alabama, to name a few — reveal that privatization is a genuinely effective response to the problems confronted today by all levels of government in the U.S.

Los Angeles County, California: Saving Money Through Contracting While Protecting Government Workers' Jobs

Los Angeles County, California, is the largest local government in the nation. Its 10 million residents exceed the population of 42 states. It also has the most comprehensive contracting program of any local jurisdiction in the nation. Approximately 20 percent of the county's $4.2 billion budget is subject to competitive bidding. Since 1980 the county has issued 786 separate contracts to private firms, saving resident taxpayers $133 million annually. According to the county's bipartisan Economy and Efficiency Commission, contracting out has on average reduced service costs by 35.8 percent.[8]

This aggressive contracting program was launched in 1978, when 66 percent of the county's voters approved Proposition A, a companion referendum to Proposition 13. Proposition A allows the county to "contract for work formerly performed exclusively by public employees." Among the activities contracted out under Proposition A: food services, janitorial work in public buildings, financial auditing of agency budgets and payroll, vehicle towing, and data processing.

Perhaps the most impressive feature of the program is that the county has managed to reap huge budgetary savings without laying off county employees. This has contributed

7 "Public Services Found Better If Private Agencies Compete," *The New York Times*, April 26, 1988, p. A-1.

8 Los Angeles County Economy and Efficiency Commission, "Report on Contracting Policy in Los Angeles County Government," August 1987.

significantly to the continued political popularity of the program. Says Michael D. Antonovich, of the Los Angeles County Board of Supervisors: "An important part of our strategy in implementing contracting has been to protect existing workers through retraining and referrals."[9] County data show that of the 1,400 workers affected by Proposition A since 1982, some 80 percent were transferred to other jobs within the county, 10 percent were hired by the contractor, and 7 percent left voluntarily for another job; only 3 percent were laid off.[10]

The county has managed to protect public employees by adopting a labor policy more sophisticated than that of the federal government or most other local governments. The Los Angeles County labor policy has four key components:

1) **A *de facto* "no lay-off" pledge for permanent county employees** affected by privatization contracts. In almost every case, displaced workers are transferred to other county agencies with job openings. The benefits of contracting out are not reduced seriously by this policy because the county payroll eventually is reduced through the normal attrition of the workforce.

2) **A policy requiring winning contractors to offer** affected county employees the right of first refusal for any job openings resulting from the contract. Contractors accept this because they normally have a need for trained workers after winning a large contract.

3) **A requirement that the County Board of Supervisors** earmark 5 percent of the savings from contracting to retrain displaced employees.

4) **An incentive system for county managers,** known as the Budget Savings Retention Plan, under which a percentage of the savings from contracting are used to pay productivity bonuses to department heads and to supplement the agency budget.

In addition, Los Angeles County has strengthened community and labor support for privatization by creating a nonpartisan citizens' watchdog committee to oversee the program. This "Economy and Efficiency Commission" referees the unions and the city management and routinely conducts performance evaluations of the contractors. The Commission's reports document the success of the Los Angeles program.

Phoenix, Arizona: Using Competitive Bidding to Boost Public Sector Efficiency

A recent front-page *New York Times* article on local government privatization notes: "The key to efficient public services is not replacing government agencies but pitting them against companies in continual competition." Indeed, toughening the public sector through competition is the cornerstone of the Phoenix privatization program. There, municipal agencies have been encouraged to compete head-to-head with private contractors by slashing costs and increasing quality productivity. The result: public sector morale has

9 See Statement of Michael D. Antonovich in "State and Local Initiatives for Privatization: Lessons for Washington," *op. cit.*

10 Los Angeles County Economy and Efficiency Commission, *op. cit.*

soared as lean, aggressive city agencies actually have won back some contracts from private firms.

Public Sector Gains. Phoenix saves its taxpayers $18 million annually by taking private bids for over 20 municipal activities, including grounds maintenance, parking lot operations, garbage collection, traffic light maintenance, and security services. The most surprising feature of the Phoenix success is that about half of the savings are due to efficiency gains in public sector departments where contracts have been won back by city employees.[11]

The garbage contract typifies how competition can spur productivity improvements in the public sector. For the first two years after private bids were invited in 1981, the contracts were awarded to private waste removal firms at substantial savings. But in 1984, the public works department underbid five private sector firms to win back one of the contracts. Ronald Jensen, the Public Works Director, recalls the attitude of the city employees at the time: "The city staff was out to win the contract back. All potential cost cutting ideas were pursued in order to become more competitive. The city service was *earned* back with a lot of hard work over a long period of time."[12] The city cut its costs by such measures as purchasing automated trucks similar to those used by private companies, shortening the number of trips to the dump, and improving worker productivity. Wages, however, were not cut. Just this past month the sanitation department won back a second refuse collection contract previously awarded to a private firm.

High Morale. Contracting out often is criticized for impairing public employee morale and work effort. In Phoenix, the reverse has been true. Jensen points out: "The image of city employees being lazy and nonproductive does not exist in Phoenix. Our workers are highly motivated and productive. And we can prove it. This is the result of using privatization as effective tool to stimulate productivity." Concludes Jensen: "The impact on the morale of the Sanitation Division employees has been tremendous."[13]

A vital component to the Phoenix competitive contracting program success has been elaborate safeguards to secure the integrity of the bidding process. The city's bid is prepared by an independent auditor, not the agency itself, ensuring an accurate assessment of city costs. Furthermore, the city submits a sealed bid in precisely the same fashion as the private bidders. Neither side knows the contract bid of the other. Then in a public forum, all bids are opened and the lowest bidder is selected. Finally, the auditor monitors the costs of the agency or private firm, to ensure that the terms of the contract are met in full. This process has won the applause of both the private and public sectors, and is now being imitated by several other cities.

11 Ronald W. Jensen, "The Phoenix Approach to Privatization," Testimony before the House Subcommittee on Small Business, Antitrust Impact of Deregulation and Privatization, June 3, 1987.

12 *Ibid.*

13 *Ibid.*

Scottsdale, Arizona: Fighting Fires Privately

Scottsdale uses private contractors for 40 percent of its municipal budget, including park maintenance, street cleaning, health care, some transit services, and a range of other government functions. In the past ten years the size of the city payroll has shrunk by 30 percent. But what makes Scottsdale a world-renowned pioneer in privatization is that it has destroyed the myth that there are certain "inherently governmental" functions that can be provided only by city workers. In 1951, Scottsdale became the first city in the nation to contract out its fire fighting service to a private firm, Rural Metro Corporation. Satisfaction with that contract is so high that it has been renewed continuously since then.[14] The firm now provides ambulance service for the city as well. Concludes Scottsdale Mayor Herbert Drinkwater, "It gets better all the time. People are extremely satisfied."[15]

Little wonder. Scottsdale residents pay a per capita annual fee of just $30 to $40 for private fire service, compared with $50 to $70 paid by neighboring cities of similar size. City officials are quick to refute the allegation leveled by neighboring public sector firefighter unions that the city is economizing on public safety. "We pay the same fire insurance rates as other cities," insists Dick Bowers, who oversees the program for the city.[16] Hence, insurance companies clearly rate Scottsdale's private service at least on par with that of public service.

Rural Metro cut costs through innovation and productivity improvements, not by compromising safety. Scottsdale, for instance, was one of the first cities to purchase small "quick-attack vehicles" at approximately one-tenth the cost of large, conventional fire trucks. Ronald Butler, President of Rural Metro, acknowledges that its compact, mobile trucks may not look impressive, but his firm's theory is that "chrome doesn't put out fires." Many communities now use the vehicles pioneered by Rural Metro. The firm also has cut total labor costs by training the city municipal employees as reserve fire fighters.

York County, South Carolina: Selling Assets to Improve Services

Ten years ago the Board of Trustees of the York County Hospital in South Carolina faced what seemed an insoluble dilemma. To maintain quality medical care to the 250,000 area residents would require a new hospital and more physicians — particularly specialists. But York County residents in 1979 by a three-to-one margin voted down an $18 million hospital bond referendum to pay for the new facility.

After two years of frustrated inaction, the Board of Trustees took a bold step: it sold the existing county hospital to American Medical International (A.M.I.), a private hospital chain. In addition to the $11.5 million it paid for the facility, A.M.I. agreed to build a new $30 million hospital within three years. Two years later, the new Piedmont Medical Center opened its doors.

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14 Interview with Scottsdale Deputy City Manager Dick Bowers, May 1988.

15 Quoted in: "Localities Shift to Private Firefighters," *The New York Times*, July 28, 1985.

16 Bowers, *op. cit.*

For county residents, the hospital sale has been an overwhelming success. The county has a new hospital, built at no cost to the taxpayer and in less than half the time it would have taken the county to construct. A.M.I. has doubled the county's resident physician staff, attracting badly needed specialists to the community. All the former county hospital employees, meanwhile, were retained by A.M.I. And with the $11.5 million raised from the sale of the old facility, the County has created a new program to provide medical care for the indigent.

Carolyn Carpenter, the Director of Public Affairs for Piedmont Medical Center, and a former county hospital employee, insists: "There is no question that the sale was in the interest of the community and the county employees. And A.M.I is more responsive to patients than was the county."[17]

Auburn, Alabama: Pioneering Infrastructure Privatization

Auburn Mayor Jan M. Dempsey describes herself as "an old-hat liberal Democrat." She also is an outspoken privatization enthusiast.[18] In 1986 Auburn became one of the first cities in the nation to hire a private firm to finance, build, and operate its wastewater treatment plant, facilities that clean sewage before it is discharged into lakes and streams. Dempsey praises the privatization deal that brought the city a new $36 million facility. She explains:

> "We think privatization is the way to go. The company [Metcalf and Eddy, Inc.] is meeting all of our expectations. Even before the new plants started up, we received a refund of $35,721, representing money the company has saved while operating our old plant during the construction period. We're using part of that money to landscape the area where the old plant was and turn it into a park."[19]

Ten-Year Federal Delay. Like most cities, Auburn's first choice was not privatization, but rather "free" federal Environmental Protection Agency (EPA) grant money. Such grants pay about half the cost of a publicly owned and operated new wastewater treatment plant. But the city discovered that the federal bureaucratic red tape could delay the project up to ten years. This was out of the question given the poor state of Auburn's 30-year-old existing plants which were violating EPA pollution standards. The sewage posed a potential health hazard to residents.

In 1984, a nonpartisan citizens' committee was appointed by the city to study the wastewater treatment problem. Its recommendation: total privatization. City officials then

17 Interview with Carolyn Carpenter, Director of Public Affairs, Piedmont Medical Center, May 1988.

18 Interview with Jan M. Dempsey, Mayor, Auburn, Alabama, December 1986.

19 Quoted in: "Some Communities Move Ahead Without EPA Dollars," *EPA Journal*, November 1986, p. 6.

conducted a public education campaign to win support among city residents and within the state legislature for overturning a state law prohibiting private ownership of public facilities. Late in 1984 the legislature passed the necessary enabling legislation.[20]

$25 Million Saving. One year later, Auburn's new $36 million facility was operating — in about one-tenth the time it would have taken the city to raise the necessary funds and EPA grants and to build the plant itself. Metcalf and Eddy, Inc. owns and operates the plant, and the city simply pays an annual prearranged fee to use it. Douglas J. Watson, Auburn City Manager, says that privatization will save Auburn "$25 million over the next 25 years. Auburn residents now pay one-third less for this service than if we used traditional federal funding to upgrade our facilities."[21]

The 1986 federal Tax Reform Act abolished many of the tax advantages associated with infrastructure privatization. For instance, it eliminated the investment tax credit and reduced the attractiveness of municipal tax-exempt bonds. As a result, last year several planned private wastewater ventures were shelved. But this setback now seems only temporary. The underlying economics still favor privatization. Early this year, Mount Vernon, Illinois, became the first city since the tax law went into effect to privatize its treatment plant.[22] Indeed, the Touche Ross survey of cities discovers that 30 percent are contemplating privatizing their wastewater treatment plants as Auburn has done.

South Lake Tahoe, California: Turning Public Employees Into Private Sector Entrepreneurs

In September 1985, South Lake Tahoe terminated its municipal bus service and laid off 30 city transit employees. The city council argued that a community of 25,000 residents could no longer continue a $500,000 annual subsidy for transit services.

Immediately after the shutdown announcement, two enterprising city bus employees formed a private company — Area Transit Management (ATM) — and offered to provide bus service to the community without a penny of local tax money. Under the contract agreement with the city government, ATM would have to obtain city council approval for all rate hikes and route changes, while the city would lease to ATM at no cost all the existing facilities and the seven municipal buses. ATM immediately hired most of the laid-off bus drivers and offered them ownership shares in the new company. Salaries and benefits were cut slightly by the new firm but still remain above the community's average pay scale.[23]

ATM has turned a huge money loser for the city into a profitable, tax-paying private enterprise. The firm receives no direct operating subsidy from the city and only a small

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20 For an analysis of how Auburn overcame the many obstacles to privatization, see: Douglas J. Watson, "Privatization: One Possible Solution," *The Privatization Review*, Fall 1985, pp. 38-43.

21 Douglas J. Watson, "Auburn's Trend-Setting Approach Saves Money and Time," unpublished memorandum, 1986.

22 William G. Reinhardt, "Public-Private Sewage Expansion A Primer for Post-Tax-Cut Deals," *Public Works Financing*, January 1988, pp. 7-8.

23 Interview with Michael Dooley, co-founder of ATM, May 1988.

annual grant from the state transit agency. Elsewhere in America, of course, government typically subsidizes about 70 percent of the operating cost of transit systems. In South Lake Tahoe, moreover, elderly and handicapped residents receive monthly passes paid for by the city, while all other riders pay the same $1 fare formerly charged by the city.

Privatization has been very popular with South Lake Tahoe residents. And according to Edward Brauner, the director of public works, "The new transit service has worked extremely well, and we are very happy with the contract. To the community the new owners are heroes — after all, we thought we were going to lose our bus service."[24]

Newark, New Jersey: Privatizing in the Northeast

The local privatization movement is portrayed often as merely a regional phenomenon — popular in growing, newer western cities, but politically unpalatable in the large, politically liberal, and heavily unionized metropolises of the Northeast. This is not true. In fact, many financially strapped Northeast cities are now enthusiastic privatization converts.

Newark would seem an unlikely candidate for privatization. It has lost population and businesses, is heavily unionized, and is headed by a liberal mayor, Sharpe James. Yet Newark boasts one of the largest contracting out programs of any local jurisdiction in America. Since 1972 the city has converted to contract about 20 services that had been performed by municipal employees. These include street repair, park clean-up, and data processing.

Public-Private Mix. A city brochure summarizes the success of the program: "In 1986 alone, Newark spent more than $25 million on contracts for services generally undertaken by the public sector in most medium to large urban cities....Citywide when police and fire service are excluded, Newark spends about one dollar in service contracts for every two dollars of in-house service operations. Contract services run from refuse collection to computer data entry. Costs for these services have been dramatically reduced and delivery of services improved."[25]

Newark's strategy is to defuse labor opposition and maintain competition by operating public and private service delivery in tandem. The Public Works Department typically spins off just a portion of the service activity to private firms, while retaining an in-house capacity for the remainder. Example: Newark contracts out only 60 percent of its sewer cleaning, 50 percent of its data entry, and 65 percent of its street sweeping. The city then monitors the performance of each sector, closely evaluating differences in productivity, service quality, and cost.

24 Interview with Edward Brauner, Director of Public Works, South Lake Tahoe, California, May 1988.
25 Frank J. Subol and Alvin L. Zach, "The Newark Experience: Is Contracting the Answer?" Newark Department of Engineering, 1986.

The benefits of this competitive approach have been underscored by the improvements in the city's refuse collection. After the first year, independent auditors found that private contractors' costs were 21 percent lower, their workers more productive, their vehicles more efficient, and their crews "substantially more diligent than city crews in cleaning up after spills."[26] Yet after a second year of public-private competition, the auditors' assessment had changed: "The price gap between city crews and the contractor has narrowed. City crews have become more productive."[27]

Newark's contracting out program, like that of Phoenix, demonstrates that subjecting government agencies to private sector competition not only provides savings from private contractors, but stimulated productivity gains in the public sector. As Newark Mayor James stresses, "Competition is very healthy to the city in insuring that both public employees and contractors put out their best effort."[28]

PRIVATIZATION LESSONS LEARNED FROM INNOVATIVE CITIES

These seven pioneering cities and counties refute many of the myths distorting the discussion of privatization at the federal level. Typical of the privatization tide sweeping America, these cities and counties provide lessons to be learned by every federal lawmaker seriously concerned with delivering quality services to the public in an era of tight budgets. Among those lessons:

1) Local privatization is a bipartisan and non-ideological movement. Privatization in Congress seems ensnared hopelessly in partisan bickering. In contrast, at the local level, Democratic Mayors, such as Jan Dempsey of Auburn and Ernest Morial of New Orleans, have sponsored major privatization projects. Says Morial, New Orleans' first black mayor: "Mayors do not view privatization or contracting out as conservative or liberal. Mayors simply view it as a pragmatic, efficient and effective way to deliver government services."[29]

2) Privatization is occurring in every region of America. Privatization may be most common in western cities, but has spread to every state, including to large union-dominated cities of the Northeast and the tradition-bound towns of the deep South.

3) Savings from contracting out are real and significant. An allegation often made in Congress is that privatization produces "illusory" savings. It is often charged that contractor cost overruns erase the projected savings from privatization.[30] But the cities with successful contracting out programs have documented millions of dollars of budget reductions. These savings have been used for different purposes, depending on the philosophy and goals of

26 *Ibid.*, p. 8.

27 *Ibid.*, p. 13.

28 Interview with Sharpe James, Mayor of Newark, May 1988.

29 See remarks by Ernest Moreal in "State and Local Initiatives for Privatization: Lessons for Washington," *op. cit.*, p. 37.

30 "Contracting Out Called Wasteful, Demoralizing," *The Washington Post*, March 31, 1988.

the city. In some cases the savings have been used to expand underfunded programs; in others the savings have held down local tax burdens.[31]

4) Privatization need not harm government employees. Local governments very rarely lay off public employees when they privatize services. Most jurisdictions, like Los Angeles, have established "no lay-off" policies. Either they move displaced public workers to other government positions or they require contractors to offer city workers the right of first refusal for jobs that open up because of the contract. Moreover, wage rates for workers transferred to the private sector are comparable to wages in the public sector.[32]

5) The sale of government assets can accomplish several public policy objectives. The proposed sale of federal assets has been jeered at by critics of privatization as a mere budget gimmick that may cost the government more money in the long run than it saves. These charges have been refuted by privatization specialists.[33] The most convincing refutation, however, comes from those cities that demonstrate in a very real and practical way that selling unused government property or inefficiently run public facilities not only improves cash flow to weather temporary fiscal troubles or fund essential services, but also can enhance service quality and provide an infusion of new capital for infrastructure.

6) Almost all government services are appropriate candidates for privatization. The cities prove that there are few, if any, "sacred cows" in public service delivery. Almost any government service — even fire protection, police service, prison operations, and environmental facilities — under certain circumstances can be more capably handled by private companies with special expertise in these areas.[34] The keys to successful delivery of such unusual services seem to be: hiring firms with established track records in the service field, inserting strict performance specifications into the contract, monitoring closely contractor compliance, and rebidding the contract on a regular basis.

CONCLUSION

An enormous amount of press attention has been devoted to the privatization phenomenon in Britain and other European nations. Yet the world leaders in many types of privatization, especially contracting, are not overseas but in America's cities and counties. As has been true through most U.S. history, these jurisdictions are the laboratories for the world's social and political experiments. Last year alone, U.S. local governments wrote $100 billion worth of contracts with private firms — for almost every conceivable public service. Americans are demanding better services for less money. A growing number of cities are turning to innovative forms of privatization as the solution to this predicament.

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31 La Mirada, California, contracts out 60 services, slashing 30 percent of service costs. Thanks in large part to these budget savings, the town never has levied a property tax on its homeowners.

32 "The Impact of Privatization on Public Employees," National Commission on Employment Policy, forthcoming.

33 Stuart M. Butler, "Why Asset Sales Are Good Public Policy, *The Heritage Lectures* No. 148, 1987.

34 Dana Joel, "A Guide to Prison Privatization," Heritage Foundation *Backgrounder* No. 650, May 24, 1988. See also "Putting Sacred Cows on a Diet," Reason Foundation *Fiscal Watchdog*, February 1988.

Policy Pioneers. Cities, counties, and states often are derided in Washington as the "weak little sisters" of the federal government. Yet on crucial policy fronts, including welfare reform, economic development, and privatization, state and local governments are proving more muscular than the federal government. They are winning deserved recognition as policy pioneers whose inventiveness hold out valuable lessons for federal policymakers.

Local governments of all political persuasions now realize that they must enlist the skills and talent of the private sector if they wish to achieve the goals of their citizens. This message has yet to be received in Washington. But with privatization, like tax reform a decade ago, sweeping the country, it cannot be long before even Congress wakes up to this remarkable sea-change in American government.

Stephen Moore
Grover M. Hermann Fellow
in Federal Budgetary Affairs