DIALOG: MANAGING COMPETITION

Don’t buy the happy talk – there are plenty of risks in turning over municipal services

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Dialog: Managing Competition

In March 2009, Chicago Mayor Richard Daley came to San Diego to speak to a group of CEOs about the benefits of privatization. The Union-Tribune reported that Daley told the CEOs that “government can only do so much” and that “government has to be more welcoming to business.”

Just a few months earlier, Daley’s administration persuaded the Chicago City Council to sell – for 75 years – all operational control and revenue from the city’s 36,000 parking meters to a private company in return for $1.15 billion in cash.

While Daley was charming CEOs in San Diego, all hell was breaking loose with parking meters in Chicago. The new private operator quadrupled meter rates, causing meters to break as they were overfilled with quarters, unleashing a flood of outrage directed at Chicago’s leaders and the behemoth Wall Street-led investment group behind the deal.

More important, the private investment group’s own financial projections showed that Chicago’s future parking meter revenues are actually worth billions more than what was paid. And just six months into the contract, Chicago’s own inspector general determined that the city significantly undervalued its parking meter system prior to privatizing.

The point of the Chicago story is not that all privatization efforts result in epic failure, but that taxpayers should be wary those who argue that the private sector will deliver public services better and more cost effectively than public employees.

The reality is that cities across the country have embarked on efforts to privatize government services since the 19th century, resulting in countless failures and some successes. At a minimum, turning over not-for-profit, public services to private, for-profit corporations has proven to be a very risky proposition for taxpayers.

In San Diego, voters in 2006 supported a “managed competition” ballot measure designed to ensure that city services were as efficient as possible. The San Diego Municipal Employees Association, the city’s largest labor union, has negotiated in good faith to implement what the voters approved because MEA is not afraid to put our “Nobody Does It Better” slogan to the test, as long as the competition is fair and the playing field level.

But Chicago’s privatization debacle, as well as numerous other examples of local governments scrambling (at great expense) to retake city services from private contractors after failed attempts at privatization, should serve as a wake up call to those who believe that privatization and managed competition are panacea for San Diego’s budget woes.

And after all the deep cuts in city services, thousands of eliminated employee positions and layoffs, years of salary and pension cuts, and a revenue structure that doesn’t even require residents to pay their fair share for the essential services they receive, San Diego’s work force has been rendered the leanest of any city in California. That makes it even more unlikely that any private company could produce a competitive bid for work currently performed faithfully and efficiently by San Diego city employees.

Unless, of course, San Diego followed Chicago’s lead on how to be “more welcoming” to private takeovers of public services.

We can learn a lot from the privatization disasters of other cities. Our collective time and money would be better spent on a productive discussion about how to solve our city’s chronic structural budget deficits with real solutions.

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