Privatization and Public Employment: An Essay on the Current Status and the Stakes

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Abstract

This Essay engages two questions: Is conventional public service being swept away by a tidal wave of outsourcing? And, if replacement by private providers is eroding public employment, how (if at all) should the interests of government works, and government employment as part of America’s social landscape, be considered as factors in the debate about privatization?
PRIVATIZATION AND PUBLIC EMPLOYMENT: AN ESSAY ON THE CURRENT STATUS AND THE STAKES

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Is conventional public service being swept away by a tidal wave of outsourcing? If replacement by private providers is eroding public employment, how (if at all) should the interests of government workers, and government employment as part of America's social landscape, be considered as factors in the debate about privatization? This essay engages these two questions—the first with some specificity, the second far more tentatively.

IS PRIVATIZATION SHRINKING THE PUBLIC WORKFORCE?

The rhetoric of privatization opponents and enthusiasts alike suggests a major siege on public employment as an institution. Gerald W. McEntee and William Lucy of the American Federation of State, County, and Municipal Employees ("AFSCME") warn of a "coordinated campaign to privatize government at every level [that] far exceeds anything we've seen in the past."1 At the other end of the ideological spectrum, the Reason Public Policy Institute declared triumphantly that "privatization moves ahead in breadth and depth" and is "thriving in the United States."2 Such organizations issue regular publications packed with examples (which are, respectively, denounced or celebrated) of services formerly provided by public workers being shifted to private delivery.

One might infer, from the volume and tenor of talk about privatization, that American public employment (at least as we know it) is on the verge of withering away. As a preliminary to any inquiry into the effect of outsourcing on public employment, it is useful to get a sense of the current status of the government workforce. The question of whether public jobs are many or few turns out to be far

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more complex than is commonly supposed. The following section calibrates the scale of public employment from several perspectives, including relative to the past, scaled to the size of the population and workforce, and relative to public spending.

As of 1999—the most recent year for which complete Census Bureau data are available—there were roughly 20 million government workers.\(^3\) Around 2.8 million of these were civilians working for the federal government, of which the largest group (876 thousand) consisted of postal workers, and the second-largest (713 thousand) were civilians involved in national defense and international affairs.\(^4\) The federal government also employed 1.4 million uniformed military personnel.\(^5\) The states, in the aggregate, employed somewhat more people than the federal government: 4.8 million overall, of which 2 million were involved in higher education.\(^6\) The local government workforce exceeded federal and state combined, at 10.7 million.\(^7\) More than half of these (5.7 million) worked in primary and secondary education.\(^8\) The remaining 5 million local government workers were scattered across a score of categories, with no single category except police services claiming more than half a million.\(^9\)

Is 20 million public workers a big or small number? An obvious point of reference is the total count of American workers, which was approximately 135 million at the end of 1999,\(^10\) making public employment 15 percent of the total. But this is only useful for assessing whether privatization is contributing to a downward spiral of government employment by reference to the past. Figure 1 traces the number of government workers (on a full-time equivalent basis) from 1948 to 1998. Public employment roughly

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4. Id.

5. For military statistics, see http://web1.whs.osd.mil/mmid/military/miltop.htm.


7. Id.

8. Id.

9. Id.

tripled over that half-century, but by no means smoothly. There were sharp surges in net hiring (in the early 1950s, late 1960s, and late 1980s) alternated with plateaus of little growth, and the public payroll has been close to steady since around 1990. This simple headcount of government workers, though, tells us little on its own.

![Figure 1: Full-Time Equivalent Government Workers, 1948-98](image)

What about the scale of the public workforce relative to America’s population? Total government employment climbed from about 6.5 percent of the population in the early 1960s to around 8 percent by the late 1960s, and has stayed fairly close to that level. From 1975 through 1999, public workers never accounted for less than 7.7 percent of the population, and never accounted for more than 8.2 percent, with no strong trend discernible in the quarter century’s data.  

Total population, however, may not be a particularly relevant denominator. The population figures include many groups (such as young children or undocumented aliens) the members of which are not very likely to be employed by the government or a government

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contractor. A more germane point of reference is total employment. Figure 2 traces government employment relative to total employment, economy-wide, with both categories measured on a full-time equivalent basis, with part-time workers counted in proportion to their work hours. Two half-time teachers' aides, for example, would count as one education worker on a full-time equivalent basis. As noted earlier, the current share is around 15 percent, and Figure 2 could be interpreted as tracing significant erosion of the governmental workforce. Public employment's share of the total was down by roughly a quarter from the peak of more than 20 percent it reached in the years just before and just after 1970. This is consistent with downward pressure on the public workforce caused by outsourcing and other forms of privatization. But a closer look suggests a more complicated story. The public-sector share of employment is lower than it was in the 1970s, but about the same as it had been in the middle of the last century, suggesting that the early 1970s (not the 1990s) may have been the aberration. More tellingly, perhaps, is that more than half of the decline from the peak occurred prior to the mid-1980s, when the privatization debate first gained much prominence.

**Figure 2: Public Sector as Share of U.S. Full-Time Equivalent Employment, 1948-98**

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13. DOC Survey, *supra* note 11, at tbl.6.5B.
Unless privatization was a major force before it drew much attention (and far less influential as the debate grew noisier) it seems unlikely that outsourcing explains much of the ebb in the public share of the workforce.

Separating the governmental workforce into its major components provides some additional perspective, at the expense of what turns out to be inevitable complexity in the story of American public employment. Public workers' total share of employment was about the same at century's end as it had been fifty years earlier. But its composition has changed radically. Figure 3 divides the public workforce into four largely-exhaustive groups: the armed services, other federal workers (including postal workers), state and local workers involved in education, and all other state and local workers. In 1948, these four groups were close to the same size, each claiming between 3 and 4 percent of American employment. Over the next half-century, military employment dwindled (for well-known and perfectly logical reasons). Other federal employment shrank as well, while state and local employment, both education-related and not, surged as a share of the workforce. There is a story to be told here, but it is not—at least not in any obvious way—one of rampant outsourcing. Figure 3 underscores a

**Figure 3: Public-Sector Workforce as Share of U.S. Full-Time Equivalent Employment, 1948-98**

15. DOC Survey, supra note 11, at tbl.6.5B.
significant point: privatization decisions at the state and local level will have a far larger impact on the big picture of American public employment than will decisions at the federal level, where the stakes are simply smaller.

Perhaps the more revealing comparison is not to population, or total employment, but to the scale of the government’s mission. The public workforce can be called large or small, growing or shrinking, only by reference to the amount of work the government has to get done. If the headcount shrinks while the mission swells, it is more plausible that the anecdotes of outsourcing do indeed sum to a meaningful privatization trend.

Although government’s share of America’s gross domestic product (“GDP”) has varied rather less than one might infer from strident arguments about the size of government, it has risen and fallen with changes in economic climate and political fashion. The budgets of all levels of government combined climbed from roughly one-quarter of GDP in the early 1960s to something over 30 percent in the mid-1970s, staying at or slightly above 30 percent

![Figure 4: Thousand Public Workers per One Percent of GDP Spent by Governments, 1962-99](image)

16. See 2001 Budget, supra note 12, at tbls.15.5, 17.1, & 17.5.
from 1980 through 1995, then declining somewhat to around 28 percent for the last half of the 1990s. One intuitively appealing measure of the public workforce is the number of government employees required for each 1 percent of GDP claimed for public spending. If this number goes down government is accomplishing its mission with fewer conventional employees, with one possible cause (among others) being more aggressive outsourcing. Figure 4 tracks the trend in public workers relative to the public-sector share of GDP from 1962 to 1999. The ratio of government employees to the government’s share of GDP has actually risen by about 65 percent over the period.

Yet this seemingly straightforward ratio is misleading in at least two ways—both serious, though in opposite directions of bias. One distortion makes Figure 4 an overestimate of the ratio of public work to public workers. Although the overall share of public spending in the GDP has changed only modestly in recent decades, the growth of federal transfer payments, mostly Social Security and Medicare, masks the decline of governmental activities of the sort that involve much actual service provision (as opposed to check-writing). Ten billion dollars worth of transfer programs does not imply the same demand for personnel as ten billion dollars’ worth of teaching, policing, or mine-inspecting. In 1962, Social Security and Medicare payments accounted for 2.5 percent of GDP, and 10 percent of total public expenditures. In 1999, they claimed 6.5 percent of GDP, and more than 23 percent of public spending. These programs do not run themselves, to be sure; the Social Security Administration has about 63 thousand employees, and the Health Care Financing Administration around five thousand. But the disproportion between budget dollars and manpower for these functions means that their growing share of public spending risks distorting trends in the relationship between government’s mission and its workforce.

Figure 4 can be improved by removing Social Security and Medicare from the equation. Adjusting the spending figures is simple. These transfer programs, which are reported separately by the Office of Management and Budget (“OMB”), simply are subtracted from the public spending totals. Adjusting headcount is trickier. OMB’s figures combine Social Security Administration and Health

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17. 2001 Budget, supra note 12, at tbl.15.3.
18. Id.
19. Id. at tbl.15.5.
20. Id.
Care Financing Administration employees with all other workers in the Department of Health and Human Services ("HHS") as well as the Department of Education. Workers administering Social Security and Medicare comprise less than half of the HHS/Education total. But for the sake of simplicity I subtract this whole category of workers from the overall public workforce. This makes the adjustment between "with" and "without" transfer programs smaller than it would otherwise be. But even so, the comparison is remarkable. When Social Security and Medicare spending and personnel are excluded, the employment-to-spending ratio nearly doubled.

**Figure 5: Thousand Public Workers per One Percent of GDP Spent by Governments, Social Security and Medicare Excluded, 1962-99**

Figure 5 shows that in 1999, close to 1 million workers were employed for every 1 percent of GDP in public spending (other than the big transfer programs), up from just over 500 thousand in 1962. By this measure, it seems as if the public workforce has grown, not shrunk, relative to the scale of the mission.

The other distortion, tending to understate public-service austerity, stems from the fact that "1 percent of GDP" is a shifting bench-

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21. See 2001 Budget, supra note 12, at tbls.15.5, 17.1, & 17.5.
mark. Public spending as a share of GDP was not all that different in 1999 (28 percent) than it had been in 1962 (25.5 percent). But although the share may be similar, at a bit more than one-quarter of the economy, it was a bit more than one-quarter of a much larger economy. In 1962, the GDP was about $2.6 trillion; in 1999 it was about $8.7 trillion, with both figures expressed in terms of constant (1996) purchasing power. So each 1 percent of the economy was about 3.5 times as large, in real terms, in 1999 as in 1962.

Shouldn't public employment have grown at that pace? If so, what looks like a rise in public employment is really a relative decline, because government's similar share of a rapidly growing economy should have produced a far greater enlargement of the public payroll than has actually occurred. Adjusting for GDP

**Figure 6: Thousand Public Workers per One Percent of GDP of Public Spending, Adjusted for GDP Growth 1962-2000**

22. *Id.* at tbl.15.3. Excluding Social Security and Medicare makes the difference even smaller, though in the other direction: 22 percent in 1999, down a little from 23 percent in 1962.


growth since 1962 does show a drop in the workers-to-work ratio, both with and without transfer payments and their associated workforce included. This is shown in Figure 6. The share is down by more than half, relative to the 1962 benchmark, for the whole public sector, and by nearly 43 percent excluding Social Security and Medicare. Here, at last, we seem to have discovered the effect of the privatization tidal wave on public employment—an army of “missing” public workers. The American economy in 1999 was 3.5 times as large as it was in 1962, and government’s share of the economy was about a tenth higher—so why aren’t there 46 million public workers instead of 20 million? This finally must be the smoking gun, betraying a shift toward private rather than public workers to accomplish governmental tasks.

But this still doesn’t seem quite right. America’s overall workforce only doubled (from 58 million to 119 million, on a full-time equivalent basis) between 1962 and 1998, while the economy more than tripled in size. That is what productivity growth is all about. The number of non-governmental workers for each 1 percent of the GDP outside government also dropped sharply over this period, when measured by the same yardstick, though the decline is slightly steeper for public workers. It would have been remarkable (and regrettable) had government missed out on this economy-wide gain in the ability to do more with less. And the largest share of the drop (relative to the “shadow” public service one might have expected with a constant ratio of staff to spending) occurred prior to the early 1980s, when privatization first gained much prominence as a strategy for public-sector reform.

What inferences can we draw from these aggregate public-employment data? Growth in overall public employment did indeed slacken in the 1990s (as talk of privatization intensified), but the government payroll did not shrink. Public employment has declined only modestly (when scaled to the nation’s population or the overall workforce) during the two decades or so of privatization’s vogue, and other reform themes were at work as well. The

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25. This projection is made by multiplying the number of public workers in 1962 (11.9 million) by 3.5 and again by 1.1.


27. Or, to be precise, to do more with less labor. The matter is actually rather more complex than this. Many large categories of public-sector tasks—teaching, for example—are probably less subject to large improvements in labor productivity than the average for the private economy.
workforce has grown, not shrunk, relative to the public-sector share of GDP, but recognizing that the underlying GDP has grown even faster suggests some erosion relative to what might have been had the public sector of 1999 been simply a scaled-up version of the public sector of 1962. Yet productivity growth is almost surely the main factor behind this reduction in the workers-to-work ratio.

Instead of relying on fuzzy inferences from aggregate data, why not get a precise fix on privatization's impact on the public workforce by simply comparing trends in actual spending on traditional versus privatized government spending? This seems eminently sensible, but is unfortunately impossible. No such spending data exist. Although anecdotes and special-purpose statistical tallies issued by privatization's friends or foes can be invoked to demonstrate a surge in the private performance of public functions there is no clear-cut definition of privatization, and no standard measuring stick. But for present purposes, a rough definition might be publicly-funded services that are not performed by public employees.

The best available gauge for the progress of privatization, by this admittedly coarse definition, comes from the voluminous National Income and Product Accounts ("NIPA") compiled and distributed by the U.S. Department of Commerce's Bureau of Economic Analysis. These accounts disaggregate annual public spending along several dimensions. One dimension is the level of government—state and local versus federal and, within federal, national defense and international versus domestic programs. Within each of these categories, spending is further separated into transfer payments like Social Security or (at the state and local level) general assistance, debt service, grants to other governments, and investment in structures and equipment. The remainder includes a large category somewhat confusingly labeled "consumption," which is essentially payments made to suppliers of goods and services. At a very high level of aggregation (and with a correspondingly low level of precision) the answer to the question "how much privatization?" can be sought here.

The entire U.S. public sector spent roughly $1 trillion on services in 2000. About $885 billion of this went to pay the salaries and

benefits of government workers ($232 billion federal, $653 billion state and local), and about $169 billion went for "other services," which is a rough proxy for outsourced tasks. In other words, services delivered by people other than public employees accounted for about 16 percent of the public sector's overall service budget. Once more the question arises: is this a big number, or a small number? Figure 7 tracks "other services" as a fraction of total service spending, separating federal from state and local data, and suggests two strong and perhaps surprising conclusions. First, non-employee services account for a vastly larger share of federal than of state and local service spending. Second, the last decade of the twentieth century—a time marked by a great deal of talk about privatization, whether mournful or triumphant—displays essentially no trend at all on the mix between employee and non-employee service spending. At the federal level, the non-employee share goes up by a bit, then down by a bit more. At the state and

**Figure 7: Non-Employee Services as Share of Total Services, 1990-2000**

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30. It is unclear exactly how rough this proxy is; a research effort in progress is examining this question.

31. **DOC Survey, supra** note 11, at tbl.3.7, "Government Consumption Expenditures and Gross Fixed Investment by Type."
local level, it goes up by a bit, then down by about the same amount. Closer analysis may unveil some hidden pattern, but on the surface (with the possible exception of the federal decline toward the end of the period) this looks like random variation around a fairly steady balance of in-house versus outsourced public service.

In sum, there is little reason to believe that contracting out has been responsible for any major erosion in the public-sector workforce over the past decade. There has very likely been some effect. We need not systematically suspect the accuracy of the voluminous anecdotal record. But we can question whether that record is representative of what has been happening in the structure of American public service delivery. Aside from the general human tendency to over-generalize from anecdotes, the widespread perception of a big effect from privatization is likely shaped by the incentives of both advocates and adversaries to exaggerate the impact to date. Privatization almost surely has had a smaller influence on the size of the public workforce than have shifts in the size and composition of government’s mission, productivity growth, and simple austerity. Far from cutting to the heart of public employment, privatization seems to have been (at least so far) nibbling around the edges. This, of course, could change.

**What is at stake?**

It may be that the pattern suggested by the data cited above—a modest effect from privatization on the size of the public workforce—represents an equilibrium: those functions suited to privatization already have been outsourced, and any remaining changes will be marginal. Here is not the place to discuss the criteria that make a public task more or less suitable to private delivery. It could turn out that very few incremental public functions will prove suitable to privatization, when honestly assessed by criteria other than the impact on public employees. Public-worker unions and other privatization opponents argue that this is nearly always the case, and it is eminently understandable why they take this line of argument.

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32. I recognize that this may itself be included in a broad definition of "privatization."
34. See Press Release, American Federation of State, County, and Municipal Employees, AFSCME Applauds Secretary Mineta on Opposing Privatization of FAA (Mar. 15, 2001) (praising decision not to "spin off some Federal Aviation Administra-
If potential reassignments of public responsibilities that threaten government workers are also consistently bad for the citizenry as a whole, the rest of this essay will be rather pointless. But suppose there are important examples of services currently performed by government employees in which the evidence and arguments point to real advantages (in terms of cost reduction, quality improvements, greater flexibility, and so on) from privatization, but at the price of a shrunken public payroll. In the quite likely event that this is not a negligible category of privatization decisions, we need to determine whether, and how, the public workforce should weigh in the balance.

This is only an important issue to the extent there is something distinctive about government employment. If public-sector jobs differ in no important respect from private-sector jobs, the public workforce would be a minor factor in privatization decisions, whatever portfolio of values one brings to the issue. But govern-

![Figure 8: Average Wage/Salary per Full-Time Equivalent Employee, 1948-98](image)

35. I note that I have been a government worker on three occasions, summing to roughly a quarter of my career.

36. DOC Survey, supra note 11, at tbls.6.5B, 6.6C.
ment work is different—in subtle ways that space does not permit me to explore here, but also in some quite straightforward ways.

**Figure 9: Compensation for All Full-Time Workers, 1998**

First, government jobs tend to be well-compensated. This was not always the case. In the early post-war years, compensation per employee tended to be somewhat lower in government than in the private economy. But as Figure 8 shows, average compensation in government at all levels outpaced private-sector compensation starting in the 1970s, and even after a recent downturn is still about 8 percent above the non-governmental benchmark. Figure 8—based on National Income and Product Account data—is at an extremely high level of aggregation, covering only broad classes of workers. Somewhat more fine-grained data are available from the Bureau of Labor Statistics' periodic National Compensation Survey ("NCS"), which records hourly wages (or the annual salary—


38. This reflects changes in both the composition of public employment, and compensation levels for any given category of workers.
equivalent) for many categories of workers, both private sector and in state and local government.\textsuperscript{39}

Figure 9, based on the most recent (1998) NCS data, shows that public-sector pay is higher not just at the median and at the 1st decile level—which is consistent with the conventional wisdom of more compressed public payscales—but at the 9th decile level as well. In other words, both at the low end and at the high end, public workers earn more than private workers. This general pattern holds for both broad categories like white-collar and blue-collar workers, and for many narrower categories, including janitors, bus drivers, auto mechanics, and secondary-school teachers. It is only in a few especially high-paying occupations—such as lawyers, physicians, and computer analysts—that this pattern is reversed. At the very high end, to be sure, private-sector compensation vastly outpaces government. (The tendency of those who discuss relative payscales to be in high-end managerial and academic occupations may explain the prevalence of confusion about low-paying government work. If you are an attorney or a financial analyst, or if you teach attorneys or financial analysts, low pay is a central feature of government work. But the picture is quite different viewed from other occupational vantage points.)

Government workers also tend to be much older than private-sector workers.\textsuperscript{40} Figure 10 shows that fewer than one-third of the private workforce was forty-five years old or older in 1999, compared to something approaching one-half of public workers. This has something to do with the surge in government hiring in the 1970s, something to do with the characteristics of many governmental tasks, and something to do with differences in turnover between government and business. But the age distribution of government as a whole is strongly skewed toward older workers, and in some sub-categories this tilt is dramatic. For example, over three-fourths of the nearly 10,000 employees of the Department of Housing and Urban Development are older than forty, and 41 percent are older than fifty.\textsuperscript{41}


\textsuperscript{40} This is, of course, related in several ways to the pay differential between the two sectors.

There is another well-known distinction of public employment, though its magnitude often is underestimated: The public workforce is far more unionized than the private workforce (see Figure 11). A government worker is more than four times as likely to be a union member than is a private-sector worker, and the most-organized segment of the private sector (transportation and communications) is much less heavily unionized than the least-organized segment of the public sector (the federal government).

Other distinctive features of public employment could be discussed, but the bare facts summarized here are sufficient to render plausible the idea that a major shift toward outsourcing would whittle down the wage premium enjoyed by some current workers, shrink the number of less-skilled jobs paying middle-class salaries, have a disproportionate impact on older workers, and lay siege to the remaining stronghold of the labor movement.\(^4^3\) It is clear how one should regard this prospect if one is an AFSCME official. It is equally clear how one should regard this prospect if one is a Reason Foundation official. But what about the rest of us?

Consider first one tidily pure position: the interests of public workers, and the idea of public employment, should have no independent standing whatever. The guiding principle of our capitalist economy is that you face merciless competition as a supplier, and are compensated with a rich menu of low-cost options as a consumer.\(^4^5\) That principle suggests that if public employment turns


\[44. \text{Alternative scenarios are by no means ruled out, but grant, for the sake of argument, that this would be the central thrust.}\]

\[45. \text{See generally Robert B. Reich, The Future of Success (2000) (providing a thoughtful take on this much-discussed theme).}\]
out to be the most efficient, most accountable way to organize the production of postal services, or welfare-to-work counseling, or primary and secondary education, fine. If not, then turn to the private sector—and if public employment drops from 15 percent of the total to 10, or 5, or zero, so be it.

Many observers (and not just public workers or their unions) are likely to feel uncomfortable with that pure position. Rampant privatization very likely would increase the economic inequality that already is plaguing America. It undercuts the function of public employment as the pace-setter and benchmark for civilized employment practices, including (not least importantly) racial and gender equity. It seems rather brutal toward a large number of people who have made irreversible career investments in public service. And it would trigger an acrimonious political battle only faintly presaged by the limited privatization we have seen so far.

Consider next the other extreme: if a given candidate for privatization would damage the interest of public workers or seriously shrink the government workforce it should be rejected even if it credibly promises to lower costs, or improve accountability, or boost performance. This is also likely to be less than satisfying to many Americans (and not just free-market fundamentalists or aspiring government contractors). It would be logically consistent, at least, to revisit our basic capitalist bargain and say producers' interests should trump consumers' economy-wide, and that government should do a great many things so that there will be a large number of good government jobs. That experiment has been run elsewhere on the planet, however, and few were persuaded by the results. To declare that those people who happen currently to be employed by the government have rights to good, secure jobs that other workers lack, alternatively, is less radical, but ethically random beyond defense. Even if this could be squared on the moral front, it seems politically hazardous. Unless privatization is always and everywhere a bad idea from the perspective of citizens overall, making public employment a trump implies requiring 85 percent of Americans to pay more or get less than they otherwise could, so that 15 percent of Americans can have differentially favorable conditions of employment. This seems quite likely to breed public hostility toward government.

46. Perhaps it would not be entirely beyond defense, if favored government work is restricted to workers who for some valid reason are considered particularly deserving.
For those troubled by both pure approaches, are there more tenable intermediate positions between treating public workers’ stakes as dispositive, and ignoring them altogether? Mapping the middle ground is likely to be an extensive undertaking only begun here. Whether it warrants the effort will depend on how rapidly the list of otherwise attractive privatization candidates lengthens. Here, I merely underscore the likelihood that we will confront at least some significant instances in which the institution of public employment and the interests of specific public workers will be at odds with other considerations in decisions about the privatization of traditional governmental functions. And I offer three observations that may render the debate over public employment and privatization marginally clearer and more productive.

The first observation is essentially analytical. We should be disciplined about distinguishing between the efficiency effects and the distributional effects of specific privatization proposals. Cost savings from outsourcing can be due to real productivity advantages—a more rational scale of operations; management structures and strategies better suited to the task; a superior technical approach, and so on—or to driving a harder bargain with employees through bypassing public sector labor provisions. Both of these things can and do occur. The two sources of savings—real efficiency gains, and losses to employees—often are commingled in the same restructuring, and both show up as simply “lower costs.” The distinction is real enough in an economic sense, and a potent political motivator, but disappears in the accounting.

It is worth disentangling the two in the analysis of specific privatization decisions, and distinguishing between them in public presentations of the policy choice. Savings due to dismantling relatively generous public employment practices essentially shift resources from citizens-as-producers to citizens-as consumers, which is fundamentally different from doing more with less. Virtually everyone favors the latter effect. Many may favor the former as well, while others may oppose it. But an informed public deliberation over the virtues and drawbacks of privatization requires that citizens be able to tell them apart. At present, both sides in the privatization debate tend to see advantages in obscuring the difference, which makes it difficult for citizens to deal honestly with the stakes of the choice.

The second observation is operational, and related to the first. The best candidates for privatization are those that promise large efficiency advantages relative to the labor disruption they impose.
Whatever judgement one reaches about the validity of public workers’ stakes, it is worth minimizing the losses inflicted on current government employees. This is true whether one believes public workers’ stakes to be legitimate and those losses lamentable, or whether one simply would like to minimize the political effort required to exploit private efficiency advantages. In practice, this implies a relative bias, other things being equal, toward outsourcing in new services (where there are few existing interests to disrupt), or in areas in which private-sector conditions of employment are not markedly inferior to government, or in which the public workforce already is shrinking through attrition or retirement.  

The third observation is considerably broader. The more turbulent aspects of the debate over privatization policy reflect a submerged debate about labor policy. What makes outsourcing particularly contentious in the United States is the widening gap between conditions of employment in the public and private sectors. In Northern European nations, for example, where the difference between public and private labor conditions is generally minor, outsourcing is more often seen as a technical issue with limited political voltage. In this country, we are awkwardly cramming a conversation about compensation, job security, and labor rights into a conversation about what government should do directly, and what it should delegate to outside organizations.

The American labor movement is reinforcing its stronghold in the public sector as its private-sector presence dwindles and employment practices tilt toward laissez-faire. This strategy may be understandable, but it is probably not sustainable. We eventually will have to confront the disconnect between the conditions of employment characteristic of government, and the increasingly market-driven environment of private-sector employment. Some will prefer to level toward the private-sector model, dismantling governmental labor protections and creating more room for both risk and reward in the public sector. Others will prefer to level toward the governmental model, shoring up bulwarks of labor protection that have eroded over recent decades. But so long as labor policy remains the tacit subtext of the debate, it will remain difficult to think clearly about privatization per se.

47. I recognize that this skirts the issue of whether there is value in public employment separable from the interests of specific, current workers. Public employee unions would take limited comfort from this guideline.