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IT'S TIME TO PRIVATIZE

*E.S. Savas**

I. Introduction

New York is a paradox. It is exciting and vibrant, a mecca for immigrants seeking the American dream and an incubator of innovative entrepreneurs. At the same time, the quality of life for most New Yorkers is mediocre and getting worse. Schools are failing, crime is commonplace, streets are filthy, transportation is a test of endurance, drug addiction is a curse, teenage pregnancy is rampant, public incivility and foul language are the norm, ugliness assails the senses, housing is in short supply and derelicts line the streets. Millions of New Yorkers have fled the city over the past twenty years because their intuitive calculus revealed that they could get a higher quality of life and better schooling for their children in the suburbs.

For too long, New Yorkers have prided themselves on an ability to muddle through, to temporize and to survive, smug in the unquestioned belief that New York is resilient enough to overcome any amount of municipal and civic irresponsibility and to rebound from adversity. New Yorkers have assumed that their city is immune to the forces of history that have reduced the great cities of antiquity to dusty sites of archeological digs. But New York is not immune. It is losing ground to foreign and domestic competitors and to other cities who have strived to achieve world stature.

The fundamental failure is New York City government. Many ask why city government does not seem to work in New York and why its performance seems so inept, regardless of who is mayor. City government always seems to promise too much and achieve too little; in trying to placate every pressure group, it undertakes a wide array of functions almost irrespective of their cost or feasibility. It maintains a costly municipal hospital system that is a tribute to noble intentions but merely provides inadequate service for the poor. It promises cheap housing but creates a "temporary" housing shortage that has lasted for forty-five years and has driven up the cost of the little housing that has been built. It promises safe streets but turns hardened

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criminals loose even before the arresting officer completes all the paperwork and gets back on patrol.

In media-rich New York, politicians have learned that credit accrues for detecting problems, pointing to alleged culprits, posturing in public and making symbolic but costly gestures to demonstrate the depth of their commitment to newly discovered causes of yet more interest groups. Capital construction has particular political appeal, and sometimes funds are spent on highly visible projects, even when there is no money to operate or maintain them. Woodhull Hospital in Brooklyn is a sad case in point, the hospital was built at great expense and then mothballed for years before it opened. The bias toward capital spending and against maintenance expenditures is understandable, considering the high visibility of the former and the near invisibility of the latter. Capital budgets create political capital and cement political ties. A ground-breaking or ribbon-cutting for a new structure is an opportunity for crowds, speeches, photographs, media coverage and wine-and-cheese receptions where the flesh of potential campaign contributors can be pressed. In contrast, it is difficult to organize a ceremony to celebrate the prompt repair of a leaky sewer or the long-overdue painting of a bridge. Moreover, capital projects cost the incumbent only three cents on the dollar, assuming a municipal bond with a thirty-year term is used to pay for construction — leaving successors to foot the bill for the remaining ninety-seven cents.

That myriad and ever-changing special-interest groups tempt democratically elected public officials to overextend themselves is not unique to New York. Governments in many places and at all levels have suffered from a loss of public confidence, even as they have grown and prospered and even as people seem to accept the implicit claim that government is omnipotent, capable of solving all their problems.

In fact, government is severely limited in what it can do to address the underlying problems of New York, although well-meaning politicians have squandered lots of money on programs that purport to do so. By “underlying problems,” I mean drug and alcohol addiction, teenage pregnancy, motherhood without marriage and failure to finish school. Together these scourges produce generations of poor unfortunates who lead short and brutal lives on the outer margins of society, unable to participate in the world of work and doomed to a parasitic existence on the fruits of the labor of others — with the fruits picked legally through welfare, broadly defined, or illegally through crime.

By and large, only private institutions — family, church, neighborhood — can change these destructive personal behavior patterns.

Meanwhile, bad government social programs drive out good private ones, just as bad money drives out good. Consider the Catholic Church in Brooklyn which, after ten years, closed its shelter for homeless men because the city government opened a shelter nearby.¹ The men chose the city shelter rather than the private one because the latter required them to give up drugs, clean themselves up, put on fresh clothes it provided and go to work at one of the jobs it found for them, while the city shelter required no such change in behavior. Surely, the private program was infinitely better than the government one.

To survive and thrive, New York needs “perestroika.” A restructuring of government in New York should begin with the same basic premise that drove the vision in the former Soviet Union and in the newly freed nations of Central and Eastern Europe. We must rethink and redraw the boundary line between government and the rest of society, between the public and private sectors. The relative roles of government and society’s other institutions should be sorted out. For example, what is it that the city government can and should be responsible for? What is it that it cannot do and should not pretend it can? What can society handle through other means? How can city government take advantage of other, private-sector institutions?

The private institutions available to address society’s needs include, first and foremost, the family, which is the original department of health, education, welfare, housing and human services. The second component of the private sector is the marketplace, with its market forces, comprised of firms, entrepreneurs and would-be entrepreneurs. Finally, the third component is the whole array of voluntary groupings: churches, businesses, unions, civic and neighborhood associations, charities and nonprofit associations of all kinds, many unique to the United States. As Alexis de Tocqueville noted with wonder 150 years ago in *Democracy In America*, these institutions can be summoned — or allowed — once again to play a greater role and relieve city government of some of its insupportable burden, thereby enabling government to do well those things that only government can do. Local government must relax its grip, for its well intentioned bear hug has turned into a stranglehold.

Privatization is the key to enable New York to better utilize its private sector. Misunderstood, maligned and sometimes feared, privatization, simply stated, means relying more on private institutions and less on government to satisfy people’s needs. Joining neigh-

1. Esther Iverem, *A Church in Brooklyn Closes Its Men’s Shelter*, N.Y. TIMES, Apr. 18, 1987, at 23.

borhood safety patrols instead of clamoring for more police officers is an example of privatization at work. Leasing Bryant Park² to a franchisee who will keep it clean, attractive and free of muggers, addicts and pushers is a form of privatization, as is allowing free-market vans to serve commuters' transportation needs. Prudent contracting with private firms to operate buses, repair police cars and sweep the streets, as well as contracting with not-for-profit churches to deliver "meals-on-wheels" to elderly shut-ins or to operate halfway houses, are ways to privatize. Food stamps and housing vouchers for the poor are successful examples of privatization's success in overcoming the inefficiencies of government-run farms, grocery stores and public-housing ghettos. The *New York Times* opts for privatization when it chooses a home-delivery service instead of the U.S. Postal Service to deliver the morning paper. Strengthening and relying more on the family, religious institutions and aroused local groups to help tackle the problems of teenage pregnancy and drug addiction are other illustrations of privatization. Selling JFK and LaGuardia Airports and franchising the East River bridges (yes, in effect selling the Brooklyn Bridge!) to toll-collecting private firms that will rehabilitate and maintain them, exemplify privatization. These are not abdications by government, but rather realistic acknowledgements that democratic government can go only so far in dealing with certain problems. In light of these shortcomings, it is time to acknowledge that the private sector can be a more effective and more efficient provider of badly needed municipal services.

II. Why Privatize?

A. Privatization and Productivity

More taxes and worse services. For many New Yorkers this has been the net effect of government policies over many years. Now, however, public opposition to higher taxes coupled with public demands for better services are causing local officials to consider new approaches. After all, one can always rely on New York City government to make the right decision — but usually after exhausting every other conceivable alternative.

The policy choices are not limited to raising taxes or cutting services. There is a third way: increasing government productivity, that is, giving the taxpayers more for their money. While the concept of increased productivity has plenty of appeal, the fact remains that con-

2. Bryant Park is adjacent to the New York Public Library on 42nd Street, east of Sixth Avenue.

ventional management reforms to increase government productivity generally have only modest and short-lived effects. A more fundamental strategy is needed to produce permanent productivity improvements, keep taxes in check and improve services. The proven productivity strategy is privatization by competitive contracting for municipal services. This form of privatization is being carried out at federal, state, county and local levels and is non-partisan: Democratic and Republican governors, mayors, legislators and town councils are privatizing a broad variety of public services. Moreover, privatization has occurred in center cities and in suburbs, implemented by black, white and Hispanic elected officials.

Government services are often costly and poor not because the people who work in government are inferior to those who work in the private sector; they are not. It is because monopoly is generally inferior to competition in providing high-quality, low-cost goods and services, and most government activities are unnecessarily organized and run as monopolies. Privatization, when properly carried out, gives public officials and the public a choice, which fosters competition and leads to more cost-effective performance. By dissolving unnecessary public monopolies and introducing competition in the delivery of public services, privatization will thus enable the public to benefit from competition-promoting procedures.

The ideal approach, now being practiced in numerous places in the United States, Canada and Great Britain, is to let private firms and public agencies compete against each other. Recent legislation in England requires governments to let private firms bid against entrenched public monopolies.³ Similarly, the Colorado State Legislature mandated competitive contracting for twenty percent of Denver's bus routes.⁴ The City of Newark, New Jersey, is saving millions of dollars annually through a similar program. The key to the success of such programs is honest and fair competition between public agencies and private firms, with an impartial third party ensuring that the full cost of the public agency is compared to the total cost of the private alternative.

Privatization by "contracting out" is not new. Five hundred years ago Queen Isabella of Spain hired a private contractor — a foreigner at that — to explore a new route to the Indies, even though she might

3. See Peter Young, *Experiences in Britain*, in *PRIVATIZATION FOR NEW YORK: COMPETING FOR A BETTER FUTURE*, REPORT OF THE NEW YORK STATE SENATE ADVISORY COMMISSION ON PRIVATIZATION (E.S. Savas ed., 1992).

4. Karen Brown, *Private Bus Lines On Comeback Trail; Denver and Other Big Cities Make Partial Return to Non-Public Operations*, WASH. POST, Nov. 28, 1989, at A3.

have used the Spanish Navy or the Ministry of Foreign Affairs. What is new is using contracting out as a deliberate, systematic, comprehensive strategy to improve government performance. Today, New York is a laggard in adopting this proven strategy.

III. The Evidence on Privatization

The reasons behind the growing popularity of contracting out are purely pragmatic. When carried out sensibly, this alternative leads to greater productivity and therefore enables governments to provide the same level of services at lower cost or to improve services without raising taxes. The evidence that privatization works is overwhelming and unambiguous and is clear from its widespread growth in the face of opposition by public employee unions. Methods to allay the understandable fears of public employees and gain their support, even if only grudging, are discussed below.

Contracting out has been growing by almost five percent a year,⁵ and has been the focus of numerous studies including surveys of public officials, before-and-after studies and cross-sectional studies. Summaries of the various methodologies and results are discussed below.

A. Surveys of Public Officials

The fact that contracting out is commonplace and growing indicates by itself that, on the whole, public officials are satisfied with its effectiveness. Surveys corroborate this intuitive assessment. Two early surveys of government officials showed that about sixty percent of responding officials considered contracting out to be less costly or no more costly than in-house service. By a ratio of about four to one, these officials considered the quality of contracted services to be at least as good as in-house services.⁶

A larger, subsequent study in New Jersey found that public officials were overwhelmingly satisfied with contract services. Only ten percent or fewer were dissatisfied or had no opinion. Cost savings and in-house limitations are the major reasons they cite for contracting out.⁷

A major nationwide survey conducted in 1987 provides further evidence in support of contracting. Three-quarters of U.S. local govern-

5. See E.S. Savas, *Privatization and Productivity*, in PUBLIC PRODUCTIVITY HANDBOOK 79 (M. Holzer ed., 1992).

6. Patricia S. Florestano & Stephen B. Gordon, *Private Provision of Public Services*, 1 INT. JOUR. OF PUB. ADMIN. 307 (1979); Patricia S. Florestano & Stephen B. Gordon, *Public vs. Private: Small Government Contracting with the Private Sector*, 40 PUB. ADMIN. REV. 29 (1980).

7. See EAGLETON INSTITUTE OF POLITICS, RUTGERS UNIVERSITY, ALTERNATIVE METHODS FOR DELIVERING PUBLIC SERVICES IN NEW JERSEY (1986).

ments that contract for services report that cost savings are an advantage of contracting out. Of those governments, eleven percent report savings of forty percent or more, forty percent report savings of twenty percent or more, and eighty percent report savings of at least ten percent.⁸

In analyzing contracting out, one can and should go beyond the positive attitudes of public officials toward contracting out to examine carefully executed, comprehensive, comparative studies of contracted services. After all, privatization by contracting out might be no more than a temporary enthusiasm, a fad not unlike many of the earlier nostrums for improving productivity.

Today, a lengthy array of studies conclusively demonstrate that contracted services cost less and compare in quality to corresponding services produced in-house by government agencies. Two types of studies lead to this conclusion: before-and-after studies and cross-sectional studies.

1. Before-and-After Studies

The most common studies are before-and-after comparisons carried out in individual jurisdictions. These studies contrast the cost and quality of contractual service provided by a newly hired contractor to the cost and quality of prior in-house work. Such comparisons are numerous, easy to do and are carried out in the normal course of events.

Before-and-after studies are subject to several limitations, however. First, it is difficult to distinguish precisely between the effect of contracting out and the impact of other changes that may have taken place simultaneously, such as changes in service guidelines or a changed operating environment. Second, routine comparisons are sometimes not as systematic or professional as they should be. Third, there is an inevitable reporting bias. When an in-house study concludes that contracting out would cost more, without a commensurate improvement, the decision to make no change is rarely reported. In contrast, a study that leads to a decision to contract out will be reported.

A fourth shortcoming of such simple comparisons is that they contrast an existing in-house service with service by a newly hired private contractor. A commonly cited concern is that the first contract results from an artificially low bid, made in order to capture the service,

8. Irwin T. David, *Privatization in America*, in MUNICIPAL YEAR BOOK, Table 5/2 (International City Management Assoc. 1988).

and that the price will subsequently be raised to a much higher level. As discussed below, evidence contradicts this common belief and the problem is easy to avoid. Finally, these simple comparisons can be countered by finding and pointing to contrary instances, where a contractor was replaced and the jurisdiction took over and began (or resumed) doing the work in-house.

Having articulated these disclaimers, it is important to consider the evidence behind them before dismissing the claim. Can so many different jurisdictions be wrong? Several large-scale experiences are worthy of note. Over the eight-year period from 1979 to 1987, Los Angeles County awarded 651 contracts for data conversion, grounds maintenance and custodial, food, laundry and guard services. The contracts totaled \$182 million and saved the county \$86 million from its original in-house cost of \$268 million. Los Angeles County's in-house cost was forty-seven percent greater than the contract price or, conversely, the contract savings amounted to thirty-two percent. A total of 2700 positions were eliminated, or 3.6 percent of the county's total.⁹ Los Angeles then expanded its privatization program even more aggressively and a subsequent study two years later summarized the county's ten years of experience. The study found that a total of 812 contracts costing \$508 million resulted in savings of \$193 million, or twenty-eight percent. The streamlining process resulted in the elimination of 4700 positions, or six percent of the total, yet this was accomplished with only a handful of layoffs.¹⁰ No information was presented, however, on the relative quality of the work or on the cost of contract administration and monitoring.

The U.S. General Accounting Office ("GAO") examined 1661 cost-comparison studies conducted between 1978 and 1986 covering twenty-five major types of commercial functions performed by the Department of Defense.¹¹ The original cost of performing the work in-house was compared to the contractor bids and to lower-cost bids made by in-house units that faced the threat of privatization. The GAO found that the original cost had been thirty-seven percent greater than the winning bid, and that an estimated \$614 million had been saved by this competitive process.¹²

In addition to this study of studies, the federal government con-

9. See COUNTY OF LOS ANGELES, REPORT ON CONTRACTING POLICY IN LOS ANGELES COUNTY GOVERNMENT 40 (1987).

10. *Id.*

11. UNITED STATES GENERAL ACCOUNTING OFFICE, FEDERAL PRODUCTIVITY: DOD FUNCTIONS WITH SAVINGS POTENTIAL FROM PRIVATE SECTOR COST COMPARISONS, GAO/HRD-89-17 (1988).

12. *Id.*

ducted detailed before-and-after comparisons of its contracts for commercial services. The Office of Federal Procurement Policy studied all 235 contracts awarded by one agency during a two-year period for support activities such as data processing, food service and audio-visual services.¹³ The study revealed that the cost of this work when done in-house had been twenty-eight percent higher than the cost of the contract work.¹⁴ A similar study of all 131 contracts awarded over a subsequent one-year period showed that the contracts cost \$87.5 million but saved \$43.9 million; that is, the in-house cost had been fifty percent greater.¹⁵ No data on comparative quality were offered, nor were the costs of contract administration and monitoring discussed. Moreover, the studies cover only the cases where contracts were awarded; presumably there were many cases where no savings could have been realized and, therefore, no contracting took place. Thus, one cannot conclude from these Los Angeles and federal studies that all in-house services cost thirty-seven to fifty percent more than comparable contract work.¹⁶

2. *Cross-Sectional Studies*

Although the above experiences are useful and may influence others, they do not give a complete picture. Comprehensive, cross-sectional studies tend to provide more compelling evidence. These deliberate studies compare in-house and contract services across samples of randomly chosen jurisdictions. While these studies are time consuming, costly and difficult to carry out, a number of cross-sectional studies have been carried out since 1975 and provide definitive evidence on the efficiency of contracting for service.

The most extensive summary of these studies has covered solid waste management, street sweeping, street repaving, traffic signal maintenance, bus transportation, administrative services, custodial work, tree maintenance, lawn maintenance and corrections. In short, it costs about a third more to perform these services using in-house forces than to use a contractor selected by competitive bidding, even after including the cost of contract administration and monitoring.¹⁷

13. OFFICE OF FEDERAL PROCUREMENT POLICY, U.S. OFFICE OF MANAGEMENT AND BUDGET, ENHANCING GOVERNMENTAL PRODUCTIVITY THROUGH COMPETITION (1984).

14. *Id.*

15. J.P. WADE, JR., REPORT TO CONGRESS: THE DOD COMMERCIAL ACTIVITIES PROGRAM (Apr. 11, 1986).

16. E.S. SAVAS, *PRIVATIZATION: THE KEY TO BETTER GOVERNMENT* (1987).

17. Barbara J. Stevens, *Comparing Public and Private-sector Productivity Efficiency: An Analysis of Eight Activities*, NAT. PRODUCTIVITY REV. 395-406 (1984).

The above studies found the quality of the work to be the same for both municipal and contract work.

While contracting out has been found to be generally superior to in-house service provision, it does not follow that contracting out will be advantageous in every case. Successful contracting out requires a determination that a particular service be appropriate for an outside contractor. In light of this, contracting out decisions should be made prudently and under competitive conditions, and only after a careful study to gauge the potential benefits. In addition, privatization decisions should be followed-up by effective monitoring.

B. The Sources of Productivity Gains

The productivity improvements resulting from contracting out are substantial. If the cost of those public services averages a third more than the price of contract services, the implication is that the price of the latter is twenty-five percent less than the cost of the former. In economic terms, the same output is achieved with twenty-five percent fewer inputs — a significant increase in productivity.

Generally speaking, the productivity gains through contracting out do not result from low wages; they result from more work performed per employee per unit time. After extensive studies of ten municipal services, Stevens concluded that the following factors do not account for the observed cost difference: salaries, fringe benefits or service quality. No statistically significant difference could be found between municipal and contract employees.¹⁸

The observed cost difference is accounted for by the fact that contractors (1) provide less paid time off for their employees (less vacation time and fewer paid absences); (2) use part-time and lower-skilled workers where possible; (3) are more likely to hold their managers responsible for equipment maintenance as well as worker activities; (4) are more likely to give their first-line managers the authority to hire and fire workers and to reward and discipline them; (5) are more likely to use incentive systems; (6) are less labor intensive (i.e., contractors make greater use of more productive capital equipment); (7) have younger work forces, with less seniority; and (8) have more workers per supervisor. Stevens concluded that:

[I]n the majority of public agencies, the concepts of clear, precise task definitions and job definitions, coupled with easily identifiable responsibility for job requirements, are not enforced as vigorously as in the majority of private enterprises. It is this difference that

18. *Id.*

appears, in general, to be responsible for the very significant public sector-private sector cost differences.¹⁹

C. Employee Concerns About Privatization

Not surprisingly, the dreaded 'P' word arouses strong passions and understandable fears among public employees and public administrators, but privatization does not necessarily mean that current employees will be unemployed. Many approaches are used to avoid this result. First, the rate of privatization can be matched to the rate of normal attrition. Second, a winning contractor can be contractually obligated, when staffing up to assume work on a new contract, to offer openings first to current government employees that are affected. Third, a freeze on outside hiring can be instituted in other agencies and the affected workers can be retrained and absorbed preferentially in these agencies. And finally, early retirement and severance pay can be used to mitigate the effects of privatization on individual workers.

Moreover, privatization can create profitable opportunities for public employees who start their own companies, or for those who buy out the public agency and perform the functions they were responsible for as public employees. In these instances, government-owned capital equipment and facilities (for example, vehicles and garages) could be leased to such firms. Initially such firms might be awarded contracts noncompetitively, but subsequently they would have to compete fairly against other private firms. In Los Angeles, employees at a county health clinic formed a private company and successfully bid for county work. Following this approach, workers have prospered dramatically in England through cost-cutting knowledge, and also from a change in incentives precipitated by private ownership.²⁰

VI. Mandatory Competition

New York City and other urban centers should adopt a policy requiring competitive bidding for a large, specified list of government functions and services that are, or can be, provided by commercial firms in the private sector. This should be done in a carefully phased, multi-year process, similar to that adopted by the United Kingdom.²¹ Existing public agencies and private firms should be eligible to compete against each other in a fair and equitable process. The full cost of the public agency's bid must be calculated, as attested to by an impar-

19. *Id.*

20. See Young, *supra* note 3.

21. *Id.*

tial third party such as the city comptroller, the state deputy comptroller for the city or the budget director. This bid should be compared to the total cost of the private alternative, which equals the bid price plus the government agency's cost of contract administration, monitoring and enforcement, minus the taxes that would be paid by the private firm for doing this work. The contract should be awarded to the lowest bidder, public or private, and the winning contractor, public or private, should be held to the same standard of performance as specified in the contract. Note that this does not require contracting out to the private sector, but instead mandates legitimate competition between public agencies and private firms where the contract is awarded to the bidder who offers the best proposal.

In Great Britain, for example, the following local services must, by national law, be offered for competitive bidding: refuse collection, street cleaning, cleaning of public buildings, vehicle maintenance grounds maintenance and catering (including school meals). Gradually phased-in over a five-year period starting in 1988, Great Britain's privatization project results are encouraging, with large reported savings even when city units win the bidding and the work remains in-house, because the city agencies reduce their costs under the spur of competition.

Similar results have been achieved in the United States. The City of Phoenix, Arizona, adopted a competitive policy similar to Great Britain's.²² The government divided the city into districts and gradually introduced competitive bidding in one district after another. Initially, private firms won most of the city's contracts, but after several years, facing near extinction, the city agencies started adopting the same productive practices employed by the private firms, and the refuse collection agency, for example, won back all the districts.

Bus operations and refuse collection represent two areas where New York could take advantage of this tested approach. In the Transit Authority's bus operations, drivers who retire or otherwise leave should not be replaced. Instead, the extensive private transportation industry should be utilized. Late-night service should be opened for competition with van operators allowed to bid against the Transit Authority. Vans should also be allowed to bid to perform some of the rush hour work, especially because many riders already prefer them to buses. As for the existing private, franchised, local bus routes that are operated currently by the Green, Command, Jamaica,

22. Ronald W. Jensen, *Public/private Competition: The Phoenix Approach to Privatization*, Before the Subcomm. on Small Business of the House Comm. on the Impact of Deregulation and Privatization.

Queens and Triborough Companies, these should be opened to competitive bidding, rather than treated as perpetual franchises. After several years of this process, savings are estimated to reach about \$500 million per year, with no layoffs, as the rate of privatization would be no higher than the rate of attrition.²³

With respect to refuse collection, an analogous procedure should be followed. Attrition in the Department of Sanitation is about five percent per year. This means that the equivalent of three of the city's fifty-nine sanitation districts lose all their personnel each year. Again, competitive bidding should be introduced for up to three districts per year. Savings of at least \$70 million can be anticipated. As for the exaggerated fear that criminal elements would be involved, one should note that a large array of firms would compete, including major, publicly traded American, Canadian, British and French companies.

To accommodate labor concerns, it is evident that the Taylor Law²⁴ would have to be modified after negotiations with public employee unions. In fact, competitive bidding did not become feasible in California until the labor law was changed in 1978 to allow widespread privatization in Los Angeles and other areas to begin operating one year later. Nonetheless, legislation to eliminate barriers to privatization will be enacted only when the political will exists to do so, and when the alternatives of higher taxes or lower quality services become sufficiently unpalatable.

Regardless of these barriers, it is clear that mandatory competitive bidding would bring the advantages of marketplace competition to public services. Indeed, large savings can be anticipated. Even with only twenty-five percent of city activities subject to competitive bidding, conservative estimates suggest a savings of at least twenty percent. This amounts to a five percent combined total savings in New York City's budget, or \$1.5 billion. Additional savings of \$500 million could be realized from Transit Authority bus operations and would bring the total to \$2 billion annually.

IV. Conclusion

New York is not trapped between a rock and a hard place. The city does not have to choose between raising taxes or cutting services. There is a third way and that is to increase productivity — to give

23. E.S. SAVAS, SIGURD GRAVA & ROY SPARROW, *THE PRIVATE SECTOR IN PUBLIC TRANSPORTATION IN NEW YORK CITY* (Institute of Transportation Systems, CUNY 1991).

24. N.Y. CIV. SERV. LAW §§ 200-214 (McKinney 1988).

citizens more for their tax dollars. As numerous cities have demonstrated, prudent privatization creates competition, which is the key to unlocking the productivity potential of both the public and private sectors.

Public agencies and private firms should have to compete for the privilege of providing public services and thereby earning the taxpayers' money. Most taxpayers earn their livelihoods — and thus pay for government — by working for firms that compete in the marketplace every day. This common practice should be extended to government services which lend themselves to this approach.

Publicly owned businesses, such as the airports and New York City's Off-Track Betting Corporation, that are naturally commercial activities and have no inherently "governmental" character, can safely and profitably be operated by the private sector. The same can be said for many infrastructure projects. Introducing effective competition in Medicaid and appropriately deregulating the Medicaid program, education and housing in New York City will unleash market forces that can overcome the serious problems affecting these areas. Competitive bidding will drive down the cost of bus transportation, solid waste management and scores of other routine services.

In addition to enhancing the productivity and effectiveness of city services, privatization will serve one final and essential purpose: it will allow city government to return to the business of governing. The word "govern" comes from the Greek word meaning "to steer." In other words, the true role of government is to steer, not to row. Operating buses, airports and waste water treatment plants, and collecting trash are merely rowing, activities for which the private sector is better suited. A competitive private sector, working under proper public control, can perform such chores better and more cheaply. By contrast, only government can be entrusted with the task of steering. Thus, privatization can relieve government of mundane commercial tasks and restore it to its fundamental purpose — governing — which in New York is a sufficiently large challenge. Privatization, properly applied, leads to a better division of responsibilities between the public and private sectors, takes advantage of the strengths of each sector, and avoids their weaknesses. The result is better and less costly services to the public, lower taxes and better government.