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I appreciate this opportunity to testify on behalf of the 1.3 million members of the American Federation of State, County and Municipal Employees (AFSCME), who provide essential public services throughout the United States. AFSCME members include employees of various federal agencies, state, county, and municipal governments, school districts, public and private hospitals, universities, and private non-profit agencies, working in a broad cross-section of job categories. We are a diverse union, with various constituencies, but we have strong views on contracting out.

In general, AFSCME's experience has been that contracting out is far from the cure-all claimed by its supporters. In many cases, it rests on shaky assumptions and stereotypes about both the public and private sectors, particularly that the private sector always knows best and can best organize the delivery of services. Furthermore, contracting discussions frequently ignore the very real, but sometimes delayed or unseen, costs of substituting private interests for public ones.

One set of factors that is frequently overlooked when services are privatized includes the direct effects contracting can have on cost and quality. Far from being a universal success, contracting has frequently led to huge cost overruns, poor performance, a loss of government capacity to deliver the services, and therefore a weak government bargaining position upon contract renewal. I am speaking primarily just of direct costs, i.e., a comparison between what the services used to cost and what they cost under contracting. I do not believe that is a full and adequate measure of contracting's success, but it is clear that even by that measure it has often fallen short of its goals.

More importantly, though, contracting out has significant social costs, which tend to be delayed, or fall on different entities' budgets, and thus are ignored. These costs are especially understated in forward-looking, speculative privatization analyses, sometimes performed by the very firms which stand to gain from outsourcing proposals. I am referring to costs like the impact of lower wages and benefits on workers, and therefore on the tax base, if private firms underbid government on that basis, as well as the related costs of turnover stemming from lower wages. This is yet another example where penny-wise in one budget cycle may be pound-foolish overall.

Another category of costs stemming from contracting, which is also hardly ever included in cost comparisons, is indirect costs. These include the costs of the process itself -- developing a request for proposals, putting a service out to bid, choosing a contractor, negotiating a contract, and monitoring a contract over its life – the latter being a factor that can only be skimped on if the government is willing to subject itself to cutting corners, overbidding, and similar practices. There are also conversion costs from shifting workforces, such as sick leave and pension payouts. Finally, there are often costs stemming from litigation or disputes with contractors. It is all too common that disputes occur not only with the successful bidder, but with others as well.

Finally, and most importantly, there are costs which even the most rigorous analysis would be hard-pressed to quantify, but which may be the most dangerous costs of all – a loss of public confidence in government, a loss of accountability for public service provision, and a dangerous mingling of private interests with public interests, and private incentives with public mandates. These types of issues are particularly noticeable in social services programs, where contractors have often had perverse incentives to cut off services, declare citizens ineligible for government-funded programs, or otherwise "cut corners" when doing so directly boosts their profit margins.

Given what I have outlined so far in terms of our opposition to contracting out, what are our particular views on the principles and procedures that should influence federal contracting? Our views flow directly out of our perception of privatization, and the problems we have experienced. AFSCME believes federal contracts should follow principles designed to safeguard the integrity of public services, to place high standards on contractors, and to minimize contracting's damages.

First, we believe a wide variety of functions are perceived by the public as, and conceived by most legislators and policymakers as, governmental tasks, which are very risky to contract out. These include items such as regulating business, enforcing laws, protecting the environment, deciding eligibility for government programs, insuring air traffic safety, and providing oversight and direction. Government, in our view, cannot just "steer" rather than "row." Instead, we believe that abdication of rowing means, at some level, that government can no longer steer effectively. Also, we believe that public cynicism is dramatically increased, but public services are not improved, when allies of incumbent decision-makers are beneficiaries of contracting out.

Second, we believe that if a decision is made to contract out a function – i.e., if a function is determined not to be of the type just described, that must remain governmental to insure integrity and public confidence – then the decision should be subjected to a full and fair costing analysis. Costs being considered should include all indirect costs, and the consideration should not simply take contractors' bids as reality. Rather, a detailed investigation of likely costs and quality should be undertaken, and the contractors' past efforts should be investigated and researched carefully.

Third, cost analysis should consider the impact of privatization on workers who may lose their jobs, on the morale of remaining workers, and on the agency's ability to provide services should the contractor default or provide substandard services. The agency's backup plan for providing services on its own must include a significant monitoring system, lest the familiar abuses of privatization – cost overruns, overbilling, inflated claims of work done, and so on – take place.

Fourth and perhaps most obviously, direct costs must be considered. Contractor bids must be scrutinized carefully and compared fairly to agency budgets, and compared in such a way that only "avoidable costs" – expenditures the agency truly will not incur under privatization plans – are counted as savings. Any savings cited must be likely to materialize in reality, not on paper.

As a closing point, I would like to draw attention to a major alternative to privatization, which all public sector agencies ought to utilize – the power and promise of labor-management cooperation. Ironically, at the same time federal agencies and some in the administration tout the efficacy of private sector solutions, one genuine private sector innovation – "high-performance work organizations" which make use of employees' brainpower to jointly solve tough problems – has been all but ignored in some public settings, and has been attacked in the federal government.

Studies have consistently shown that only when workers are truly empowered, can represent themselves (rather than being handpicked by management), and can protect their own interests – particularly their jobs – does true employee involvement, and valuable innovation, occur. The crux of these studies is simple – that workers are assets to be developed, not costs to be cut. The current emphasis on outsourcing ignores this fact, and neglects the best way to improve agencies.