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## Why Do We Have Government Employees

Statement Prepared By

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For the  
General Accounting Office  
Commercial Activities Panel  
June 11, 2001

My name is Moshe Adler. I am a senior economist at the Fiscal Policy Institute and I also teach economics in the Urban Planning Department at Columbia University. The FPI is a ten year old non-profit research and education organization concerned with New York state and city economic and fiscal issues. My specialty is public policy, and over the last few years I have been researching privatization. I have just finished the manuscript of a book about the history of contracting out of one service, street cleaning, in 19th century New York City, and I would like to share some of my findings with you. (I have also published an article about my findings: Moshe Adler, "Been there, done that! The Privatization of Street Cleaning in Nineteenth Century New York--New Labor Forum [Spring Summer 1999]).

What I have discovered in my research is that the only reason that big cities use their own employees to collect the garbage, repair the roads, drive buses or provide any other governmental service is precisely that contracting out failed continually and persistently throughout the 19th century. It was only after all hope that it could be made to work was lost, that the government itself stepped in. In fact, my research has led me to believe that if you want to cure governmental ills with contracting out, you might just as well cure anemia with blood letting.

To appreciate how committed 19th century Americans were to contracting out, let me mention that in New York City until the end of the century the city charter actually prohibited the city from hiring any employees. Although the State of New York kept revising the city charter throughout the century, one thing stayed constant: Any provision of a governmental service that involved more than \$250 had to be done by contractors.

An even more powerful indication of the commitment to contracting out is the length that 19th century Americans went to to preserve it in spite of its repeated failures. Street cleaning was perhaps the easiest service to contract out: There was no shortage of contractors and because every single citizen could see for him or herself whether the contractor did his job, collusion between the contractors and the city government was impossible to conceal. Yet already in 1826, one hundred and seventy five years ago, the Committee on Street Cleaning declared:

...the present system of cleaning (sic) the streets by contract will always prove ineffectual in as much as that private interest is too frequently at variance with public convenience and therefore ought to be abandoned....[T]he only sure and effectual method will be to have it done on account of the Corporation by public agents appointed for that purpose.

The condition of the streets after contracting out was such that the city had no choice but to clean the streets with government employees. And because of unique political instability--the city had no functioning political parties at the time--this period of governmental production lasted fourteen years. But just as soon as political stability returned, in 1843, so did contracting out. And in 1849 Mayor Caleb Woodhull evaluated the performance of this round of contracting out:

The system of cleaning the streets by contract has signally failed of fulfilling public expectations, and I assume that it is no longer entitled to public favor. At first it seemed to promise important advantages, both as to economy and efficiency, but in its operation it has proved entirely inadequate to accomplish either of these desired results....

Once again the city had no choice but to hire government employees to do the job, and once again they got the job done. In 1851 Woodhull summed their performance in the following way :

I believe I echo the sentiments of every citizen in according my commendation to the system now in operation: Of having the streets cleaned by the city authorities.

But the charter mandated contracting out, which one member of the Committee on Street Cleaning lamented bitterly:

The amended charter of 1853, so far as cleaning the streets is concerned, has proved (sic.) an utter abortion....The proceedings of the Common Council teem with....information of contracts broken, engagements unfulfilled on the part of the contractors, and the consequent filthy condition of the streets...

But the Council could not simply ignore the charter, and in 1853 it returned to contracting out . In May of 1855 Mayor Wood repeated the assessment of contracting out of virtually all his predecessors:

On the commencement of my term of office I found few of the then contractors performing their work according to the conditions [of the contracts]...As was my duty, I insisted on a faithful compliance, which resulted in an abandonment by some of the contractors and withdrawal of the contracts by the Commissioner of Streets and Lamps from others.

Similar assessments were issued over the next 25 years, until finally, in 1880, the Committee on the Affairs of Cities signed the death certificate for contracting out:

The contract system has been repeatedly tried in all forms, and invariably repudiated by the city, either on account of dissatisfaction with the work done or of the failure of the contractors to live up to their agreement.

The service then passed on to government employees on a permanent basis.

The question is of course whether 19th century Americans simply did not know how to do it right. And it was to answer this question that I did my research. Economists today believe that the necessary and sufficient measures for making contracting out competitive are (Robert Poole and Philp Fixler, 1987; John Marlin, 1984):

- i. Use competitive bidding;
- ii. Divide the service area into different districts;
- iii. The city should perform the service in one of the districts in order to maintain its capacity to replace a delinquent contractor;
- iv. Require performance bonds;
- v. Use short contract periods;
- vi. Contracts should not be renewed without new competitive bids.

Were any of these measures in force in the 19th century? In fact every single one was: Competitive bidding was used for each and every contract as well as for renewals. As for the city's capability to do the job itself, as I've just mentioned the city had to take street cleaning upon itself numerous times. The contractors also had to post a bond, exactly as the experts of a hundred years later have decreed. As for having several service districts and short contract durations, the city actually experimented with all possible combinations. One district, six districts, ten districts, eleven districts, sixteen districts, one year, three year, and five year contracts were all tried in all possible combinations. Magic cures were prescribed and swallowed again and again. The mother of all reforms was implemented in 1872 when the responsibility for contracting out was passed to the police commissioner. But nothing made a difference, and eight years later the plug was pulled on contracting out.

The symptoms of contracting out in other big cities were exactly the same as they were in New York. In 1892, the head of the Chicago Board of Health declared that "there are

few if any redeeming qualities attached [to the contract system]. No matter what guards are placed around it, the system remains vicious." In 1895 Mayor Pingree of Detroit stated that "most of our troubles can be traced to the temptations which are offered to city officials when franchises are sought by wealthy corporations, or contracts are to be let for public works."

In conclusion, we have been there and we have done that. Let's promise ourselves to not do it ever again.