

Tax cuts and terrorism have been the main concerns of the Bush administration to date. But behind the scenes, the administration has been moving ahead with reforms to the 1.8 million-person federal bureaucracy. The nation's first MBA president, George Bush, is creating new mechanisms to assess the performance of government programs and to cut spending on those that don't work. His former budget director, Mitch Daniels, is issuing scorecards that flag agency failures with red dots. The most recent cross-agency scorecard gave 109 red dots out of a total 130, making it clear that the federal government doesn't work very well.

To make it work better, Daniels announced

Now it is the federal government's turn. Daniels put into high gear a procedure to open up bidding for in-house activities that private firms may be able to do better. The administration says that it currently takes 20 months to contract out such simple tasks as lawn mowing. With streamlined rules, the administration wants to see as many as 15 percent of federal jobs that are commercial in nature be opened to competition by the end of 2003.

A primary goal is to save taxpayer money. The Pentagon figures it has cut costs by about 30 percent in the areas it has contracted out, such as logistics, training, and computer services. The administration thinks similar savings are

MOVING PUBLIC WORK TO THE PRIVATE SECTOR

by Chris Edwards

plans to open up 425,000 jobs to competitive outsourcing. That means allowing private firms to compete with federal workers in jobs that are commercial in nature, such as the 10,000 cafeteria jobs and 18,000 health technician jobs in the Department of Veterans Affairs.

Despite immediate howls from the federal labor unions that the plan "emasculates" worker rights, state and local governments have pursued such reforms for a decade. Former Philadelphia Mayor Ed Rendell faced similar union protests in 1992 when he launched his program to contract out dozens of city services, such as maintenance, security, and custodian services. The reforms have saved the city hundreds of millions of dollars—partly from city agencies cutting waste to ward off the threat of outsourcing. Rendell's success has been replicated across the country, and the Government Contracting Institute says that the value of state outsourcing soared 65 percent in the past five years.

widely achievable, which could really add up in a \$2.1 trillion federal budget. Aside from saving money, outsourcing would improve government performance by allowing federal managers to focus on their core missions. That's the strategy many large corporations are taking. For example, General Motors outsources its payroll and accounts receivables, and Microsoft outsources many finance, manufacturing, distribution, and customer support functions.

Competitive sourcing can also give the government access to fresh ideas. That is sorely needed because federal workers have a habit of staying in their jobs too long, making them out of touch with advances in private industry. Department of Labor data show that federal worker layoffs and firing occur at just one-fourth the rate of the private sector. Indeed, the government only fires 1 in 5,000 non-defense workers each year for poor performance.

Given that excessive job security, it's clear why the federal unions are fighting change. They

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AN EVEN BETTER STRATEGY IS TO MOVE FEDERAL ACTIVITIES FULLY INTO THE PRIVATE SECTOR WHEN POSSIBLE. CONSIDER AIR TRAFFIC CONTROL (ATC), WHICH IS A \$6 BILLION INDUSTRY THAT HAPPENS TO BE RUN BY THE FEDERAL GOVERNMENT. ATC SERVICES COULD BE CONTRACTED OUT, BUT WHY NOT FULLY PRIVATIZE THEM?

point to horror stories of federal contractors who performed poorly or raised prices. Yet the advantage of contracting is that federal managers can fire service providers that haven't met clear goals. Nonetheless, there are legitimate concerns about federal contracting. In particular, contracting opens up opportunities for favoritism, or outright corruption, which happens when the public sector is tightly engaged with the private sector.

An even better strategy is to move federal activities fully into the private sector when possible. Consider air traffic control (ATC), which is a \$6 billion industry that happens to be run by the federal government. ATC services could be contracted out, but why not fully privatize them? ATC companies supported by airline fees could run different airports and compete to reduce congestion and increase safety.

Canada's privatization of its ATC system in 1996 has received rave reviews. The administration needs to expand its initiative to consider not just which activities can be contracted out, but whether activities need to be within the federal realm at all.

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