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ABSTRACT

The principal findings from a 1988 study of the effects of privatization--the transfer of traditional government activities to the private sector--in 28 cities and counties are the following: (1) jobs created by firms taking over a public function constituted about 80 to 90 percent of the jobs lost in the public sector; (2) only about 7 percent of affected workers were laid off; (3) 58 percent of the local government workers affected by privatization took jobs with the government contractors; (4) local government employee compensation packages offered to workers were found to be more generous than those of private contractors; (5) the cities and counties in the study were highly satisfied with privatization; and (6) lower labor costs were only one of many ways that privatization saved money for the governments, the others most commonly cited being lower operating costs, better management, higher worker productivity, and better or less expensive equipment. The major conclusion was that in the long run privatization is most successful in localities that have protected the jobs of employees with "no lay-off agreements" or "right of first refusal" requirements. The purposive sample of localities studied was selected from lists compiled by such groups as the International City Management Association and the Privatization Council. (The document contains a 36-item bibliography and copies of the questions asked by interviewers.) (CML)

The Long Term Employment Implications of Privatization:

Evidence from Selected U.S. Cities and Counties

Research Report No. 89-04

A Study Prepared by Dudek & Company for the National Commission for Employment Policy

March, 1989

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EXECUTIVE SUMMARY

Privatization--the transferring of traditional government activities to the private sector--has become a standard cost cutting procedure for U.S. cities and counties. The privatization movement has affected local governments of all sizes, of all political persuasions, and of all regions of the country. The dollar amount of local and state service contracts with the private sector has tripled in the past fifteen years and contracting out is expected to flourish through the remainder of this century. Local government enthusiasm for privatization is generally tied to the desire to reduce the cost of government and to improve service performance.

The most common objection to privatization is that government workers suffer significant economic dislocation when public activities are turned over to the private sector. A 1988 study by Dudek & Company examined many of the employment issues typically raised by opponents of privatization. That study found that local governments have in most cases protected the jobs of affected government workers. Lay-offs were found to be rare. This follow-up study examines several employment issues with respect to privatization, but not covered in Dudek (1988).

Based upon an analysis of local and state government trends in employment and purchases we estimate that privatization has resulted in the transfer of a maximum of 1.5 million state and local government jobs to the private sector since 1980. The shrinkage in the growth of jobs in the public sector has been offset by an increase in job creation in the private sector--although the exact number of jobs generated in the private sector as a result of priavatization is not fully known.

We constructed a balance sheet of job losses in the local public sector versus employment gains in the private sector. To do this, we collected detailed employment information pertaining to 34 locally privatized services. These 34 case studies involved 2,213 impacted government workers. The principal findings from these case studies were as follows:

•Direct private sector employment gains from privatization--jobs created by private firms taking over a public function--constituted about 80 to 90 percent of the jobs lost in the public sector. That is, private contractors hired about eight to nine workers for every ten workers that had provided the service for the government. In addition, when the indirect employment gains from privatization were accounted for--which arise from the government's use of the cost savings attributable to privatization for other purposes--the number of jobs directly lost is about equal to the number of private sector jobs gained. In other words, on balance, privatization typically leads to a net job loss of zero when all factors are taken into account.

•Public sector worker lay-offs were found to be rare in the 34 privatization cases studied (confirming earlier research findings). Only about 7 percent of affected workers became unemployed. Local government officials reported paying out very small amounts of public assistance benefits to these displaced government workers. Public officials interviewed indicated that public assistance benefits were paid to no more than 30 percent of laid off workers. Some workers did collect unemployment insurance and early retirement, however.

The limited data on the length of time public sector workers remain unemployed suggests that they experience longer durations of unemployment than are typical of laid off private sector workers. More research needs to be conducted on this issue.

•Most (58 percent) of the local government workers affected by privatization took jobs with the government contractor. We found that these workers tended to remain with the contractors at least as long as average private sector workers remain in their current jobs. About 87 percent of the former government workers were still working for the contractor one year after they took the jobs, and about 62 percent were still in their jobs three to five years later. These are very close to the labor turnover rates in the economy as a whole. This would seem to indicate that government employees who go to work for private contractors have at least average satisfaction with their new employers. This was confirmed by interviews we conducted with former government employees.

•Local government employee compensation packages offered to workers were found to be more generous than those of private contractors, on balance. However, salaries offered by contractors were no lower, on average, than salary levels of local governments. The main difference in worker compensation was in the area of fringe benefits. In particular, local governments often provided more attractive retirement and health plans than did the private sector.

•The cities and counties included in our survey were highly satisfied with privatization. Over 80 percent of the government officials rated the government's experience with privatization as either "very favorable" or "slightly favorable." Moreover, in most cases, the cost savings that had been projected from privatization were actually realized. On average, these 28 local governments cut service costs by 15 to 30 percent through privatization.

•Lower labor costs are only one of many ways that the private sector saves money for city and county governments. The five factors most commonly cited by private contractors in lowering costs were: "lower operating costs," "better management," "lower wages and benefits," "higher worker productivity," and "better or less expensive equipment."

The experiences of the 28 cities providing the 34 privatized services examined in this study varied widely. Although in most cases the affected government workers did not suffer significantly from privatization, and in some cases fared better after privatization, there were five cases where substantial lay-offs occurred. These tended to be the same cases where government officials rated their experience with privatization as unfavorable. We believe that it is critical for cities and counties to develop a labor protection plan--such as "no lay-off agreements" or "right of first refusal" requirements mandating that the winning private contractor hire displaced government employees to fill new contractor jobs--to minimize the adverse impact of privatization on the government workforce. Our principal conclusion from these 34 case studies is that in the long run, privatization is most successful in localities that have protected the jobs of affected employees. These labor protections inevitably pay off future dividends far beyond the short term cost of extending them to workers.

SECTION I

An Overview of Privatization and Employment Issues

America's state and local governments are changing fundamentally the way they provide basic goods and services to their citizens. Known as privatization, this movement first gained political momentum in the late 1970s, in response to an era of unusual fiscal problems for local government.(1) Yet it has shown no signs of slowing during the 1980s, despite the improved financial condition of most states and cities. It has taken hold in government jurisdictions of all sizes, of all political persuasions, and in all regions of the country.(2) It has affected virtually all types of services provided by the public sector.

Privatization has been defined in many ways, but in its most common usage the term means public sector reliance on the private sector to deliver goods and services traditionally provided directly by the government itself. This new partnership between the public and private sectors for service delivery now encompasses a staggering amount of dollars. In 1987, local and state governments spent more than $100 billion on goods and services provided by private contractors.(3) In that same year, federal government purchases of goods and services from the private sector added another $200 billion to the total.

Privatization can take several forms. Most commonly, a government pays a private firm or contractor to perform a public sector activity, as when a locality hires a private firm for street cleaning or garbage collection. But it can also involve a governmental unit contracting with a private firm to build and operate a facility that provides a public function—such as when a private firm constructs and manages a hospital, airport or wastewater treatment plant. It can also involve the government selling a publicly-owned asset—such as land or a utility—to private individuals or firms. It can even involve the government allowing groups of citizens or service recipients to provide services for themselves, such as the recent trend of allowing public housing tenants to manage their projects.

Although the precise motivation for privatizing government functions varies widely, according to the unique circumstances of the jurisdiction and the type of service involved, the local privatization movement has been driven, for the most part, by budgetary considerations.(4) A 1988 report by Dudek & Company (hereinafter referred to as Dudek (1988)) reviewed over twenty studies that documented local government cost savings of between 20 and 50 percent by contracting out services to the private sector.(5) The second most common reason that localities privatize functions is to improve the quality of government-funded services.(6) And the evidence indicated that often service quality is enhanced through privatization. A 1987 survey of local government representatives by the Atlanta-based law firm of Mercer/Slavin, Inc. found that cities and counties were in most cases highly satisfied with the level of service performance by private contractors.(7)

Privatization and Employment: A Review of Recent Findings

•Dudek (1988) discovered that there are also indirect costs and consequences associated with privatization that must not be ignored by policymakers. The most widely-cited effect of privatization is the adverse impact that privatization can have on government workers.(8) Contracting out and other forms of privatization may result in lay-offs among the public sector work force. Even if workers are not laid off, there may be a marked loss of morale among public sector workers facing the threat of cost comparison. And if public sector workers join the private contractor--a fairly common occurrence--they may encounter wage cuts and the loss of fringe benefits—particularly retirement payments and medical insurance. Government unions also charge that there are many "hidden costs" with privatization, such as public assistance payments that governments must pay to displaced public employees and the reduced productivity of demoralized government workers when public sector agencies begin to contract out services.(9)

Not surprisingly, Dudek (1988) identified public sector employee opposition as one of the most formidable barriers to privatization. Public sector unions have, with varied degrees of success, resisted the contracting out of government services to the private sector. They have sponsored aggressive and highly effective lobbying initiatives and public protests, mounted court challenges and launched public relations campaigns to refute the value of privatization.

Dudek (1988) concluded that cities and counties have, however, generally taken steps to ensure that government workers affected by government contracts are not laid off and do not suffer substantial reductions in compensation. The study found, for example, that in the vast majority of cases affected workers were placed in other jobs with the government, or were offered jobs with the private contractors. The authors estimated that of the workers whose jobs were eliminated due to contracting out, only between 5 and 10 percent were eventually laid off.

Similarly, other union objections to contracting out were found to be overstated. At most only 5 percent of affected government workers received AFDC, foodstamps or other forms of public assistance. And these public sector payments were very small compared with the public sector savings typically generated by competitive contracting out. Privatization also was found to have little adverse effect on blacks and women, in contrast with common assumptions. According to the Joint Center for Political Studies (1985), private contractors, in fact, were found to hire blacks and women at about the same rate as local governments.(10) Wages paid by private sector contractors were, on average, found to be lower than what government typically pays. But for many services, the private sector contractors offered higher salaries than those for similar positions in the public sector. Contractors were found to be more prone to hire part time workers, but there was little evidence that local governments hired contractors using poorly trained or under skilled workers.

The one area where government workers were found to suffer substantially from privatization was in the fringe benefits they received if transferred to the private sector. Local governments typically offer substantially more generous benefits—particularly pensions—than private contractors.

Gaps in the Existing Privatization Research

•Dudek (1988) identified several critical employment issues associated with privatization that were not covered in the current literature. The study noted, for example, that with the exception of one report by the U.S. General Accounting Office (1985), no researchers had attempted a systematic examination of the long term consequences of privatization on public employees. Most research on privatization and employment—including the case studies in the Dudek (1988) study—focused exclusively on the experiences of workers at the time the service was privatized. They did not provide any data on the subsequent experiences of affected government workers. Dudek (1988) recommended "a longitudinal study of former public employees one year, two years, and as many as five years after their positions are contracted out."

A second deficiency of the existing research on privatization was that most studies addressed the employment implications of contracting out only from the perspective of public sector employees. The private sector employment creation spurred by privatization, on the other hand, generally was ignored. Dudek (1988) was able to examine these private labor market effects only in a brief and ancillary manner. Thus the study was unable to construct a complete balance sheet of the net labor market costs and benefits of privatization. It was with the goal of filling these gaps in the existing research that this follow-up study was undertaken. We attempt to examine two as yet unresolved issues:

1) What are the principal long term employment effects of contracting out government services? In particular, what happens to government workers from three months to five years after their government position are contracted out?

2) What is the net local employment impact resulting from contracting out government services? That is, how many private sector jobs are created by contractors and how many additional jobs are made available with the funds a community saves by contracting out? How does this compare with the number of jobs lost in the public sector due to privatization?

We investigated these two broad issues by examining in detail the employment effects of privatization in 28 cities and counties, involving a total of 34 privatized services. We collected data pertaining to these 34 services through interviews with city and county public officials, affected government workers, and contractor personnel. Wherever possible, we also reviewed records and documents sent to us by the cities and counties, and by the contractors, to verify the accuracy of the data obtained through the interviews.

Related Employment Issues Covered in this Study

•In the course of this study and our interviews with government and contractor officials, we gathered data on several other employment issues arising from the privatization of public services. Some of these issues—such as wage and benefit comparisons—were addressed in the "Case Studies" section of Dudek (1988). Yet due to the limited number of observations (17), and the incompleteness of the data, firm conclusions on the basis of these city and county profiles alone were not possible.

Additional employment issues examined in this study include:

a) Monetary Savings From Contracting Out

Secondary employment effects are generated by contracting out services when these cities are able to reduce public expenditures for these services, freeing up resources for other activities. This study examines the actual savings from contracting out (as opposed to "projected" cost savings); the reasons why contractors were able to save money for the city; and how the local government used these funds—such as increasing expenditures on other programs, cutting taxes, or reducing government borrowing.

b) Employment Policies Adopted by Local Governments

Based on its survey of local government practices, Dudek (1988) listed several innovative strategies available to cities to minimize the potential adverse effects of privatization on government employees. Cities can adopt a "no lay-off policy" and transfer affected workers to other government jobs, for instance, or they can require private contractors to hire displaced government workers. Based upon our analysis of 34 privatized local services, this study investigates the prevalence and degree of effectiveness of such approaches.

c) Salary and Benefits Comparisons

Several studies have compared salaries and benefits of private contractors with government agencies, but these studies have reached contradictory findings. The research typically has concluded that salaries and benefits offered by private sector contractors are lower, but the studies have differed sharply in their assessment of how much lower. To shed further light on the issue, this study offers data comparing wages and benefits in the public versus private sector. This study also compares specific benefits—including retirement, health insurance, vacation time, sick leave and overtime pay.

d) Labor Turn-over Rate with Contractors

We collected data on the turnover rate of public employees who took jobs with private contractors when their service was privatized. This is an indirect measure of the level of satisfaction of former government workers who take private sector jobs.

e) Treatment of Seniority When Services Are Contracted Out

Some government employees may be harmed more that others by contracting out, depending upon the amount of seniority they have accumulated with the locality and the degree to which this seniority is honored by the government or the contractor. We examined whether cities and counties normally establish "bumping rights" when jobs are lost through contracting out--that is allow workers with high levels of seniority to transfer to other government jobs at the same pay level. We also explored whether private sector contractors that hire former government workers honor the seniority rights of these employees.

f) Public Assistance Paid to Displaced Workers

Dudek (1988) indicates that government workers displaced by contracting out receive an insignificant amount of public assistance. We assess the amount of benefits paid by local governments in connection with the 34 privatized services studied.

SECTION II

Recent Trends in the Local Privatization Movement

The Extent of Local Privatization

•The trend toward privatization of government services in United States local governments has been widely reported, and most accounts project it to continue at least for the next decade. As The New York Times, noted in a 1985 front page story:

> *Mayors and county officials are increasingly paying private industry to provide a wide range of public services in a move that has redefined the role of local government....Nationally, private industry now provides local governments with a significant fraction of such diverse services as waste collection, street light operations, vehicle towing, ambulance services, hospital management and labor relations.*(11)

While it is clear that privatization is on the rise, a firm measure of the total amount of privatization taking place in cities and counties has proven difficult for researchers. This is because the privatization phenomenon is so diffuse: it involves thousands of local jurisdictions hiring thousands of private individuals, firms, nonprofit associations, neighborhood groups--even neighboring localities--to perform a vast array of public services. The best recent estimate of the growth of privatization activity taking place in cities and counties was made by the Washington, D.C.-based Privatization Council. The Council calculated that in 1970 state and local governments issued $22 billion worth of contracts to private firms. By 1982, that number had grown to $65 billion and in 1987 to over $100 billion.(12)

A recent survey of over 1,000 local government officials by the accounting firm Touche Ross revealed that in 1987 fully 98 percent of America's municipalities contracted out at least one major service.(13) It also found that over a two year period more than one-quarter of all localities had transferred at least one major public asset, such as land holdings, utilities and sports stadiums, to private operators.

Based on the future plans of respondents, Touche Ross concluded that this local reliance on the private sector to provide basic municipal services will become more pronounced by the end of the century. Eight out of ten local government officials agreed that, "privatization will represent a primary tool to provide local government services and facilities in the next decade."(14)

The Range of Privatized Services

•Local privatization has typically been confined to routine commercial-type services, such as street repair and garbage collection. These "blue-collar" municipal services remain the most commonly privatized activities. The 1987 Touche Ross Survey, for instance, found that at the time of the study 59 percent of cities contracted out garbage collection, 45 percent contracted out vehicle towing and 30 percent contracted out payroll preparation.(15) The reason cost savings tend to be high when local governments contract out these routine services is that in most local areas there are already private contractors providing these services for private households and firms. A strong and competitive market thus exists and contractors are readily available to bid for services. Some studies, including Stevens (1984), Teal (1985), and Bennet and Johnson (1979), have found that for these commercial-type services cost savings can be as high as 80 percent, with a mean of about 50 percent.(16)

Because contracting out commercial services is the most prevalent and traditional form of local privatization, much of the existing literature concentrates on this form of privatization. Yet privatization at the local level is taking several new forms. In particular, four new trends are now evident in privatization at the local level, covering services not traditionally provided by the private sector:

1) Private Ownership and Operation of Basic Infrastructure

It is not unusual for private firms today to build and own part of a community's basic infrastructure—such as transit systems, hospitals, air traffic control, roads and wastewater treatment plants.(17) In the case of road building, local and state governments historically have provided the funding for new publicly owned roads, while contracting with private construction firms to build them. But today it is not uncommon for roads, bridges and highways to be financed and owned by private transportation consortiums. The private investors typically recoup their costs by charging tolls, or some other form of direct fees on users. Major multimillion dollar private road projects are planned in Northern Virginia; Dallas, Texas; and Chicago, Illinois.(18)

In the environmental area, cities increasingly consider privatization as an economical, efficient and economically sound alternative to municipal ownership of wastewater facilities. More than 150 U.S. cities currently have contracts with private engineering firms to operate their wastewater treatment facilities. In about a dozen of these cities private firms actually own the treatment plants, charging cities for use of the facilities.

Such infrastructure privatization appears set to be a growth industry for at least the remainder of this century. Several public policy groups, including the Joint Economic Committee of Congress, estimate hundreds of billions of dollars of revenue shortfalls for necessary repairs and expansions of local infrastructure. Given these financial pressures, industry experts predict that budget-conscious cities and counties will of necessity become more receptive to private financing options.

2) Contracting Out Social Services

State and local governments have for many years been contracting out basic human services, including job training, health care, adoption services, legal aid, drug rehabilitation and shelter for the homeless.(19) Although there are no reliable statistics available on the exact amount of human services contracting out over time, recent estimates do indicate that social services contracting has been on the rise during the 1980s. In 1985, the Urban Institute estimated that as much as 55 percent of welfare dollars spent by local and state governments were in the form of contracts with private organizations.(20)

The nature of human services contracting out has also gradually changed over the years. Traditionally, cities and counties have contracted with large professional nonprofit service vendors to provide such social services as day care or home health care. But increasingly, localities are bypassing these organizations in favor of neighborhood groups, churches and volunteer organizations. According to the National Association of Neighborhoods there are over 10,000 neighborhood groups in the United States today. They provide a vast array of services, including health care for the elderly, neighborhood cleanups, food drives and drug prevention programs.(21) The change in recent years is that these community organizations are beginning to attract public welfare funds and to compete with the licensed professional service providers.

Supporters of human services contracting argue that it is a highly effective method of ensuring that public sector welfare dollars reach the truly needy—particularly when neighborhood voluntary groups are involved. There is some evidence to support these claims. The Dallas-based National Center for Policy Analysis, for instance, compared the quality of social services provided by private groups versus local governments agencies. It found that the private sector exhibits superior performance in such areas as treating alcohol and drug abuse, training welfare recipients for jobs, providing adoption services and managing public housing units.(22) Other research, however, points to different conclusions. Brilliant (1972) and Bennett and DiLorenzo (1985), for instance, found that professional private human service providers with a long history of reliance on public sector dollars become de facto extensions of the government, and are no more efficient than the public sector.(23)

Human services contracting out is a unique form of privatization in that local governments generally do not enter into these contracts mainly to save money. Rather, the aim is to improve service quality or to obtain special expertise not readily available within the public sector. In Massachusetts, for example, officials in the state health department informed us that the state contracts with private mental health clinics primarily because it is unable to draw top psychiatrists into the public sector due to salary limitations.

3) Contracting Out Public Safety Functions

Many services that once were considered inherently governmental, such as police, ambulance, fire and corrections service, are now provided in many communities by the private sector. Approximately 100 cities now contract out ambulance and rescue operations, for instance. Even more controversial is the private operation of prisons. Such communities as Hamilton County, Tennessee, Santa Fe, New Mexico and Bay County, Florida have demonstrated that contracting out prison operations in no way compromises public safety.(24)

Contracting out these public safety functions remains perhaps the most controversial type of privatization. The American Bar Association, for instance, recently issued a lengthy analysis of prison privatization and recommended cities and states avoid the practice.(25) Former U.S. Labor Secretary Ray Marshall has been a particularly vocal critic of ceding government police powers to private firms. Marshall argues that liabilty problems are nearly insurmountable: "Governments have sovereign immunities that exempt them from certain legal liabilities that private companies must try to insure against. This is a particularly serious problem when you are dealing with contracting out corrections, where we give people the power of life and death over prisoners."(26) Although these issues are far from fully resolved, a growing number of states and cities are exploring prison privatization and the contracting out of other related public safety functions.

4) Allowing Program Recipients to Act as Service Providers—Self Help Initiatives

Perhaps the most recent development in local privatization is the increased experimentation in self help services. Cities and counties are beginning to adopt programs that contract with service recipients to provide the services for themselves, particularly in the case of welfare and human services.(27) In about a dozen U.S. cities, for instance, low-income public housing tenants now manage their public housing developments under contract with local public housing authorities. Several other cities, such as Huntsville, Alabama, have launched transportation assistance programs for the elderly and handicapped that are operated and managed solely by the service beneficiaries.

Each of these new forms of privatization potentially has significant implications for public employees not affected by traditional contracting activities. How communities respond to the understandable fears and resistance of public sector workers will be a major determinant of the pace of privatization in all of these areas during the next two decades.

SECTION III

Study Methodology

In this study we collected employment data associated with 34 privatized services in 28 cities and counties throughout the country. For each privatized local service, we interviewed at least one city or county official and at least one representative of the private firm handling the service. In all, eighty-six local government and private contractor representatives were interviewed using extensive questionnaires (Copies of the survey forms are included in the appendix.) The surveys were conducted by Dudek & Company by telephone between September, 1988 and January, 1989.

Where possible, we also interviewed affected public employees. Twenty-two affected government workers participated in this part of the study. These included workers currently working with the contractor, workers who had worked for the contractor but returned to the local government and workers whose positions had been eliminated but were immediately transferred to another city or county job.

We selected cities and counties engaged in privatization from lists compiled by such groups as the International City Management Association, the Reason Foundation's Local Government Center, the Privatization Council, Mercer/Slavin, Inc. and the National Association of Neighborhoods. All but one of the privatized services were previously provided by the government. The exception was the management of a public housing project in Washington, D.C., which was transferred from a for-profit contractor to resident managers. At least ten workers were affected in each case studied. Each service had been privatized for at least four months at the time of our interviews.

The selection of cities was not random. We intentionally included in our sample cities and counties that had privatized activities not typically contracted out to the private sector. Table 1 indicates the jurisdictions and services examined. Half of the cases involve non-traditional services or non-traditional service providers. Five of the services were social services, and five were infrastructure facilities actually owned by private firms. Five of the services studied were primarily public safety functions. One case involved an employee take-over of a transit operation, and one a service provided by a neighborhood organization. The inclusion of these more innovative forms of privatization allowed us to make tentative conclusions concerning how the employment effects of privatization vary with different types of service and method of privatization.

TABLE 1

Local Governments Included In The Study And The Services They Have Privatized

City/County	Service Type	Form of Privatization
Arlington, VA (1)	Garbage Collection	Contracted
Arlington, VA (2)	Waste/Energy	Contracted
Auburn, AL	Wastewater Treatment	Private Ownership
Bay County, FL	Prison	Contracted
Chandler, AR	Garbage Collection	Contracted
Charlotte, NC (1)	Custodial Services	Contracted
Charlotte, NC (2)	Garbage Collection	Contracted
Columbus, OH	Vacant Lot Cleanup	Neighborhood Groups
Corsicana, TX	Garbage Collection	Contracted
Fort Dodge, IA	Wastewater Treatment	Contracted
Gainesville, FL	Fleet Maintenance	Contracted
Hamilton County, TN (1)	Childrens' Services	Contracted/Nonprofit
Hamilton County, TN (2)	Penal Farm	Contracted
Imperial Beach, CA	Police Service	Contracted w/County
L.A. County, CA (1)	Fleet Maintenance	Contracted
L.A. County, CA (2)	Hospital Food Service	Contracted
Mt. Vernon, IL	WastewaterTtreatment	Private Ownership
New Orleans, LA	Garbage Collection	Contracted
Newton, MA	Ambulance Service	Contracted
Orange County, CA	Data Processing	Contracted
Peoria, IL	Data Processing	Contracted
Santa Fe, NM	Jail Operations	Contracted
St. Charles, MO	Wastewater Treatment	Contracted
Sarasota, FL	Golf Course Services	Contracted
Scottsdale, AZ	Cultural Arts Center	Contracted/Nonprofit
South Lake Tahoe, CA	Bus Service	Employee Buy-out
Tucson, AZ (1)	Parks Maintenance	Contracted
Tucson, AZ (2)	Transit/Handicapped	Contracted
Virginia Beach, VA	Lawnmowing	Contracted
Washington, D.C.	Public Housing Mgmt.	Contracted/Residents
Wichita, KA (1)	Engineering	Contracted
Wichita, KA (2)	Home Health Services	Contracted/Nonprofit
Wichita, KA (3)	Landfill Operations	Contracted
York County, SC	County Hospital	Sold to Private Firm

SECTION IV

A Macro-Assessment of Public Sector Employment Loss

Privatization has resulted in a substantial number of jobs being shifted from the public to the private sector. Yet no study has attempted to quantify the shrinkage of the public sector and the commensurate employment growth among private contractors. This section provides an estimate of the net aggregate effect of state and local privatization on the composition of national employment.

We estimated the impact of contracting out on public sector employment by comparing the state and local government purchases of goods and services with the number of state and local government employees providing these goods and services. If this relationship between employment and purchases changes over time, this could be an indication that local governments are privatizing services through contracting out. We examined this relationship over thirty-eight years. Table 2 shows the employment level in state and local governments compared with their purchases of goods and services (in 1982 dollars) between 1950 and 1987. As Table 2 reveals, purchases increased in thirty-six of the thirty-eight years examined and employment rose in thirty-four of the thirty-eight years. Three of the four years of declining employment occurred in the 1980s, when contracting out was accelerating.

Between 1950 and 1980 there is a clear and upward trend in both series, reflecting the growth of government over this period. Table 3 indicates that the upward trends in the two data series are virtually identical (227 percent for purchases and 226 percent for employment) during that period. But, extending the period to 1987 breaks this near-perfect correlation. Real purchases rose by 281 percent during 1950-1987, while employment growth was only 244 percent. Examining the relationship for just the period 1980-1987 reveals a striking change in the pattern. Purchases in real dollars rose by 17 percent over that period, while employment grew by just 6 percent. After a 30 year trend of public sector employment rising at the same percentage as the growth in purchases, the ratio during the last eight years fell to just a 1 percent increase in employment

TABLE 2

State and Local Government Employment Levels and Purchases of Goods and Services: 1950-1987

Year	Purchases of Goods and Services ($1982 Billions)	Employment (Thousands)
1950	114.2	4,098
1951	115.4	4,087
1952	117.3	4,188
1953	123.1	4,340
1954	133.4	4,563
1955	143.4	4,727
1956	148.3	5,069
1957	157.0	5,399
1958	170.4	5,648
1959	176.2	5,850
1960	183.1	6,083
1961	194.2	6,315
1962	200.1	6,550
1963	212.0	6,868
1964	226.6	7,248
1965	242.5	7,696
1966	258.8	8,220
1967	271.8	8,672
1968	288.0	9,102
1969	295.6	9,437
1970	304.3	9,823
1971	315.9	10,185
1972	324.7	10,649
1973	335.3	11,068
1974	346.8	11,446
1975	354.6	11,937
1976	356.0	12,138
1977	357.2	12,399
1978	370.4	12,919
1979	373.0	13,174
1980	373.6	13,375
1981	370.1	13,259
1982	369.0	13,098
1983	373.9	13,096
1984	383.5	13,216
1985	402.7	13,519
1986	422.1	13,811
1987	435.6	14,120

Source: Council of Economic Advisors, Economic Report of the President.

for each 3 percent rise in purchases.

Using the data presented in Table 3, we can estimate the <u>maximum</u> public sector job loss on the state and local level due to privatization, although we cannot rule out other factors that may have increased efficiency during the 1980s. We can do this by projecting through 1987 the employment levels that would have been expected if the 1:1 ratio in real purchases and employment which occured from 1950 to 1980 had continued. Over the 1950 to 1987 period, purchases rose by 281 percent. If state and local employment also had grown by 281 percent, employment in 1987 would have been 15.6 million workers. But actual employment in that year was only 14.1 million workers. This means that privatization has resulted, at the maximum, in 1.5 million fewer state and local government jobs than would have otherwise been generated.

TABLE 3

Estimate of Aggregate Public Sector Employment Effects of State and Local Government Contracting

Year	Purchases of Goods and Services ($1982 Billions)	Employment (Thousands)
1950	114.2	4,098
1980	373.6	13,375
1987	435.6	14,120

Changes Between Years	Purchases	Employment
1950-1980		
Absolute	259.4	9,277
Percentage	227.0	226.0
1950-1987		
Absolute	321.4	10,022
Percentage	281.0	238.0
1980-1987		
Absolute	40.9	745
Percentage	17.0	5.6

Estimated Employment Effect of Contracting Out

Estimated 1987 Employment with Stable Purchases/Employment Ratio	15,613,000
Actual Employment	14,120,000
Difference	1,493,000

The 1.5 million job loss figure can be misinterpreted, however. First, the figure does not mean 1.5 million government employees were laid off due to privatization, or that there are 1.5 million fewer government workers today than in 1980. Public sector employment, in fact, has continued to grow since 1980—just not as rapidly as purchases of goods and services by the public sector. The slower rate of growth in state and local government employment may have been achieved in several ways other than lay-offs. State and local governments could have, for instance, hired new workers at a slower rate; replaced retired employees at lower rates; offered older workers early retirement; or contracted out only new and expanded services. Indeed, the analysis presented in Dudek (1988) suggests that many cities only contract out new and expanded services, where the impact on current government workers is minimal. The study also found that many cities and counties reduced their work forces after privatization by moving affected workers to other government jobs and eventually cutting the size of the work forces through normal attrition.

Second, this is the upper limit number of positions lost in the state and local government work force between 1980 and 1987 due to privatization; the actual amount of job loss could be substantially less.

Third, the 1.5 million fall in the growth rate of public sector employment has been offset by large though undetermined rates of job growth in the private sector. The results from interviews with government and private sector officials involved in 34 local government service contracts (presented later in this study) provide insights into the number of jobs generated in the private sector when agencies contract out.

As noted, factors other than contracting out could account for this 1.5 million shortfall in anticipated state and local employment. One possible explanation is the greater use of computers and other forms of automation in government. According to data contained in a 1986 National Commission for Employment Policy report entitled Computers in the Workplace, sales of micro-computers in the U.S. increased sharply during the 1970s and early 1980s—from less than 5,000 in 1970 to over 45,000 in 1982.(28) Officials from the California Labor Department report that purchases of computers and other labor saving devices by California local governments increased markedly following passage of Proposition 13, the tax limitation amendment adopted in 1978, as jurisdictions sought to cut spending and reduce payroll expenditures. Nonetheless, we believe that the introduction of computers into the government workplace can at most count for a fraction of the 1.5 million jobs lost. In most industries job losses due to computers have been minimal.(29)

Others have suggested to us that the loss of federal aid to the states and cities, coupled with the local tax revolt movement, might explain this shift in the spending/employment ratio. To be sure, both trends, which were first evidenced in the late 1970s and lasted through the mid 1980s, produced cuts in the growth of state and local employment. Yet it is unlikely that either of these events significantly altered the relationship between spending and employment. This is because the tax revolt and the loss of federal aid caused a reduction in both spending and employment on the state and local level, rather than any fundamental change in the relationship between the two.

In our opinion, the most important reason for the significant change in the spending/employment ratio is the substantial increase in the amount of contracting out during the 1980s. State and local dollars over this time period were being spent increasingly to purchase goods and services provided by the private sector work force, rather than by government employees.

SECTION V

Employment Findings From Survey of 28 U.S. Cities and Counties

Framing the Issue

Economic change inevitably causes some degree of worker dislocation, whether from the introduction of labor-saving technologies, competition from international trade, immigration or even from privatization of government services. Nevertheless there is often a tendency to overestimate the extent of job losses resulting from economic change. This is because the process of creating jobs in the economy is much more diffuse, and therefore less visible, than the job-taking process. For instance, the widespread introduction of the computer has created millions of new job opportunities for American workers in hundreds of new occupations. Yet the computer also has resulted in some job losses--indeed the disappearance of entire job classes is painful and raises understandable public concern. And because the losses are so visible, they tend to overshadow the growth of employment.

In the case of privatized public services, policy-makers encounter understandable and substantial opposition from the government workers who may lose their jobs. Invariably this opposition includes forecasts of heavy job losses. Yet the workers who gain jobs directly with private contractors, and indirectly through the potential efficiency gains of privatization, cannot so easily be identified and thus are rarely a factor in the political debate. For this reason, a primary goal of this study is to construct an employment "balance sheet" for local privatization, by comparing the total job loss in the public sector, if any, with the direct and indirect job gain in the private sector.

The following analysis sheds light on this and other employment related issues associated with privatization, based upon our 34 case studies and findings from a select few other studies.

ISSUE 1. WORKER LAY-OFFS RESULTING FROM PRIVATIZATION

To develop a balanced picture of the net employment effect of privatization, we first examined the employment status of government workers affected by privatization immediately after their positions were elimin ted. For the 34 privatized services we studied, 2,213 workers were affected. Their employment status after privatization is shown in Table 4. The principal findings are:

- 7 percent of the affected government workers were laid off.
- 58 percent of the workers affected by these contracts went to work for the private contractor when the contract was issued.
- 24 percent of the workers were placed in other government jobs.
- 7 percent of the workers retired.

These results are strikingly consistent with the General Accounting Office (1985) study of employee lay-offs resulting from federal contracting out.(30) The GAO study reported that only 6 percent of affected federal government workers were laid off due to contracting out, with about 80 percent of the workers either finding jobs with the contractor or elsewhere in the government.

One unexpected result of our case studies, however, was the substantial number of government workers who took jobs with private contractors. The several studies on federal contracting out cited in Dudek (1988) reached the conclusion that only about 10 percent of the affected workers normally took jobs with the contractor, yet in our study of cities and counties, almost 60 percent of affected local government workers joined the contractor.

Despite the low aggregate lay-off levels found in our survey, it is important to note that the figure varied substantially between cities. In most cases, no employees were laid off—because cities guaranteed alternative jobs for affected workers. Yet in four of the 34 cases, lay-offs were heavy, with more than 50 percent of the workers becoming unemployed. (These cites were Corsicanna, Sarasota, Washington, and Witchita.) Lay-offs were very rare in cases involving the contracting out of public safety functions and the privatization of infrastructure. This is because in most of these instances, the private firm hired all the affected workers.

One reason for the high number of workers taking jobs with contractors is that many local governments often require winning contractors to hire displaced govern-

TABLE 4

Status of Affected Employees at Time of Privatization

City/County	# Affected Workers	Laid off	Took Job w/ Contractor	Other Private Sector Job	Placed in Other Gov't Job	Retired	Status Unknown
Arlington, VA (1)	12	0	0	0	11	1	0
Arlington, VA (2)	30	0	0	0	30	0	0
Auburn, AL	11	0	10	0	1	0	0
Bay County, FL	69	0	68	0	1	0	0
Chandler, AR	27	0	2	0	25	0	0
Charlotte, NC (1)	10	0	0	0	10	0	0
Charlotte, NC (2)	20	2	4	0	12	0	2
Columbus, OH	70	0	0	0	70	0	0
Corsicana, TX	30	15	15	0	0	0	10
Fort Dodge, IA	15	0	14	0	0	1	0
Gainesville, FL	42	0	26	0	16	0	0
Hamilton County, TN (1)	26	0	25	0	0	1	0
Hamilton County, TN (2)	60	0	59	0	1	0	0
Imperial Beach, CA	36	0	24	2	1	5	4
L.A. County, CA (1)	121	0	15	8	84	6	8
L.A. County, CA (2)	288	0	108	0	124	4	51
Mt. Vernon, IL	14	0	14	0	0	0	0
New Orleans, LA	250	50	20	0	50	130	0
Newton, MA	30	0	0	0	30	0	0
Orange County, CA	177	0	175	2	0	0	0
Peoria, IL	16	0	16	0	0	0	0
St. Charles, MO	22	0	22	0	0	0	0
Santa Fe, NM	62	0	60	0	2	0	0
Sarasota, FL	15	14	1	0	0	0	0
Scottsdale, AZ	19	0	3	4	12	0	0
South Lake Tahoe, CA	23	3	14	0	4	2	0
Tucson, AZ (1)	14	0	0	0	14	0	0
Tucson, AZ (2)	50	6	39	0	0	5	0
Virginia Beach, VA	12	0	0	0	12	0	0
Washington, D.C.	25	19	6	0	0	0	0
Wichita, KA (1)	33	13	0	6	10	3	1
Wichita, KA (2)	30	23	5	0	2	0	0
Wichita, KA (3)	19	0	1	0	15	3	0
York County, SC	535	0	535	0	0	0	0
Total--	2,213	145	1,281	22	538	161	76
Percentage--		6.6%	57.9%	1.0%	24.3%	7.3%	3.4%

ment workers. In fact, as Table 5 shows, more than one-third of the local governments we studied required the contractor to offer <u>all</u> affected workers the right of first refusal on any job openings resulting from the contract. In 29 percent of the cases the local governments established a no lay-off policy ensuring workers other jobs with the governments. In only 24 percent of the cases did the city or county fail to establish an employment policy for affected workers. City officials explained to us that these labor protecting policies were an important means of reducing employee resistance to privatization.

TABLE 5

Privatization Employment Policies Adopted by 28 Local Governments

Labor Policy for Affected Workers	Percentage
No lay-off Policy/Guaranteed other Government Jobs	29%
Right of First Refusal w/Contractor	35%
Informal Policy/Work with Individual Workers	6%
Retraining	6%
No Employment Policy	24%

ISSUE 2: LENGTH OF UNEMPLOYMENT SUFFERED BY AFFECTED GOVERNMENT WORKERS

To assess the employment impact of privatization, it is not sufficient merely to count the number government workers rendered unemployed when their positions are eliminated. A more meaningful measure of the costs borne by affected government workers is the length of time they remain unemployed. (Lost wages and benefits also are an indication of harm to workers; these aspects are addressed below.) The duration of unemployment is of importance in its own right, but the statistic also sheds light on such related issues as how much public assistance--including such aid as unemployment insurance and food stamps—is received by displaced government workers. It also gives an indication of the related burdens caused by job displacement losses, such as the degree to which a worker can be assumed to draw on personal savings.

Each year the Department of Labor's Bureau of Labor Statistics publishes national data on duration of unemployment.(31) As Table 6 indicates, in 1988 the average spell of unemployment was brief for most laid off workers and new entrants into the labor force. About three out of every four job seekers obtained jobs within fourteen weeks of unemployment. About 50 percent of the unemployed found jobs in ten weeks or less. Moreover, the 12 percent of workers remaining unemployed for more than six months mostly comprise the "chronically unemployed." These latter individuals have very low skill levels and often are unable to fill available jobs. If displaced city and county government workers—most of whom possess tradable skills—have similar job loss experiences as the typical American worker, then they are likely to be unemployed for about ten weeks, and very few are likely to be unemployed for more than twenty-six weeks.

Two studies have measured the length of unemployment of public sector workers affected by privatization. The first was conducted by the U.S. General Accounting Office (1985) and explored Department of Defense civilian employees whose positions had been contracted out in 1983.(32) Five percent of these workers became unemployed. In 1985 the GAO conducted a follow-up survey of 94 of the 129 displaced workers. The results of these surveys are shown in Table 7.(33)

This study found that displaced federal workers suffered long spells of unemployment. One in five workers was still unemployed two years later--16 percent had not worked at all during the two year period. Only between three and four out of every ten displaced federal workers had found jobs three months later, compared with about seven of ten for all job seekers. These are substantially longer periods of unemployment than is typical in the economy as a whole. We believe that one possible explanation

TABLE 6

Average Length of Unemployment for Displaced Workers, 1988

Number of Weeks Elapsed	Percentage of Unemployed Finding Jobs Prior to this Passage of Time
5	46%
14	76%
26	88%

Source: U.S. Bureau of Labor Statistics, Employment and Earnings, January, 1989.

for federal government workers experiencing comparatively long periods of unemployment is that they may hold out for high-paying positions because of generous severance pay (maximum of two years) offered to displaced government workers. The GAO discovered that more than

TABLE 7

Status Two Years Later of Defense Department Workers Displaced Due to Privatization (94 Workers Surveyed)

Status	Number of Workers	Percentage of Workers
Employeed Two Years Later	62	66%
Unemployed Two Years Later	19	20%
Retired Two Years Later	13	14%
Obtained Jobs w/Government	49	52%
Employeed Three Months Later	31	33%
Never Employed During Two Years (Excluding Retirees)	15	16%
Received Job Offers At Time of Contract	48	51%

Source: General Accounting Office, 1985.

half of the unemployed workers had been offered other jobs by the contractor or the Defense Department at the time the contract was issued, but turned down these job offers.

The second study on this issue involved interviews with 120 county social service workers in Utah, who lost their government positions as a result of privatization. This study, conducted by William Timmons of Brigham Young University, found that the average period of unemployment for the displaced workers was about four months, or almost double the current national average for all job searchers.(34)

One possible explanation for this unusually lengthy adjustment process is that the lay-offs occurred in 1983-84, when labor markets were tighter than they are today. Results are shown in Table 8. These former county workers indicated that they had suffered various hardships in the transition to private sector employment, including lower pay and relocation costs.

These two studies suggest that the economic dislocation suffered by workers who lose their jobs due to privatization can be severe. But because the studies are extremely limited in focus it is proba-

TABLE 8

Results From Surveys of 120 County Workers Displaced Due to Privatization

Average Age of Displaced Worker	46.1
Average Period of Unemployment (Months)	4.2
Percentage Who Moved Out of State to Find Job	23.5%
Percentage Who Accepted New Job at Lower Pay	58.0%

Source: Timmons, 1986.

bly inappropriate to draw firm conclusions about displaced government workers in general.

We attempted to investigate the length of unemployment of displaced government workers during our analysis of 34 privatized city and county services. Unfortunately, the city officials interviewed were unable to provide us with reliable data on this subject. In most cases this was because local governments had lost contact with workers once they were laid off, and so no records of their subsequent labor force experience were available. We conclude that the only method of obtaining reliable data on this question would be through a longitudinal study monitoring the employment situation of government workers over a two to five year period.

ISSUE 3: UNEMPLOYMENT INSURANCE COLLECTED BY DISPLACED GOVERNMENT WORKERS

One indirect method of measuring the length of unemployment of government workers resulting from privatization is by examining unemployment insurance benefits. The General Accounting Office (1985) survey of ninety-four laid-off workers (6 percent of all affected employees) found that fifty-three workers collected public assistance benefits.(35) Forty-two of the workers collected unemployment compensation. (These results are displayed in Table 9). These public assistance payments amounted to less than one percent of total budget savings from contracting out.

Our survey of local officials found that on the city and county level, only in a few instances were benefit assistance benefits paid out as a result of privatization.

- In 71 percent of the cases the city or county did not pay out any public assistance benefits to affected workers. They were also not aware of these workers applying for or collecting or any federal benefits. (This does not necessarily mean workers did not apply for or collect benefits, however.)

- In 11 percent of the cases the local governments paid out unemployment insurance benefits to affected workers.

- In 18 percent of the cases the city had to pay out some early retirement benefits.

These results support the GAO study findings that public assistance payments do not constitute a significant cost to government jurisdictions that privatize services. The results also suggest that, on balance, few government workers affected by privatization suffered long durations of unemployment.

TABLE 9

Public Assistance Benefits Paid to 94 Federal Workers Displaced Due to Contracting Out

Benefit	Percentage of Displaced Workers Collecting
Unemployment Compensation	52%
Food Stamps	12%
Suuplemental, Security Income	3%
AFDC	1%
More than 1 Benefit	8%
At least 1 Benefit	56%

Source: General Accounting Office, 1985.

ISSUE 4: DIRECT PRIVATE SECTOR EMPLOYMENT FROM PRIVATIZATION

In this study we define the direct employment gains from privatization as the number of jobs created by the private firm providing a government service. Based upon the findings of Dudek (1988), we expected that in most cases, fewer jobs would be created directly by the private contractor than the number eliminated in the government agency losing the service. Dudek (1988) found that private contractors generally hired fewer workers to perform a service than the government agency they replace, and that this was one source of budget savings. In that study, contractors were found to be able to operate with a smaller work force than their government agency counterparts for three reasons:

1) Generally they were more capital intensive;

2) They experienced lower rates of employee absenteeism; and

3) They had higher rates of labor

productivity than their government agency counterparts.

In our analysis of 34 privatized city and county services, we compared the number of employees providing the service for the local government with the number hired by the contractor to perform the same activity. As in Dudek (1988), we found that most of the contractors performing the 34 services we examined reported that they were able to perform the service with fewer workers than the city had used. A tabulation by city is shown in Table 10. As expected, based upon earlier research (particularly Stevens (1984)), the private contractors, on average, hired between 10 and 15 percent fewer workers to perform city services.(36) This means that the most direct employment effect of contracting out is a net job loss of about 10 to 15 percent in the particular service occupation in the locality.

TABLE 10

Net Direct Local Employment Effect of Contracting Out City/County Services*

City/County	Number of Government Jobs Lost	Number of Private Sector Jobs Gained	Net Job Impact (#)	Net Job Impact (%)
Arlington, VA (1)	12	4	-8	-75%
Arlington, VA (2)	30	41	11	37%
Bay County, FL	69	69	0	0%
Charlotte, NC (1)	10	6	-4	-40%
Corsicana, TX	30	15	-15	-50%
Fort Dodge, IA	14	9	-5	-36%
Gainesville, FL	42	26	-16	-38%
Hamilton County, TN (1)	10	10	0	0%
Hamilton County, TN (2)	70	74	4	6%
Imperial Beach, CA	28	20	-8	-29%
L.A. County, CA (1)	200	140	-60	-30%
L.A. County, CA (2)	288	290	2	1%
Mt. Vernon, IL	12	9	-3	-25%
New Orleans, LA	250	105	-145	-58%
Orange County, CA	177	177	0	0%
Peoria, IL	16	15	-1	-6%
St. Charles, MO	22	18	-4	-18%
Santa Fe, NM	62	69	7	11%
Sarasota, FL	15	12	-3	-20%
Scottsdale, AZ	35	34	-1	-3%
South Lake Tahoe, CA	23	20	-3	-13%
Tucson, AZ (1)	14	12	-2	-14%
Virginia Beach, VA	12	15	3	25%
Wichita, KA (2)	28	28	0	0%
York County, SC	535	535	0	0%
Total	2,004	1,753	-251	-12.5%

*All 34 cases not included due to inability of some cities/counties to provide us with reliable data.

There was, however, a substantial range of job loss across services. The rate of job reduction tended to be highest for traditionally contracted municipal services, particularly garbage collection, where private firms often substituted new equipment and technology for labor. Conversely, the contractors generally hired more, or an equal number of, workers in the cases of human services and public safety services. This finding is consistent with the analysis presented earlier that local governments typically contract out commercial services with the intention of cutting the budget, but contract out human and public safety services with the intention of improving or expanding the level of services.

ISSUE 5: INDIRECT EMPLOYMENT GAINS FROM CONTRACTING OUT

The cost savings associated with contracting out government services have been well-documented. Dudek (1988) cited over a dozen studies that showed that government cost savings from contracting out range from 10 to 50 percent. To the extent that local governments save money from privatization, indirect employment gains will be realized. The city or county faces three options for using budget cost savings associated with privatization. Each option affects job growth differently:

1) Savings may be passed back to residents through lower taxes, or by cancelling a planned tax increase. The additional taxpayer purchases of goods and services made possible by this reduced tax bill generates job growth in other industries.

2) Savings may be used to expand government services. If this happens, there may be new job openings in those government agencies where budgets have expanded. A possible secondary employment effect of these added government outlays arises if they are used by government agencies to make capital purchases from private industry. These capital expenditures might raise private industry employment levels.

3) Savings may be passed directly to the service recipients, by reducing the charge or price for the service. For instance, private operators of a municipal water plant might reduce water rates. If cost savings are passed on to consumers of government services in this way, their purchasing power will increase. Just as in the case of a tax cut, this will lead to an expansion of employment in other industries.

The Dudek (1988) search on

privatization literature identified only one study that has attempted to quantify these various indirect labor market effects of privatization. This was a 1986 study by Charles River Associates (CRA), commissioned by the U.S. Urban Mass Transportation Administration.(37) The study examined the contracting out of bus services. It conservatively estimated, based on a study by Teal (1985), that bus service contracting out results in average budget savings of 20 percent.(38)

CRA then calculated that if all the savings were used to reduce taxes (or to forestall a tax increase), the overall net job loss would be "essentially no employment effect."(39) CRA estimated that, on net, one-half of one job would be lost nationally for every $1 million in budget savings. The regional impact would be more pronounced, however. For every $1 million in savings from contracting out, the state typically would lose approximately 17 to 18 jobs. The reason cited for this regional job loss was that taxpayers would use their increased purchasing power, resulting from lower taxes, on goods produced from out of the state. On the national level the small net job loss predicted was attributable to consumers using only a small percentage of their increased purchasing power to buy foreign-made goods.

If, at the other extreme, all savings were used to expand government services, and contract savings of 20 percent were realized, the impact on employment would depend upon three factors: 1) the percentage of the service contracted out; 2) the effect of contracting out on labor productivity for that service; and 3) the amount of increased capital expenditures necessary to increase service. CRA concluded from its analysis that "in all cases the extra jobs created by the service expansion exceed the net job losses from service substitution, thereby creating a net *increase* (emphasis in original) in employment in the industry."(40) The net employment gain was estimated to range between 1 and 6 percent more transit jobs in the contracting city or region.

In order to estimate this indirect employment creation resulting from privatization, we first asked local officials in the 28 cities to indicate the amount of documented budget savings their cities or counties realized in the first full year of privatization. These figures appear in Table 11. The total first year actual savings from these 34 contracts was $16.98 million. As a percentage of the budget for these activities, local governments saved between 0 and 50 percent of the cost of providing the service themselves. On average, budget savings were about 20 percent. Budget reductions were largest for infrastructure privatization.

We next asked city officials how these budget savings were used. Table 12 shows the results. In over half of the cases the savings were used to expand the level of the privatized service, or to expand other municipal services. In about

TABLE 11

Reported Budget Savings From Privatization of Local Government Services*

City/County	First Year Budeget Savings ($)	First Year Budeget Savings (%)
Auburn, AL	$1,000,000	N.A.
Bay County, FL	$700,000	15%
Chandler, AR	$90,000	N.A.
Charlotte, NC (1)	$10,000	N.A.
Charlotte, NC (2)	$700,000	N.A.
Columbus, OH	N.A.	33%
Corsicana, TX	120,000	20%
Gainesville, FL	$0	0%
Hamilton County, TN (2)	N.A.	10%
Imperial Beach, CA	$500,000	25-50%
L.A. County, CA (1)	$2,000,000	N.A.
L.A. County, CA (2)	$1,400,000	17%
Mt. Vernon, IL	$4,000,000	N.A.
New Orleans, LA	$3,000,000	N.A.
Newton, MA	$300,000	N.A.
Orange County, CA	$2,000,000	N.A.
Peoria, IL	$0	0%
St. Charles, MO	$110,000	10%
Santa Fe, NM	N.A.	23%
Sarasota, FL	$0	0%
South Lake Tahoe, CA	$600,000	N.A.
Tucson, AZ (1)	N.A.	33%
Virginia Beach, VA	$33,000	12.3%
Washington, D.C.	$125,000	N.A.
Wichita, KA (1)	$0	0%
Wichita, KA (2)	$150,000	N.A.
Wichita, KA (3)	$30,000	N.A.
Total Budget Savings	$16,980,000	

*All 34 cases not included due to inability of some cities/counties to provide us with reliable data.

one-quarter of the cases the savings were used either to reduce taxes, or to eliminate potential tax increases. In only 17 percent of the cases were the savings passed on to the consumers of the service through lower service fees.

Using CRA's model for calculating net employment effects of privatization, we can make tentative estimates as to the balance of jobs lost versus jobs gained from these 34 privatization cases.

- In about half of the cases (those where savings were used to expand services), the aggregate job effect may have been slightly positive, with a minor decline in employment within the locality and an increase in employment

TABLE 12

Use of Budget Savings From Local Privatization

Use of Budget Savings	Percentage of Respondents (n=24)
Lower the Cost of the Service	17%
Expand the Service	25%
Expand Other Municipal Services	33%
Reduce Taxes/ Avoid Tax Increase	13%
Balance the Budget	13%

in the nation as a whole.

- In about 40 percent of the cases (where savings were passed back to residents directly or indirectly), there was close to an equal amount of job loss and job gain in the economy, with a slight loss of employment in the contracting locality.

- In about 10 percent of the cases, where no economies were gained through privatization, we estimate that the aggregate employment effect may have been slightly negative—with an upper bound of 10 percent of the affected jobs lost.

Overall, these findings suggest that the job loss in the public sector is in most cases offset by at least an equal amount of job gain in private industry. This would suggest that if state and local privatization has resulted in a shrinkage of the public sector by an upper bound of 1.5 million jobs, employment creation in the private sector resulting from privatization has also approached this level.

ISSUE 6: THE EXPERIENCE OF FORMER LOCAL GOVERNMENT WORKERS WITH PRIVATE CONTRACTORS

Surveys of Workers

One of the objectives of this study was to determine levels of satisfaction of former government employees who take jobs with private contractors. We interviewed 22 former government employees currently working with contractors. With only two exceptions these employees stated that working conditions with the contractor were the same or superior to those of their former government employer. The four most frequently cited advantages of working for the contractor, according to these employees, were: "a more professional atmosphere," "less bureaucratic procedures," "better opportunities for career advancement," and "better pay."

One of the contractors we contacted, a transit operator in

South Lake Tahoe, California sent us the results of an internal survey of nine former city workers taken one year after privatization. Respondents indicated high levels of satisfaction with the contractor. The results are shown in Table 13. (This is one of the few existing surveys of former government workers who have taken jobs with contractors.) Unfortunately, this survey, and our worker interviews both were limited to those workers who had been with the contractor for a minimum of one year and were still working for the contractor. Workers who had already quit the contractor are unrepresented, and their assessment of employment with private contractors would presumably be far less favorable.

The one existing study to our knowledge that surveyed all former government workers who originally took jobs with the contractor was performed by the General Accounting Office (1985).(41) When all of the original employees are included in the survey, not surprisingly, the results are far less favorable for contractors. Of 129 former Defense Department workers who had taken jobs with the contractors, the GAO survey discovered that two years after the contracting out took place, 46 percent of the workers were "dissatisfied with their contractor positions."

TABLE 13

Survey of Former South Lake Tahoe Employees Working for Private Contractor: Job Satisfaction and Service Quality

How Employees Grade: (n=9)	Poor	Fair	Good	Excellent
Operation of Contractor	0%	0%	44%	56%
Supervision	0%	0%	44%	56%
Communication Between Management and Employees	11%	11%	22%	56%
Employee Involvement in Operations	0%	0%	67%	33%
Maintenance of Buses	0%	0%	11%	89%
Cleanliness of Buses	0%	11%	22%	67%
Wages	11%	11%	67%	11%
Working Conditions	0%	11%	44%	44%
Job Security	0%	33%	33%	33%

Source: Area Transit Management, 1987.

Labor Turnover Rates with Private Contractors

One more indirect method of gauging the general level of satisfaction of government workers taking jobs with the private contractors is to examine their length of employment with the contractor—or their labor turnover rate. The 1985 GAO study found that of 129 DOD workers affected by contracting out in 1983, only 57 percent were still with the contractor two years later.

For local governments involved in privatization we found turnover rates to be substantially

TABLE 14

Labor Turnover Rates of Private Contractors Hiring Former Government Workers*

City/County	Number of Government Workers Taking Contractor Jobs	Number Employed After 1 Yr.	Number Employed After 3-5 Yr.s
Auburn, AL	10	5	3
Bay County, FL	68	61	N.A.
Charlotte, NC (2)	4	1	N.A.
Corsicana, TX	15	13	N.A.
Fort Dodge	14	10	N.A.
Gainesville, FL	26	20	20
Hamilton County, TN (1)	10	10	8
Hamilton County, TN (2)	59	47	32
Imperial Beach, CA	20	20	12
L.A. County, CA (2)	108	86	76
Mt. Vernon, IL	12	9	3
New Orleans, LA	20	10	N.A.
Newton, MA	30	26	N.A.
Orange County, CA	177	158	N.A.
Peoria, IL	16	8	N.A.
St. Charles, MO	22	18	N.A.
Santa Fe, NM	60	45	35
Sarasota, FL	1	1	N.A.
Scottsdale	3	3	N.A.
South Lake Tahoe, CA	14	13	N.A.
Tucson, AZ (2)	39	31	N.A.
Washington, D.C.	6	6	4
Wichita, KA (1)	10	9	N.A.
Wichita, KA (2)	5	1	N.A.
York County	535	500	N.A.
TOTALS			
One Year Data	1,284	1,111	
3-5 Year Data	311		193
Percent		87%	62%

*All 34 cases not included due to inability of some cities/counties to provide us with reliable data.

lower. Table 14 shows data from 25 contractors that had hired former government workers. Turnover rates were 13 percent in the first year and only 32 percent over three to five years. In the majority of cases, workers left the contractor voluntarily, although in about one-third of the cases workers who left the private contractor were "terminated for cause." About 25 percent of the workers who were no longer with the private contractor had rejoined the government work force in a new job. This contrasts with the 1985 GAO study, which found at the federal level that 50 percent of the workers leaving the contractor returned to federal positions.

These labor turnover rates suggest modest levels of satisfaction of former government employees who took jobs with private contractors. The average American worker in 1988 had been in his or her current job for 4.2 years, according to the Bureau of Labor Statistics. Our survey found that after three to five years, about 60 percent of workers were still with the contractors. This would suggest levels of worker satisfaction with contractors that in fact are not significantly different than worker satisfaction with the average private sector employer.

ISSUE 7: WAGE AND BENEFITS COMPARISONS BETWEEN LOCAL GOVERNMENT AGENCIES AND PRIVATE CONTRACTORS

The pay and benefits packages offered by local private contractors is a critically important employment issue. Dudek (1988), which focused on federal contracting out, found that wages paid by contractors were somewhat lower, on average, than those offered by the government, and that fringe benefits were significantly less generous.

Our survey of 28 cities and counties engaged in privatization found no significant pattern of lower wages paid by private firms. In fact, as Table 15 demonstrates, in twelve cases wages were reported by city and county officials to be higher with the contractor than with the government, as opposed to only eight cases where wages were reported to be lower. In twelve other cases, wage levels were about the same. In four cases, however, wage cuts were dramatic, with reductions from 25 to 50 percent--these tended to be the cases involving traditional commercial services, such as custodial services and garbage collection.

With respect to benefit packages, however, our research corroborates earlier research findings that indicate private contractors do not match the level of fringe benefits paid by the public sector. In 48

TABLE 15

Comparisons of Wages: Private Contractors Versus Local Governments*

City/County	Contractor Salaries As Compared to City/County Salaries**
Arlington, VA (1)	+ 5%
Arlington, VA (2)	Same
Auburn, AL	+ 5%
Bay County, FL	+ 7%
Chandler, AR	- 5 to 10%
Charlotte, NC (1)	- 40%
Charlotte, NC (2)	+ 35%
Columbus, OH	- 45%
Corsicana, TX	Same
Fort Dodge, IA	+ 8%
Gainesville, FL	+ 10%
Hamilton County, TN (1)	+ 5%
Hamilton County, TN (2)	+ 5%
Imperial Beach, CA	+ 20%
L.A. County, CA (1)	- 11%
L.A. County, CA (2)	Same
Mt. Vernon, IL	Same
New Orleans, LA	+ 20%
Newton, MA	Same
Orange County, CA	Same
Peoria, IL	+ 5%
St. Charles, MO	Same
Santa Fe, NM	+ 5 to 10%
Sarasota, FL	- 20%
South Lake Tahoe, CA	- 15%
Tucson, AZ (1)	Same
Tucson, AZ (2)	- 50%
Virginia Beach, VA	Same
Washington, D.C.	- 0 to 20%
Wichita, KA (2)	- 10%
Wichita, KA (3)	Same

*All 34 cases not included due to inability of some cities/counties to provide us with reliable data.

**A plus sign (+) indicates salaries were higher with contractor.

percent of the cases, private sector benefit packages were reported to be worse than those offered by the government agency they replaced.

In only 16 percent of the cases were benefit packages said to be better, and in the remaining 34 percent of the cases benefits were about equal. Table 16 shows a breakdown by type of fringe benefit. Local governments were more generous in retirement benefits, medical coverage, sick leave and holidays, with retirement benefits the most cited disparity. It is worth noting that five of the contractors offered employee stock option plans as alternatives to pension plans.

TABLE 16

Comparison of Fringe Benefits: Private Contractor Versus Local Governments

	Percentage of Cases Where Contractor Benefits Were Ranked (n=31):		
Type of Benefit	Better	Worse	Same
Health Insurance	36%	64%	
Sick Leave	25%	75%	
Retirement	7%	93%	
Holidays	27%	73%	
Employee Stock Ownership plan	100%*	0%	
Overall Benefit Package	16%	48%	35%

*Five contractors provided workers with ESOPs.

ISSUE 8: HOW CONTRACTORS SAVE MONEY FOR LOCAL GOVERNMENTS

As mentioned earlier, city officials stated that contracting out had reduced program costs in almost 90 percent of the cases we studied. Four local officials sent us detailed cost comparison reports, in some cases prepared by independent auditors, verifying these cost savings. Except for a few extreme cases, these cost savings typically ranged between 15 and 30 percent.

We asked contractors to assess what factors were most responsible for these lower costs. The results are shown in Table 17. In about half of the cases, the contractors attributed cost savings at least partially to lower labor costs. Labor costs were reported lower for several mentioned reasons: 1) contractors hired fewer workers; 2) they paid workers less; 3) they offered less generous benefits; or 4) they increased worker productivity or hired more skilled workers. Other prominently cited cost reduction factors for contractors were improvements in management, better use of capital and technology, and lower administrative costs.

TABLE 17

How Contractors Say They Reduce Costs

Cost Cutting Factor	Percentage of Respondents Citing This Factor* (n=32)
Higher Worker Productivity	31%
Lower Labor Wages/Benefits	28%
Better/More Efficient Management	28%
Lower Operating Costs/Overhead	37%
Better/Less Expensive Equipment	31%
Higher Quality Service	19%
Use Fewer Workers	19%
Cut Out Marginal Services	6%

*Some contractors listed up to 3 cost saving factors.

ISSUE 9: RATING THE QUALITY OF PRIVATELY PROVIDED SERVICES

The charge is often made by government employee unions that contractors cut costs by compromising service quality. A related charge is that the contractors hire less skilled and less expensive workers who cannot handle the job requirements as well as public servants. For example, the American Federation of State, County and Municipal Employees writes: "Contractors are always looking for ways to cut their costs, and frequently this has meant they cut corners by hiring inexperienced, transient personnel at low wages, by breaching contract requirements, or by supplying inadequate supervision. The age old problem of corruption in contracting has not improved over time."(42)

TABLE 18

How Local Officials Rate Quality of Privatized Services

Service Rating	Percentage of Local Officials (n=39)*
Very Favorable	72%
Slightly Favorable	10%
Slightly Unfavorable	13%
Very Unfavorable	5%

*For some services, more than one local official responded.

Dudek (1988) found that such concerns about service quality often are a major impediment to privatizing services, in many cities and counties and on the federal level.

Our study, however, found that localities contracting out services generally are pleased with the results. About seven out of ten local government officials responded that the city or county's experience with the contract has been "very favorable." Only about one in ten responded "slightly unfavorable," and one in twenty responded "very unfavorable." (See Table 18.) The most consistently favorable ratings applied to contracts of human services, where costs savings were generally minor but service quality reportedly improved in all five cases. Overall, based on these 34 cases, privatization has been very successful for these local communities.

SECTION VI

Conclusions

The research presented in this study leads us to the conclusion that in most cases local governments have been able to minimize the potential adverse impacts of privatization on government workers. On balance, cities and counties have taken positive steps to offset the economic dislocation of government workers that privatization might entail. Employee lay-offs and salary reductions have been kept to a minimum.

The evidence from the 34 privatization cases we analyzed reinforces the idea that protecting the jobs of workers affected by privatization appears vital to the long run success of these initiatives. In those cities and counties where substantial employee lay-offs occurred, for instance, city officials expressed the highest degree of dissatisfaction with privatization.

More specifically, the major findings of our research are:

1) Contracting out has caused a shrinkage in the rate of growth of the public sector work force.

Several studies have concluded that the pace of state and local government contracting out accelerated during the late 1970s and through the 1980s. By relating state and local government receipts with state and local government employment, we conclude that contracting out has contributed to a slowdown in this public sector employment growth rate, and that there are as many as 1.5 million fewer state and local government jobs today than there would have been without privatization. This does not mean that 1.5 million fewer state and local government workers have lost their jobs due to privatization. Rather, it means that contracting out has shifted job creation from the public sector to the private sector.

2) Job loss in the government is compensated for by job gains in the private sector.

Privatizing government services results in direct and indirect job growth in the private sector. In assessing the macro-employment effect of privatization, the extent of public sector job loss (assuming there is any) must be balanced against these private sector employment gains. We found that for every ten jobs lost in the state and local government sector due to privatization, about eight or nine new jobs were created in that same occupational field in the private sector. Moreover, monetary savings from contracting out typically were used to expand other government services, so that the job loss in the public sector is offset to a considerable degree by newly created job opportunities in the public sector.

3) Lay-offs from contracting out are uncommon.

As is consistent with the finding from the 1988 Dudek & Company study, our research confirms that only between 5 and 10 percent of workers affected by government contracts actually are laid off, even temporarily. Our interviews with city and county officials confirm that these workers collected very little public assistance dollars when they did lose their jobs.

4) Most affected workers take jobs with contractors.

We found that about 60 percent of affected workers took jobs with the winning contractors and 20 percent were immediately assigned to other jobs with the government at the time of the conversion of the service to the private sector. This means that most affected workers shifted from the public to the private sector—although an additional 20 percent of these workers eventually return to government service. These findings are consistent with our statistical analysis of trends in state and local employment and spending, which concludes that contracting out has caused a slowdown in the employment growth rate of the private sector.

5) Private contractors use fewer workers than do government agencies.

Our estimate of the direct shift in jobs from the public sector to the private sector is a creation of eight or nine private sector jobs for every ten public sector jobs that are lost due to contracting out. This slight reduction in the total number of employees performing the same service might be due to such factors as contractors substituting capital for labor, delivering services more efficiently, and enjoying higher rates of worker productivity. The direct effect of workers in the occupation contracted out is a net job loss of about 10 to 20 percent of the affected workers.

6) Local governments are highly satisfied with contractor performance.

Over 80 percent of the local government officials indicated that the government's experience with contracting out has been "very favorable" or "slightly favorable." Few cities are considering converting these services back to in-house agency provision. This finding would seem to invalidate claims by public sector unions that contractors reduce service quality significantly.

7) Wage and benefit levels offered by contractors are lower than in private sector.

As in previous studies, we found that employee compensation was lower with private contractors than with the local government. Yet salaries, on average, were about the same as those of government workers. In fact, wages rose in more cases than they fell, as a result of privatization. Fringe benefits offered by contractors, on the other hand, were in most cases less generous than those available in government. These less attractive fringe benefit packages in the private sector tended to bring the entire compensation package provided by private contractors somewhat below the total compensation package of local governments.

• • • • • • • • • • •

The opposition of public employees to the concept of privatization is understandable. Government workers whose jobs are affected by contracting out or other forms of privatization face the prospect of significant and possibly painful economic dislocation. This may involve workers being laid off or possibly suffering a decline in their wages, if they move to the private sector.

The principal lesson of the 34 local privatization case studies presented in this report is that the extent to which workers are negatively affected by privatization depends largely on the employment policies of the individual local government. We found that in the majority of cases cities and counties have done a commendable job of protecting the jobs of public employees. The government workers in these localities did not appear to suffer from privatization, and in some cases they were even made better off. It is not coincidental, in our opinion, that these cities and counties are the ones that view privatization as a successful policy initiative.

Conversely, privatization typically has not been viewed as a success when it has involved massive lay-offs, or for some other reason has left behind many embittered employees. In such cases, the complaints of labor have tainted the entire privatization experience. It is essential, therefore, for cities and counties--as well as the federal government--to satisfy the legitimate concerns of government employees. Without such a labor policy, privatization as a cost cutting strategy will often fail to generate community support.

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STUDY ON THE LONG TERM IMPACT OF
CONTRACTING OUT SERVICES ON EMPLOYMENT

PREPARED BY: DUDEK & COMPANY

FOR: THE NATIONAL COMMISSION FOR EMPLOYMENT POLICY

QUESTIONNAIRE FOR CITY/COUNTY GOVERNMENT OFFICIALS

Note to interviewers:

Introduce yourself as doing a study for Dudek & Company in Washington, D.C. Tell the individual you are interviewing that this study is being conducted for the National Commission for Employment Policy and that you would like to do a case study on the contracting out experiences in their city/county.

Fill out one form per city/county official interviewed and per contract service discussed. Do not read anything in parentheses. Try to write down direct quotes of the respondent and put quotation marks around all direct quotes. If the respondent cannot answer certain questions, go on to the next. At the end of the interview, go back over the questions he/she could not answer and ask who might know that information. If the respondent does not know the exact number in response to a question, press to get his/her best estimate and indicate on the form that it is an estimate. Also, press the official politely, if he/she does not know an answer off-hand, whether the information could be obtained by examining old records, etc.

BACKGROUND INFORMATION

1) Date:

2) City:

3) Name of City/County Official Interviewed:

4) Title:

5) Telephone #:

GENERAL CONTRACTING OUT POLICY OF CITY/COUNTY

6) What services does your city/county currently contract out? (List services)

7) Were any of these contracted out services formerly provided in-house by city/county workers? If so, which?

8) Did any of these services involve more than 10 government workers? (List which ones. Note: If yes to more than one, complete a separate interview sheet for each service.)

CITY/COUNTY EXPERIENCE WITH CONTRACTING OUT SPECIFIC SERVICE

9) Why did the city decide to contract out this service--(i.e., cost savings, labor problems, lack of technical expertise)?

10) How much money did you save by contracting out this service? (Get best estimate and specify what period of time the savings were realized.)

11) What did the city/county do with the savings from contracting out this service? For instance, did you expand services elsewhere, retain services that otherwise might have been cut back, reduce taxes, or start new programs?

12) How would you rate your city/county's experience in contracting out this service?

Very Favorable	______
Slightly Favorable	______
Slightly Unfavorable	______
Very Unfavorable	______

TREATMENT OF AFFECTED GOVERNMENT WORKERS

13) Now I would like to ask you some questions about the government workers who were affected by this contract. How much employee resistance was there to the city/county decision to contract out? (Note: Write down exact quotes.)

14) Did the city adopt a formal policy to protect the jobs of the workers. For example, a no lay-off policy or a right of first refusal policy?

15) What happened to the city/county workers who were affected by the contract? (Get best estimates of numbers or percent.)

Number that were involuntarily laid off _____

Number that took jobs with the contractor _____

Number that took jobs in the private sector _____

Number that took jobs elsewhere with city/county _____

Number that took early retirement _____

Other (Specify) ________________________

16) If some workers stayed with the city/county and others were forced to leave, how did the city determine which workers would be given the option of keeping their jobs with the government? (For example, was seniority an issue?)

17) We are particularly interested in finding out what happened to workers a short period after the service was contracted out. About one year after the contracting out occurred, how many of the original workers were still with the city, or had moved back with the city? Do you know what the others were doing one year later? (Press for best estimates.)

18) Did the city/county ever pay cut any unemployment insurance or other government assistance to workers affected by the contract? If so, what public assistance? How much did the workers collect? (Get best estimates and full range of government assistance, including unemployment insurance, food stamps, Medicaid.)

19) Of workers who took jobs with the contractors, how did their salaries compare with what they had earned with the city/county?

20) How did the fringe benefits, such as pensions, offered by the contractor compare to what the city/county offered?

21) How many net city/county jobs could you estimate were eventually lost due to the contracting out in the long term--that is, about one year later? By net jobs, I mean including into your estimate job opportunities that were created in other service areas due to the savings from contracting out.

22) Could you send me any data or background information about this contract to complete this case study?

23) Could you give me the name and telephone number of the contractor who took over this service?

A STUDY ON THE LONG TERM IMPACT OF CONTRACTING OUT SERVICES ON EMPLOYMENT

PREPARED BY: DUDEK & COMPANY

FOR: THE NATIONAL COMMISSION FOR EMPLOYMENT POLICY

QUESTIONNAIRE FOR PRIVATE CONTRACTORS

Note to interviewers:

Introduce yourself as doing a study for Dudek & Company in Washington, D.C. Tell the individual you are interviewing that this study is being conducted for the National Commission for Employment Policy and that you would like to do a case study on the contracting out experiences in their city/county.

Fill out one form for each city/county service contract discussed. Do not read anything in parentheses. Try to write down direct quotes of the respondent and put quotation marks around all direct quotes. If the respondent cannot answer certain questions, go on to the next. At the end of the interview, go back over the questions he/she could not answer and ask who might know that information. If the respondent does not know the exact number in response to a question, press to get his/her best estimate and indicate on the form that it is an estimate. Also, press the official politely, if he/she does not know an answer off-hand, whether the information could be obtained by examining old records, etc.

BACKGROUND INFORMATION

1) Date:

2) Company:

3) Name of Private Contractor Interviewed:

4) Title:

5) Telephone #:

6) City/County Where Service Provided:

7) Type of Service Provided:

8) How much money, if any, do you estimate that you are saving the city/county by providing the service?

9) To what do you attribute these savings? For instance, did you change the way the work was performed? Did you introduce new technologies or equipment?

10) When you took over the service, do you know how many workers were providing it for the city/county?

11) How many workers did your company hire to perform the service?

12) Were there any requirements in the contract placed upon your company to hire former city/county employees?

13) Were any of these workers former city/county workers? If so, how many?

14) How many of these workers were still working for your company one year after you took over the service? Of those who left, why did they leave? Did they have other jobs lined up?

15) How does the salary you pay your workers compare with the salaries paid by the city/county? (If he/she does not know, ask what salary the company pays its workers.)

16) How do the fringe benefits, such as vacation time, parental leave, sick pay, retirement benefits, etc., paid by your company compare with those of the city/county?

17) Overall, would you say the city/county workers who came to work for your company were satisfied with the change from government to the private sector? (Get exact quote.)

18) Do you have any documents or records that you could supply me with to confirm some of the information you have given me to complete this case study?

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