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"Privatization, Labor-Management Relations, and Working Conditions for Lower-Skilled Workers of Color,"

by Immanuel Ness & Roland Zullo One area of ambiguity in the literature on privatization is its effect on the employment conditions of service workers. Privatization advocates depict upwardly mobile displaced public workers, opportunely entering an expanding private service sector. Critics, on the other hand, contend that privatization is a political decision that enables firms to earn additional profits by depressing the wages and benefits of service workers, with theory and evidence suggesting that privatization most profoundly harms lower-skilled workers. This debate, however, is not only about economic distribution. At issue stands a philosophical question over the role of the state in shaping labor markets. Should the state, on the grounds of efficiency, privatize services and thereby subject employees, many who are workers of color, to the institutional and legal environment found in the private labor market, regardless of the negative effects on worker well-being? Or rather, should the state endorse gainful employment, fair conditions, and reasonable expectations for job security, first by promoting high standards within public service, and second by refusing to privatize unless comparable standards are met by private contractors? July/August 2003 issue of *Poverty & Race*

One area of ambiguity in the literature on privatization is its effect on the employment conditions of service workers. Privatization advocates depict upwardly mobile displaced public workers, opportunely entering an expanding private service sector. Critics, on the other hand, contend that privatization is a political decision that enables firms to earn additional profits by depressing the wages and benefits of service workers, with theory and evidence suggesting that privatization most profoundly harms lower-skilled workers. This debate, however, is not only about economic distribution. At issue stands a philosophical question over the role of the state in shaping labor markets. Should the state, on the grounds of efficiency, privatize services and thereby subject employees, many who are workers of color, to the institutional and legal environment found in the private labor market, regardless of the negative effects on worker well-being? Or rather, should the state endorse gainful employment, fair conditions, and reasonable expectations for job security, first by promoting high standards within public service, and second by refusing to privatize unless comparable standards are met by private contractors?

While this question can be framed as a choice between the right of a few public workers to enjoy "above-market" labor conditions against the right of taxpayers to cost-effective services, such an abstraction ignores the historic role of state policy in shaping employment standards and working conditions in the private sector. Examples include labor and employment legislation. Recently, the local "living wage" movements seek to lift the wages and benefits of workers in the private sector by requiring wage and benefits minimums as a condition for public contracts and aid. Moreover, there remains a vested public interest in ensuring that "labor efficiency" does not translate into harsh forms of exploitation that exacerbate demands on public and private social support systems. In this way, the employment consequences of privatization potentially touch both private sector workers and citizens who finance the social safety net. Once it is recognized that privatization fails in cases where marginal gains in service efficiency occur at the expense of quality jobs, safeguarding the well-being of public employees by incorporating any projected erosion in working conditions into the privatization decision becomes socially responsible policy.

Guidance on this issue requires a comprehensive understanding of the changes that take place when services shift from public to private control. Research indicates that the majority of dislocated public workers are rehired by private contractors, are reassigned within government, or manage to secure jobs in the private sector labor market. While such findings are reassuring, little is known about the quality of new jobs, and specifically, the changes in working conditions for those public employees who survive the transition to private management. Available evidence is not encouraging. Empirical results indicate that privatization exerts downward pressure on compensation, implying that service workers suffer a decline in economic status. Further evidence that privatization is more frequent when labor-management relations are contentious suggests that private contracting can be a punitive reply to union demands.

Using ethnographic methods, and with research support from PRRAC, we explored the effect of privatization on labor-management relations and working conditions in health care settings. Our aim is to contribute to the topic of privatization and work in three ways. First, where most prior research was based on surveys of public managers, our data were collected through semi-structured, face-to-face interviews with local union presidents. Union leaders chosen for this project work alongside the rank-and-file members who elected them. We therefore assume that their statements broadly reflect the experiences of the membership. Second, departing from prior work that tracked displaced public workers, we focus attention on a set of occupations in order to examine conditions for workers who survived the transition to private control, as well as those hired afterward. We specifically target lower-skilled support service positions: housekeeping, laundry, food service, and custodial services, because these jobs are often staffed by minorities, women, and immigrants. In doing so, we hope to contribute to the discussion of privatization's effects on minorities and women. Third, taking advantage of the face-to-face interview format, we explore in greater depth the productivity-enhancing policies of private contractors, and their effect on a broad range of workplace conditions, such as work stress, safety, discrimination, and so forth. We also ask leaders to comment on the quality of client care.

Research Background

All of the six health care facilities in this study are located in the vicinity of New York City. Sites were selected

to provide variation in privatization policy. At one extreme, Bergen Pines Regional Hospital was fully transferred to private for-profit interests in 1998. At the other extreme are health centers that remain almost exclusively public: Staten Island Psychiatric and Yeager Medical Center. Two health centers are public, yet management has contracting some support services to for-profit entities. Manhattan Psychiatric has outsourced food services to private for-profit firms. Westchester County Hospital has privatized food services, housekeeping, laundry, and the cafeteria in recent years. The sixth site, Nassau County Hospital, was converted to a public benefit corporation in 2001, and has outsourced laundry, food service, and housekeeping to private contractors.

The union leaders have had a wide range of experience and tenure in their positions, ranging from less than one year to twenty years. Differences in tenure reflect experience in labor-management relations and knowledge of the effect of privatization policy. The interviews with union leaders lasted from one to two hours. Interview data were transcribed, analyzed, and supported by documents, such as union contracts and organizational correspondence.

Generally, responses by local union leaders expose stark differences in wages, benefits, working conditions, and patient care across institutions. Consistently, where privatization has been applied, union leaders lament that management power is wielded capriciously and arbitrarily and that union capacity to bargain effectively and to represent workers is weakened and compromised. In all privatized units, union leaders note that significant concessions have been made—wage reductions, elimination of health benefits, reduction in sick days and vacation days, and so forth. In health centers that have not been privatized, union leaders acknowledge differences with management; however, these differences are bridged through good-faith negotiations through a relationship that leaders characterize as mutual respect. By and large, where private contracting is absent, union leaders have been able to sustain more favorable wage, benefit, and working conditions. The findings below list the primary themes from these discussions.

Findings

Privatization proponents often frame private contracting, or more broadly competitive bidding, as a method of benchmarking governmental operations against the efficiencies of the private sector. Yet is there a vested public interest in ensuring that "efficiency" does not lead to harsh exploitation by establishing minimal job conditions for the private sector to follow?

Privatization undermines employment conditions, especially for lower-skilled workers. At one level, this occurs by removing the umbrella of civil service protections, forcing workers into a labor market with a more capricious set of standards for promotions, job assignments, and due process. At another level, when workers are unionized, collective bargaining transfers to a less favorable legal and political context, shifting the balance of power toward management.

Concession bargaining, coupled with union member turnover, has divided local unions. One leader in a privatized health care facility in office for over twenty years negotiated ten contracts, while another has only participated in collective bargaining once—the last contract negotiations with a privatized operator were significantly more difficult than previous bargaining sessions with county administrators. One union leader in a privatized institution has never negotiated a contract when the institution was controlled and run by the county. That enthusiastic leader, however, lacked public sector trade union experience and had little awareness of previous conditions. The few workers who remain at the same unit remember a past with significantly higher wages, benefits, and better working conditions. These senior workers feel out of touch with the present leadership. At Westchester Medical Center, the county turned over housekeeping and laundry operations to a private firm in 1995. Workers at the institution recollect that wages were twice as high as they are now, and they had a comprehensive health benefit system that did not require co-payments. Today, workers cannot afford health benefits. The new president, and recent hires, do not recollect the higher wage and benefit structure when the hospital was administered by Westchester County.

Variation in post-privatization employment conditions appears to be correlated with variation in human capital. Displaced workers with highly marketable skills (e.g., managers, lawyers, computer programmers, engineers, and so forth) are more likely to find desirable positions in the private sector labor market. Indeed, private contractors commonly recruit key personnel from former public services to manage privatized operations, resulting in status and compensation upgrades for such employees. However, such offers rarely extend to the whole workforce, and lesser-skilled public workers, in particular, face difficulties securing comparable employment once they enter the private sector labor market. Research findings, therefore, partially reflect the extent that public workers are needed during the transition to private control, or alternatively, the extent that dislocated workers possess skills that are demanded by the private labor market.

A second factor distinguishing optimistic from pessimistic assessments of the effect of privatization is whether the research evaluates employees or jobs. With few exceptions, analyses tracking former public employees report that significant proportions find new employment. However, there is considerable variation in the quality of new positions. While valuable, these findings tell us little about change in work environment as operational control transfers from public to private.

Any erosion in the quality of work has important implications for all workers, but particularly for people of color and women, who have historically depended on the public sector for gainful employment.

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Immanuel Ness is Associate Professor of Political Science, Brooklyn College of the City University of New York. iness@gc.org

Roland Zullo is Research Scientist, Institute of Labor and Industrial Relations, University of Michigan. The full research report will appear as a chapter in a forthcoming volume, edited by Louise Simmons, Welfare, the Working Poor, and Labor (M.E. Sharpe, publisher). rzullo@umich.edu

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