Understanding and Preventing Privatization

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Contents

Understanding Privatization

- Privatization Defined
- Forms of Privatization
- The Drive to Privatize
- Right Wing Think Tanks
- The Costs and Pitfalls of Privatization

Evaluating a Privatization Proposal

- Analyzing a Contracting-Out Proposal
- Investigating the Contractor

Preventing Privatization

- Early Warning Signs
- Early Warning System
- Legislative Initiatives
- Collective Bargaining Protections
- Labor-Management Initiatives
- Public Relations and Community Coalitions
- Educate and Mobilize Members
- Preventive Measures

Resources

Understanding Privatization

Privatization Defined

Privatization is using private for-profit firms for the provision of public services or to operate (and own) infrastructure.

Forms of Privatization

Contracting Out. The government contracts with private firms to manage public programs, provide services, or conduct public projects using public funds.

Vouchers. Rather than providing services, the government issues vouchers entitling eligible individuals to obtain these services from private providers.

Asset Sales. The government sells program assets to a private firm that then takes over provision of the service for a profit.

Public-Private Partnerships. Cooperative ventures with the private sector, usually involving infrastructure.

Grants. Private firms receive public money to provide public services or programs.

Franchises. Private firms are granted monopoly to manage or provide public services.

Deregulation. Removal of regulations allows former public services to be provided privately without public supervision.

Service Shedding. The government simply ends provision of a particular service, opening the door to private companies.

Managed Competition. The government creates a contracting process which allows public employees to bid along with contractors.

T
he Drive To Privatize

1. Competitive Pressures: The Profit Equation
2. Taxpayer Revolt
3. Corporate Welfare
4. A Union Free Environment
5. Ideological Attack on Public Service

Right-Wing Think Tanks

- The National Council for Public-Private Partnerships
- The Heritage Foundation
- American Legislative Exchange Council
- The Reason Foundation
- Madison Group (Heartland Foundation)
- Cato Institute
- The Mackinac Center

Pitfalls of Privatization

1. Overstated Cost Savings. Estimates of savings usually ignore the costs of transferring and administering the contract, the increased unemployment premiums, and the impact of the private sector skimming the cream and leaving the public sector without the balance of more profitable ventures. Ultimately, cost savings largely consist of shifting from union to non-union and contingent workers who receive lower wages and limited, if any, health and pension benefits, an income transfer from workers to contractors.

2. Quality of Service. Profit making requires maximizing revenues and minimizing costs. Contractors reduce costs by hiring cheaper and less well-trained labor, by cutting the quality, quantity or the scope of service, or by "service creaming" (serving the easiest to serve at the expense of the more difficult or costly recipients).

3. Corruption. The process of privatization creates well-documented opportunities for corruptions, including bribery, kickbacks, campaign donations, collusive bids, and "revolving door" public officials.

4. Dependency. Governments may become dependent upon contractors when the ability and expertise to perform a service is given up. Without skilled, knowledgeable managers and technicians, the government is at the mercy of knowledgeable private parties in contract negotiations.

5. Accountability and Loss of Authority. The activities of a contractor are much harder to direct and monitor than those of public employees, yet the government's responsibility to provide the service remains, as does the liability for the result.

6. Impact on Employees and the Community. Increased unemployment and the diversion of profits outside the community impose real costs on the community. In addition, women and minority workers disproportionately bear the costs of privatization. Public employment has provided stable jobs and decent income for many women and minorities.

7. Democracy. Shrinking the public sector and public sector unions makes citizens more dependent on the private sector.

Evaluating a Privatization Proposal

Analyzing a Contracting-Out Proposal

1. **Quality and Accountability**

- Are there clear and enforceable quality standards?
- Can the contractor change staffing levels?
- Are contractor employees qualified?
- Are environmental and safety standards addressed in the contract?
- Does the proposal cover all tasks currently done in-house?
- Would contracting-out compromise confidentiality?
- Does the proposal limit management's ability to innovate or respond to inadequate service?
- Will the proposal result in increased dependence and leverage for the contractor?

2. **Direct Costs of Contracting-Out**

- Wages and benefits of workers
- Salaries of private sector managers
- Supplies
- Capital equipment
- Overhead
- Insurance
- Profits

3. **Hidden Costs of Contracting-Out**

- Legal and administrative costs for tendering and negotiating contract
- Ongoing costs of overseeing the contract
- Impact of monopoly-status of contractor on cost
- Pricing method
- Low-ball bids
- Use of in-house equipment and supplies

Investigating the Contractor

1. The Contractor's Profile

- What is the company?
- Who is the parent company?
- Is the company public or private?
- What do SEC documents reveal?
- Is the company a non-profit operation?
- Who are the chief officers?

2. The Contractor's Reputation and Vulnerability

- Evidence of poor performance
- Violations of labor, safety, environmental, and EEO standards
- History of anti-union activity
- Social investment policies
- Campaign contributions to elected officials
- Regulatory compliance

Preventing Privatization

Early Warning Signs

- Talk of need to cut budgets.
- Hostile labor-management relationships or bargaining climate.
- New services are introduced or existing services are cut or restructured.
- Outside consultants hired to review existing services.
- Complaints by public officials or top management about high cost or poor quality of services.
- Vendors visiting worksites or hobnobbing with public officials.
- The development of an employee attrition plan which includes initiatives such as early retirement incentives, hiring freezes, and no plan for refilling positions.
- A turnover in leadership which results in the election or appointment of someone with a pro-privatization agenda.

Early Warning System

- Monitor employers by talking regularly with supervisors, managers and politicians to see what changes are in the wind.
- Get all possible financial and operational information from the employer.
- Attend public meetings and review meeting minutes of the employer.
- Pay attention to statements of managers and politicians in the media of public meetings.
- Identify contractors already operating at your workplace and anticipate other work that they may seek.
- Get information about companies that contract work in your sector or the consultants promoting privatization.
- Subscribe to the same management magazines as your employer.

Legislative Strategies

- Prohibit or limit contracting-out certain activities or services.
- Require consideration of in-house alternatives.
- Require specific conditions such as competitive bidding or assessment of economic impact.
- Require a comparison of private and public costs of providing a service.
- Limit contracting-out to cases of substantial savings.
- Require that employee and union alternative to contracting out be considered.
- Prohibit automatic renewal of contracts.
- Require labor standards covering employees doing outsourced work.
- Prohibit corporate criminals from bidding.
- Open contracting process to public scrutiny.

Collective Bargaining Protections

- Limit contracting-out to emergency situations.
- Limit contracting-out to work for which the required skills are not present in the bargaining unit.
- Guarantee that work contracted-out will not affect employment of bargaining unit employees
- Provide for no contracting-out when any bargaining unit employees are laid-off.
- Require advance notice of any intent to contract-out.
- Allow contracting-out only if the work to be performed by the contractor will cost substantially less than the present in-house performance of the service.
- Provide in successorship clause that the successor will be bound by the current union contract.

Labor-Management Initiatives

- Labor-Management Relations and Organizational Performance
- Why Difficult
- Union Principles of Participation
- Labor-Management Committees
- Toward High Performance Work Organizations
    - Legacy of Scientific Management
    - Problem Solving Groups / Process Improvement Teams
    - TQM / Continuous Improvement
    - Socio-Technical Redesign
- Work Redesign Issues

Public Relations and Community Coalitions

- Continuously promote public service and position the union as advocate for quality services.
- Support and publicize member participation in community activities.
- Build coalitions with advocacy groups in the community.

Educate and Mobilize

- Educate members on the dangers and early warning signs of privatization.
- Establish a privatization committee at the union.
- Utilize a variety of approaches to create member awareness; including training, stories in the union's newsletter, or on its website.

Preventive Measures

- Develop a communication network.
- Share information with members.
- Know your collective bargaining agreement.
- Cultivate relationships with political and community leaders.
- Build community alliances.
- Be aware of changing community needs and how public services may be expanded or improved.
- Promote the value of public services in the community.

Additional Resources

- American Federation of State, County and Municipal Employees (afscme.org)
- Service Employees International Union (seiu.org)
- American Federation of Teachers (aft.org)
- American Federation of Government Employees (afge.org)
- Canadian Union of Public Employees (cupe.org)
- Public Services International (world-psi.org)
- Economic Policy Institute (epinet.org)
- John Donahue, **The Privatization Decision**. New York: Basic Books, 1989
- E.S. Savas, **Privatizing the Public Sector**. Chatham, NJ: Chatham Publishing, 1982 (leading advocate for privatization)
- Elliott Sclar, **The Privatization of Public Service**. Washington, D.C.: Economic Policy Institute, 1997
- Elliot Sclar, **You Don't Always Get What You Pay For: The Economics of Privatization**. Ithaca: Cornell University Press, 2001